REPORT

Andy Hull and
Graeme Cooke

June 2012

TOGETHER AT HOME

A NEW STRATEGY FOR HOUSING

Institute for Public Policy Research

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ACKNOWLEDGMENTS

IPPR's fundamental review of housing policy has been generously supported by the Oak Foundation, Orbit Group, Amicus Horizon, Home Group, Family Mosaic, Residential Landlords Association, Joseph Rowntree Foundation, Dolphin Square Foundation, Peabody, Trust for London and Bradford Metropolitan District Council.

The authors would like to thank the following people for their input and advice: Aida Caldera Sánchez (economist, OECD), Justin Bates (barrister, Arden Chambers), Declan Gaffney (independent research consultant), Matt Griffith (associate fellow, IPPR), James Murray (executive member for housing, London Borough of Islington), Jamie Burton (barrister, Doughty Street Chambers), John Hills (professor of social policy, LSE), Duncan Shrubsole (director of policy and external affairs, Crisis), Mark Stephens (professor of urban economics, Glasgow University), John Best (urbanist and corporate advisor), Sean McLaughlin (director of housing, London Borough of Islington), Nigel Minto (head of housing and planning, London Councils), Ed Turner (deputy leader, Oxford City Council), Pete Redman (managing director, Housing Futures), Toby Lloyd (head of policy, Shelter), Phil McCarvill (associate fellow, IPPR) and Jenni Viitanen (member of the Centre for Urban Policy Studies, Manchester University). Their constructive feedback was invaluable, but we do not pretend that there was consensus on every issue or that they will agree with every word of this report.

Thanks finally go to IPPR colleagues who have provided a sounding board and supported this work, especially Marc Stears, Tony Dolphin, Mark Ballinger, Nick Pearce, Tim Finch, Richard Darlington and Katie Schmuecker.

Responsibility for the research, including any omissions and errors, remains with the authors.

ABOUT IPPR

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Erratum

The paragraph concerning the London Borough of Newham on **page 19** of the report was amended on **26 June 2012** to make clear that the council undertook investigations into the Mill Group fund but that this investment was not subsequently undertaken.

EXECUTIVE SUMMARY

There are deep and complex problems facing housing in England. They have taken hold over a long period of time and their consequence is clear: too many people do not have a home that is decent, affordable and secure. More than this, the aspiration of many to own their home is unfulfilled, their ability to control their lives is restricted, and their desire to live in an integrated society is undermined.

Perhaps equally worrying is the political and policy response. For the best part of 30 years this has been beset by pessimism and division. In the face of major challenges the dominant response has taken the form of short-termism and an overabundance of small-scale initiatives. At times it has seemed these were designed to distract from, rather than solve, the central problems. We argue in this report for a different approach.

Spreading opportunities for sustainable homeownership

Homeownership is an aspiration that runs deep in the vast majority of English people. It allows us to put down roots, gain a measure of security and feel part of the neighbourhood in which we live.[1] Owning a home is about far more than accumulating an asset. Indeed, our current housing problems stem in part from various attempts to suggest otherwise. The political right has often encouraged the notion that housing is primarily a personal financial investment and pursued distorting and destabilising policies based on this partial conception. Largely accepting this economic frame, the left has sometimes adopted a sceptical posture towards homeownership, fearing that it drives inequality, instability and exclusion. Both political traditions have neglected the social value of ownership, the sense of belonging and identity that it can bring, and its potential to support aspiration *and* security, mobility *and* roots.

Our vision is one of a society characterised by broad and sustainable homeownership. This would mean expanding the opportunities for people to own their home, where this is what they want, in ways that are beneficial to the economy as a whole in the long term. Sadly, however, our present housing system is very far from embodying this ideal. The principal reason is an under-supply of homes of the type, in the

1 Prime minister David Cameron and deputy prime minister Nick Clegg introduce the national housing strategy with reference to giving 'many more people the satisfaction and security that comes from stepping over their own threshold' (HM Government 2011).

places and at the prices people want and can afford.[2] This, in turn, is linked to trends in house building, household formation, population change, the labour market, regional imbalances and wages. Short-term factors create further headwinds, especially the effects of the economic crash and recession on public expenditure, living standards, the development industry and the mortgage market.

All the indicators suggest that, without countervailing action, homeownership rates will continue their steady fall.[3] And it will be those with the least economic and political power who will miss out. Reversing this decline will not happen by accident – the forces acting in that direction are strong. In addition, the experience of recent years teaches us that there are good and bad ways of pursuing higher rates of homeownership. The housing market is a vital component of our economy. It is of huge strategic importance. We need it to be an engine of national recovery, contributing to growth and employment. That means making markets work and protecting against their inherent tendency to speculation, bubbles and crises.

Given this context, there are alluring arguments for abandoning the goal of spreading homeownership, which are advanced across the political spectrum. We do not underestimate the scale of the challenge, nor do we flinch from the actions it requires. But we firmly reject a future where fewer and fewer people are able to enjoy the benefits of owning their own home.

Therefore, we need to get back on the path to spreading opportunities for sustainable homeownership. Rather than advocating a return to crude central government targets, we argue instead that this can best be done by:

- **Identifying new sources of finance to support more house building** by:
  - creating and capitalising a national investment bank
  - encouraging local authority pension funds (worth over £150 billion nationally) to invest in new housing
  - imposing capital gains tax and a new annual holding tax of 2 per cent of the property's value on overseas buyers of English second homes worth £2 million or more (measures on which the government is currently consulting)

2 In 2010, the Council of Mortgage Lenders found 80 per cent of people think there is a problem with young people being unable to afford to buy a home (see http://www.cml.org.uk/cml/media/press/2719). That same year, average house prices in the UK were more than five times greater than average household incomes (Lambert 2010) and the average age of a UK first-time buyer without financial assistance from relatives was 37 years (Babbage 2010).

3 Indeed, absent the right to buy, homeownership has not increased in the UK since 1982 (according to Professor Ian Cole of Sheffield University at a CLG seminar on the new housing strategy, 21 November 2011).

  - adopting fiscal rules and accounting practices based on general government rather than public sector debt to enable local authorities to leverage their assets and income
  - prioritising government housing capital expenditure by allocating £750 million more to it each year in the next spending review than in the current spending round (using the revenue generated by recent and proposed reforms to the tax regime for the buyers, sellers and owners of very expensive properties in order to invest while the cost of capital to government is low).

- **Shaking up the development industry to raise housing output** by:
  - allowing failing developers to go to the wall, with government then acting as a clearing house for their land banks
  - insisting on rapid build-out and lower profit margins through public land programmes
  - encouraging local councils and the mayor of London to release more public land for house building in return for equity stakes that secure public benefit.

- **Reforming the mainstream planning system to enable more development** by:
  - reclassifying for development purposes some low-grade greenbelt land (such as low-value agricultural land and land that has previously been developed)
  - allowing local authorities to charge higher planning fees in return for an expedited planning process
  - ensuring that councils produce joined-up local plans with neighbouring authorities
  - levying a land value tax on all undeveloped developable land above £2 million in value to encourage new building and raise funds for housing investment.

- **Establishing a parallel strategic planning system to deliver a new wave of new towns** by separating the processes of land acquisition and house building. Important as infill and densification of our existing towns and cities is, it will not by itself be enough to deliver new homes at the volumes the country needs. 'New Towns' programmes in the past have seen the highest level of new house building in this country since the second world war. Notwithstanding the formidable political obstacles and economic constraints such a policy would now face, we propose to reform and revitalise this proven approach, rendering it fit for today's political and economic landscape.

- **Regulating the mortgage market to reduce the risk of a housing bubble** by:
    - asking the Financial Services Authority to cap the loan-to-value ratio for mortgages at 95 per cent
    - cracking down on self-certified and interest-only mortgages
    - regulating the behaviour of non-banks and buy-to-let mortgage lenders
    - exploring the feasibility of extending the existing mortgage rescue scheme into a more widely available 'right to rent' for those who face repossession.
- **Extending the rights to buy, acquire and manage** to all housing association homes, levelling the playing field in terms of opportunities for ownership and control in social housing.
- **Promoting innovation in alternative models of ownership**, including shared equity, mutuals and cooperatives.
- There are also strong grounds for **making better use of our existing supply of housing**, beyond the desire to support sustainable homeownership. This could be done by incentivising owners of empty or under-occupied properties to bring them into full residential use by:
    - removing the council tax discount on long-term empty properties
    - uprating the relief on income tax on renting out a spare room in line with RPI
    - supporting the development of new HomeShare schemes
    - encouraging local authorities to use empty dwelling management orders more often
    - enabling the change of use from 'commercial' to 'residential' without the need for formal planning permission when properties have been vacant for over a year.

Ensuring a better, more balanced deal for those who rent

Homeownership is not for everyone. Therefore our vision requires both a substantial private rented sector and a reformed social rented sector. Our policy should aim to ensure that everyone can live in a decent, secure and affordable home, regardless of tenure.

Too often in the past, the two rental sectors have been treated independently both of each other and of the owner-occupied sector. This contributes to segregation, while undermining mobility. To advance a more integrated society, those who live in the rented sector, whether by choice or necessity, must have an experience that is as similar as possible to those who live in homes they own. This means enjoying good-quality accommodation over which they feel that they have a degree of control. It must also, as far as possible, mean people are able to move between sectors and have the chance to own their homes in the longer run, if that is what they want.

The private rented sector has grown considerably over the last 15 years and is now no longer only for students and those in some kind of transition. With opportunities for homeownership currently moving out of reach, the private rented sector is now serving people who want to put down roots and exercise control over where they live. Increasingly, this includes families with children. These tenants do not want to feel they are at the mercy of private landlords who can increase their rent or terminate their contract at short notice and with little recourse. We need to offer people greater power and control over such matters and improve the quality of accommodation, while supporting the ongoing growth of this important sector.

Conversely, the size of the social rented sector has been steadily declining since the late 1970s, since when millions of people have been able to buy their council house – but too few have been built in their place. The combination of a sharp drop in supply and the shift to needs-based allocations has led to social housing becoming a force for segregation in our society. Tighter rationing of this valued public good means that new tenants are increasingly disadvantaged, leaving social housing out of reach for all but the poorest and most vulnerable. This is reinforced by tenancies of indeterminate length, which severely limit the turnover of lettings and so further restrict access to this valuable resource. Poor outcomes for those who do live in social housing suggest that this settlement is not serving them well either.

This unsatisfactory status quo contrasts sharply with the role of social housing in the post-war era – and its enduring place within many European housing markets. In the 1950s and 1960s social housing offered a home to the mainstream of low- and middle-income families. It was a symbol of a majoritarian welfare state, at the heart of a more integrated society. We cannot recreate this settlement – there have been too many economic, social and demographic changes since – but we must remember its insights and rekindle its spirit. This was a period when the supply of social housing was increasing, allocations were open to a broader range of people, and tenancies were not necessarily for life.

We need to offer a better deal for those who rent, by balancing the experience of those living in the private and social rented sectors and by improving the chances for people to move between them, or into homeownership. This means advancing greater security in the private rented sector and more flexibility in social housing.

This can be done by:

- **Increasing security for families in the private rented sector** by amending the law on shorthold tenancy to offer an additional, alternative 'family tenancy' with a five-year secure period and a five-month notice period for families with children.

- **Improving the quality and value for money of private rented properties** by introducing 'something for something' deals at the local level between local government and local landlords. These deals could be codified in mandatory landlord licensing schemes, with the option of including maximum base rates for rents in local housing allowance sub-markets and localised, tripartite rent stabilisation boards for the mid market.

- **Giving local authorities freedom over the allocation of social housing** by ending the requirement to give strict priority to immediate need. This would allow councils greater scope to use social housing to shape their local housing market, thereby opening up access to a broader range of people and helping to overcome segregation. Local authorities would still be required to meet housing need, including the prevention of homelessness. However, this would be separated from the allocation of social housing as a valued public good that offers greater security and lower rents than on the private market. This would mean greater use of the private rented sector to meet housing need, facilitated by stronger links between local councils and local landlords.

- **Offering fixed term tenancies as the norm in social housing** by local authorities using their new powers under the Localism Act *not* to offer lifetime tenure for new lettings. This would enable many more people to access social housing, while continuing to offer a significant degree of security to tenants, relative to what is available on the private market. Currently, this option is limited to those given a tenancy at a point of immediate need. To prevent perverse incentives, reassessments of entitlement should be infrequent, with the opportunity to pay higher rent or purchase the property at market value for those whose circumstances have substantially improved over the course of a tenancy.

Shifting from subsiding rents to building homes through decentralisation

Although far-reaching in their implications, the above proposals largely go with the grain of the English housing system. They take the essential shape of policymaking as read and seek to develop key elements of best practice and to reform imaginatively where possible for the short to medium term. We believe that genuinely unblocking housing policy also requires deeper institutional reform. Such reform will enable a far more significant shift, benefiting people within each sector of the housing market and allowing the system to respond more swiftly and effectively to changing demand.

The first part of this more ambitious institutional agenda requires **taking localism far more seriously than earlier efforts have done**. Attempts to advance a clear national strategy for housing have been consistently undermined by huge local and regional variation in housing markets and the separation of policy and funding for housing in Whitehall. This has led to governments continually over-promising and under-delivering, making commitments that they cannot keep. It has also left local councils with legal responsibilities but little power to deliver meaningful change for the people of their area.

The second part of this agenda requires **rebalancing public expenditure from subsidising rents to building homes**. In the late 1970s, four-fifths of housing spending went on supply-side grants to support house building, with just a fifth channelled through rent allowances (the precursor to housing benefit). Since then, this balance has been entirely reversed. This has been partly the result of trends in income inequality and the labour market, but also of housing market factors and explicit government policy. The result is that during the current spending round £4.5 billion will be spent on grants to support the building of new affordable homes while £94 billion will go on housing benefit (and a significant proportion of that to private landlords).

The housing benefit bill is now so high in part because of the impact of the recession, which has driven unemployment up and increased the number of people needing help with housing costs. However, the analysis in this report shows that there are substantial structural factors relating to the housing market that have driven this growth. In particular, the balance of tenures, the pressure on rents and the demographic composition of claimants have played important roles. The current government's attempts to control the housing benefit bill take no account of these factors, and in some respects have made them worse. Looked at over the longer term, the shift from capital to current expenditure in housing has contributed to constrained housing supply and weak work incentives, and has probably driven rents up. It has certainly delivered poor value for money for the taxpayer and a poor deal for citizens.

The result is that the UK is an outlier internationally, with the highest share of the population in receipt of a housing cash allowance in the OECD. Reversing this shift will not be straightforward, not least because so much public expenditure is locked in current benefit spending to support people's rents. The current distribution and structures of power make it even harder, with different Whitehall departments in charge of housing policy and funding. Similarly, the scope for innovation is constrained by the straitjacket of a national system incapable of bending to local needs and circumstances. Housing famously stumped even

William Beveridge, but perhaps this is because he (and generations since) searched for the answer in the wrong place: seeking a *national welfare solution* to a *local housing problem*.

To unstick housing policy we need to advance institutional reforms which give local areas the power and responsibility to meet housing needs, including by enabling a shift in focus from subsidising rents to building homes. This would require a commitment to local democratic control which far exceeds the current government's partial and half-hearted programme of localism. It could be done by devolving resources over housing to local councils through the creation of an **'affordable housing grant'**. This would be a single grant channeled to local authorities covering housing benefit spending and the share of capital expenditure for that area.

Under this reform, councils would have the power to use those resources to spread access to affordable housing in the local area, balancing spending on building new homes against providing cash support to those on low incomes, in the service of improved affordability. It would take time to enact a shift from subsidising rents to building homes. Institutional constraints in Whitehall and geographic variability across the country mean that this rebalancing can only be done at a local level. An alternative to full devolution of housing benefit would be either to retain a housing uplift in the universal credit or to turn the planned housing element in the universal credit into a temporary entitlement, providing short-term cash support at moments of loss in earnings or employment (potentially on a contributory basis).

In our vision, affordable housing grants would stretch over a minimum of three years and be based on a national formula that took account of local population, housing costs and relative deprivation. If councils were effective at reducing deprivation (not population) they would split savings with the Treasury. The aim would be to achieve a national redistribution of resources to areas of high cost and high need, but with full freedom for local authorities to decide how best to use that money in light of local circumstances. A multi-year approach would enable councils to plan for the medium term and cope with (minor) fluctuations in need. Significant rises in local unemployment should lead to adjustments in grant allocations to protect individuals and ensure that the automatic stabiliser effect of housing benefit is not lost. These are among a number of important differences between our plans and the current government's approach to localising council tax benefit.

There should be a broad legal duty for councils to improve access to decent, secure and affordable housing in their area, and they should be required to spend their affordable housing grant solely for this purpose. To ensure decisions are not taken without some consensus among local stakeholders, councils should be required to establish an affordable housing panel, representing a balance of interests including the state, landlords and tenants. This panel would be responsible for agreeing overall expenditure and strategy for the local area, including how the grant would be used to secure affordability. Such plans would have to be shown to the Treasury and signed off by external auditors. The government would establish an ‘affordability index’ to assess housing affordability across local areas, rather than for individual households. This would be used to judge the progress and performance of local authorities against their core goal.

There are a number of ways that local authorities could use their affordable housing grants, depending on local circumstances, such as:

- doing long-term deals with private developers and housing associations to build new affordable homes to rent and buy
- establishing a local scheme to provide support for people on low incomes with their housing costs (as an alternative to national housing benefit)
- entering into agreements with private landlords to secure a better deal for tenants and taxpayers
- purchasing existing properties not currently in residential use and bringing empty properties into the market
- providing support to get people into employment and reduce worklessness, so that people are better able to meet their own housing costs.

To begin to enact a shift from benefits to building, councils could start by agreeing deals with private landlords to prevent excessive rent rises, taking advantage of multi-year grant allocations to ‘invest to save’ and leveraging their own greatly enhanced revenues (alongside their assets and wider borrowing powers). Underpinning this new regime, there would be a reserve power for the government to renationalise affordable housing grants where local councils were not using resources for their core purpose (or displayed gross financial mismanagement). In addition, homelessness legislation would continue to operate as it does now, providing a legal foundation to protect the interests of the most disadvantaged.

We believe this combination of short-, medium- and long-term reforms to English housing offers a programme that is both radical and realistic. It will not be straightforward to create a housing sector in England that helps to generate a more integrated society, where everyone has access to a decent, secure and affordable home, and local areas and local people are in control of their destiny. But such is the severity of the crisis in English housing today that this effort is a responsibility we can no longer shirk.

INTRODUCTION

English housing is not currently fit for purpose.

In recent years, the bursting of an unsustainable house price bubble contributed to the devastating financial crisis that has gripped the country and led to a shortage of available mortgage credit, especially for first-time buyers, and to sharp falls in house prices in some parts of the country. But there are other difficulties, many of a longstanding nature. There is a chronic shortage of supply in many parts of the country. There is a largely unregulated and chaotic private rented sector. There are soaring public bills for housing benefit. And there is a social housing sector which is in danger of becoming wholly residualised.

But English housing need not be like this. It is possible to reform English housing so that it contributes to the creation of a strong society in the 21st century.

Such a housing sector would provide decent, secure, affordable accommodation for all. It would also allow people from diverse backgrounds to live in everyday contact with each other, on safe streets, in accommodation over which they are able to exert significant control. It would help more individuals and their families to meet their own personal aspirations for homeownership at the same time as living well among others who choose to rent.

At present the English housing market divides the people of this country. The sharp differences in experience between those living in social housing, private rented accommodation and in homes they own makes it extremely hard for people to appreciate their common interests. Some feel as if they have significant control over how they meet their housing needs; others feel completely left out. Some can move between different kinds of accommodation; others are trapped in a particular corner of the sector. Some live in neighbourhoods where they are in close proximity to people different from themselves and with the social support on which they depend; others feel isolated in neighbourhoods comprised of just one social group and offering only poor services.

Such a sharp segregation of experiences has a profoundly detrimental impact far beyond housing itself. As the American social commentator Elizabeth Anderson has argued:

> ‘Segregation of social groups is a principal cause of group inequality. It isolates disadvantaged groups from access to public and private resources, from sources of human and cultural capital, and from the social networks that govern access to jobs, business connections, and political influence. It depresses their ability to accumulate wealth and gain access to credit. It reinforces stigmatizing stereotypes about the disadvantaged and thus causes discrimination.’
> Anderson 2010: 2

Our overall aim is to shape a housing sector that helps to overcome such segregation and instead plays a prominent role in creating a more effectively integrated and equitable society.

In part, this goal involves encouraging a greater social mix in our neighbourhoods, preventing the physical segregation of different social groups in different parts of our country. But that is not all.

An integrated housing sector is also one in which people are able to move more freely between different types of accommodation, whether owned or rented. It is also one where everyone feels as if they have some effective control over the direction of their own housing needs, whether through personal improvements to their own property or in collaboration with those from whom they rent. Furthermore, it is one where people identify more easily with others who enjoy a different form of accommodation to their own and do not always feel they are competing with people with different aspirations to their own.

Our primary objectives are therefore to:

- ensure that all social groups have access to decent, affordable and secure accommodation in whichever part of the housing sector they are located
- increase the possibility of mobility of different social groups between different parts of the housing sector, including the social housing sector, the private rented sector and homeownership
- enable local communities to shape their own responses to their housing needs, encouraging collective responsibility for housing at a local level and overcoming the sense of disempowerment that is a widespread feature of the English housing landscape today.

We are under no illusions as to how difficult it will be to fulfil these objectives.

The English housing sector is shaped by institutional, cultural and economic factors that are extremely resistant to policy change. Successive governments, both Labour and Conservative, have struggled to overcome this resistance. A failure to appreciate the obstacles that stand in the way of change have derailed many otherwise well-intentioned initiatives (such as New Labour’s ill-fated ‘Eco-towns’ programme).

There have, however, been a few genuinely transformative policies from which we can learn. The house-building programme of the Macmillan government, the New Towns movement of the 1950s and 1960s, and the Thatcher government's right to buy initiative in council housing all demonstrate that politics can make a significant difference to our housing sector despite ideological controversy and institutional opposition.

These historical episodes show that significant change is possible if policymakers have a clear vision of what they want to achieve and the political determination to implement the policies needed to secure that vision.

In what follows, we analyse the nature of this contemporary challenge and outline a series of innovative proposals designed both to address the most pressing immediate problems of English housing and to help bring the vision of a better housing sector closer to reality.

1. PATHWAYS TO OWNERSHIP

1.1 Introduction

The vast majority of English people aspire to own a property of their own, yet not everybody is able to achieve this goal.[4]

This aspiration has been largely unaffected by the recent crisis in the housing market (Wallace 2010). Despite the fact that financing ownership is challenging in the current volatile economic climate, the goal is likely to remain a cherished one for the majority of English families. Attitudinal research suggests that the commitment to own emerges primarily from a deep-seated desire in the majority of people in England to exert significant control over their own housing experience. Homeownership, in other words, enables individuals and families to put down roots in their communities, to shape their own immediate environment and to plan more effectively for the future. It is probably for these reasons that homeowners in England consistently report greater satisfaction with their tenure than those who rent in either the private or the social sector (CLG 2010a).

In the past, the difficulties of the housing market have led some reformers to wish to dislodge the affection for homeownership in the English people. Critical attention has been focused in two areas:

First, some have worried that homeownership necessarily contributes to social segregation, especially as it can lead to people clustering in distinctive neighbourhoods defined by social group.

Second, others have been concerned about the destabilising effects of housing bubbles and loose credit, both of which have been generated in recent years partly as a result of the English public's widespread appetite for homeownership.

These anxieties are understandable. But it is our contention that despite our difficult economic circumstances homeownership can, over time, be expanded in a way that avoids both concerns.

The first can be at least partially allayed by constructing and encouraging people to settle in mixed rather than socially exclusive neighbourhoods, where they are likely to live in close proximity to people from different income brackets, social groups and who themselves

4 A recent report from the Department for Communities and Local Government showed that 86 per cent of people would buy their home if they had the chance (Taylor 2011). Just 14 per cent said they would prefer to rent. Among couples with children, 92 per cent would rather buy than rent. Shelter research found that 72 per cent of non-homeowners aspire to own their own home in the next two years and 80 per cent would like to do so in 10 years' time (Shelter 2005a).

live in different kinds of accommodation. Such communities appear to be increasingly popular among homeowners and those aspiring to homeownership alike (Wallace 2010). Indeed, at the core of this report is a *social argument* for increasing homeownership.

The second concern can be addressed by proper regulation of the finance and credit available for homeownership. The house price boom of the late 20th and early 21st centuries was unsustainable largely because of the financing model upon which it depended. Any future expansion of ownership needs to learn the lessons of this period but that does not necessarily call for an abandonment of the ideal of ownership itself. This is an issue we return to in detail below.

More crucially still, though, any attempts to restrict homeownership in England today would effectively *encourage* the segregation of our society into those for whom homeownership is deemed appropriate and those for whom it is not.

We would prefer to shape a housing sector where individuals and families were able to move between different types of tenure throughout their lifetimes and where no particular section of society was denied access to an aspiration that is widely shared.

Homeownership may not be a realistic option for all people, especially given current economic headwinds, but it is a reasonable aspiration for many. In the more effectively integrated society to which this report aims, people from a wide range of social backgrounds would be supported in their pursuit of the goal of homeownership in a financially sustainable and socially sensitive way.

In order to make the hope of homeownership more realisable for more people, however, the English housing sector does stand in need of important reform. New Labour's targets for increased homeownership and its often insubstantial pro-ownership initiatives (since continued by the Coalition government) will not be sufficient.[5]

Most straightforwardly, England needs dramatically to increase its housing supply. Only then will there be enough homes at affordable prices. IPPR research suggests that England needs around 250,000 new homes to be built every year for the foreseeable future if we are to close the large and widening gap between housing supply and demand (Schmuecker 2011). The Barker review suggested that the effect across the housing market of that level of additional supply would be to reduce house prices by 1 per cent annually (Barker 2004).

5 The share of households which own their home has been falling since 2005. After rising steeply from 57 per cent to 68 per cent between 1981 and 1991, rates stabilised at around 70 per cent before falling back to 68 per cent in 2008. Homeownership rates in Britain remain well above those in France (55 per cent) and Germany (41 per cent) but are lower than or comparable to other major OECD countries such as Spain (83 per cent), Australia (70 per cent), the US (69 per cent) and Italy (68 per cent) (Andrews et al 2011).

But reaching this level of housing output will be difficult. Figure 1.1 shows the annual net additions to the English housing stock over the past 20 years:

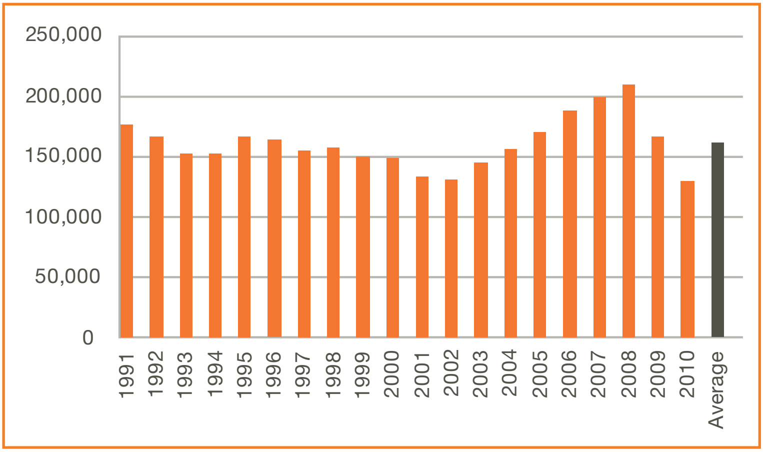

Figure 1.1
Net additions to dwelling stock, England, 1991–2010

Source: Schmuecker 2011: 10

In fact, figures for the past year show that the current level of housing output appears to have found a new baseline at around 100,000 per year, the lowest level for a century. Without serious policy intervention, this number appears unlikely to rise.

In this first chapter, therefore, we examine a range of means that policymakers might employ to increase radically the stock of housing so as to make homeownership a more realistic possibility for many, and how we might make these new homes available through sustainable financing.

1.2 Employing our housing stock more effectively

Before we consider how to deliver new houses, however, we should reflect on how to get the most out of the supply of housing we already have.

This means tackling the waste of empty properties and addressing the conundrum of widespread under-occupation.

In April 2008, 3 per cent of all private sector stock was empty, as was 2 per cent of all local authority stock, 2 per cent of registered social landlord stock, and 6 per cent of other public sector property: a total of over 700,000 empty homes. It is inevitable that there will always be some empty homes – for example, in between transactions – and this might even be a welcome sign of liquidity in the market. But that does not account for this excessive total, of which 300,000 had been empty for more than six months (CLG 2010b).

The 'new homes bonus'[6] means that local authorities can benefit from bringing empty housing back into use in their area. But local authorities could also be more assertive in their use of existing powers, such as empty dwelling management orders, to ensure properties are brought into use. We should also remove the council tax discount on long-term empty properties (not those briefly empty in between transactions) to incentivise their owners to bring them into use. Such measures may not altogether turn around 'ghost' parts of towns such as Oldham or deindustrialised Middlesbrough[7] – full of boarded-up houses – but when our shortage of available housing is so acute, every empty home brought back into use counts.

There is also a large amount of empty commercial property – 266,000 units nationally (Morton and Ehrman 2011) – that could be converted into residential dwellings. The country has an over-supply of office space and many empty spaces above shops. We should make formal planning permission unnecessary for the change of use from 'commercial' to 'residential', particularly outside commercial centres and where property has remained vacant for over a year. The government went out to consultation on this idea last year[8] but settled in the new national planning policy framework for the prescription that local planning authorities 'should normally approve planning applications for change to residential use and any associated development from commercial buildings (currently in the B use classes) where there is an identified need for additional housing in that area, provided that there are not strong economic reasons why such development would be inappropriate' (CLG 2012g).

Of that property which is not empty, a great deal is under-occupied: in 2007, almost 50 per cent of all homes in England in which there were one or two people living were not housing the number of people they could reasonably accommodate (CLG 2007a). Under-occupation is least prevalent in the private rented sector, frequent in the social rented sector, and most common in the owner-occupied sector.

Many under-occupiers are older people whose relatives have left the family home. Many of these people are asset-rich and income-poor, and some are unable properly to manage a home that is too big for them. In response, we should uprate in line with RPI the relief on income tax for people who rent out a spare room in their own home. Rent-a-room relief was initially set at £3,250 when it was introduced in 1992/93 and was increased to £4,250 from 1997/98 but has remained the same since, despite rents nearly doubling in the period since. The cost of the relief to the exchequer was estimated at £120 million in 2009/10. Had the limit simply increased in line with RPI, it would now be around £6,200, which

6 See: http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/

7 For detail and examples, see McFarlane 2012.

8 See: http://www.communities.gov.uk/publications/planningandbuilding/relaxationchangeconsultation

would have cost the exchequer an additional £40 million over the same period. In return, raising the exempt limit should encourage those – often older – people who have one or more spare rooms to rent them out; help first-time buyers to generate a stream of tax-free income to support their mortgage application and cover the mortgage repayments; provide a source of tax-free income for those struggling to pay their mortgage in the current financial climate; and support foster carers who foster someone beyond the age of 18 (CIOT 2011).

Local authorities should also build on existing good practice, such as the tenant incentive scheme in Hull,[9] to incentivise under-occupiers to downsize. This has to be an exercise in 'pull' rather than 'push', by providing a range of attractive alternative accommodation nearby, such as one-bed flats, bungalows or retirement housing, as well as tailored packages of close support in terms of moving house, redecorating and connecting utilities (Clarke and Williams 2011).

Alongside tax breaks for renting out a room and hand-holding for downsizers, local authorities should support the development of new HomeShare initiatives in their areas (Butler 2012). Such schemes involve a paid coordinator screening and then matching an older person who owns their home and has a spare room to offer with a younger person who becomes their lodger. Both parties agree to a code of conduct and pay a small fee (say, £150 per month) to fund the coordinator's role, who in turn provides ongoing administrative and other support. The older person lends the younger person the spare room; the younger person agrees to provide, say, 10 hours of help to the older person each week, with cooking, shopping or cleaning for example.

The benefits of such schemes are manifold. From a social perspective, they address isolation among older people, providing them with live-in support that in turn allows them to remain independent in the community. They also promote reciprocity in intergenerational interaction (JRF 2011a). From an economic perspective, they make better use of a limited resource at a time when there is little public money around, unlocking some of the £3 trillion of housing wealth owned by the UK's over-65s, and also enable young people of limited means to access secure, decent and affordable accommodation. They can even save costs elsewhere, such as in the health service, through fewer old people breaking hips or requiring hospitalisation as a result of straining to change lightbulbs, for example. HomeShare schemes are common in Spain, Portugal and Australia. The New York Foundation for Senior Citizens runs such a scheme in the US. But examples in the UK are as yet limited[10] and should be built upon.

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9 See: http://www.hullcc.gov.uk/portal/page?_pageid=221,609894&_dad=portal&_schema=PORTAL

10 For details of current UK HomeShare schemes, see: http://www.sharedlivesplus.org.uk/en/services/homeshare/whats-in-my-area/

Making the best use of the housing stock we already have is important. But in order to increase housing supply to the level needed, there is no substitute for building more homes. To do so, we will need somehow to find the necessary finance, free up the necessary land, secure the necessary consent and achieve the necessary level of output.

1.3 Finance for new house building

Given significant constraints on both public and private spending that are likely to continue for some time, the initial difficulty facing any plan for new house building must be finance. Indeed, housing was one of the first areas to face the axe when the Coalition government began its programme of rolling back the state. The Department for Communities and Local Government (CLG) is the Whitehall department hardest hit by the government's cuts programme. Capital expenditure by government on housing is being reduced by over 60 per cent over four years (HM Treasury 2010). Both the historical precedents of previous recessions and the low recent levels of housing output described above suggest that the private sector is unlikely to fill this gap (Griffith 2011). Such a shortage of resource presents serious difficulties for any new programme of house building.

To address this problem, the government should prioritise capital for new house building in the next spending review to bring capital spending on housing above its current levels, which are dangerously low. An extra £750 million per year for house building would still leave capital spending on housing below the amount allocated to it before the Coalition came to power but would mean an additional 50,000 new affordable homes could be built over the next four years. The case for such investment is particularly strong now, while the cost of capital to the government is so low, and the sum suggested could be found from the new revenue generated by the reforms in the 2012 budget to the tax regime for the buyers, sellers and owners of very expensive properties and the further such reforms proposed in this report.

Government should also review its approach to the classification of local authorities' housing debt. This debt is currently capped for councils despite the self-financing brought in by reforms to the housing revenue account (HRA). A major problem is that governments in the UK have traditionally centred their fiscal policies on the public sector borrowing requirement (PSBR). If they instead adopted fiscal rules and accounting practices based on general government borrowing and debt (as happens elsewhere in Europe), local authority house building would be removed from the targeted fiscal measure (CIH 2010).

This is not just sleight of hand. General government measures of debt and borrowing are the international standard, used by bodies like the OECD and the EU when establishing the Maastricht criteria, as well as by credit rating agencies. Housing can be a profitable business, and public housing spending should therefore be interpreted as an investment rather than a sunk cost. It has only been during periods of significant state investment in housing that we have seen the sort of increase in housing output that we need to redress the current shortage of supply (Hull et al 2011).

In the meantime, and alongside this, we need to find other sources of funding for new house building, besides government coffers.

We identify four options:

- institutional investment, particularly by local authority pension funds
- a national investment bank to fund infrastructure, including housing
- the release of valuable public land, especially by local authorities
- tax reform to generate additional revenue for new house building.

Institutional investment

Policymakers have long sought to secure institutional investment in UK housing at the construction stage from sovereign wealth funds, corporate pension funds and insurance companies.

Consultation with figures from industry, academia, the civil service and others has identified the desirability but also the difficulty of such a prospect.

The primary problems are that potential investors view residential property as small-scale, low-yield and high-hassle. There is also considerable reputational risk if it goes wrong. Furthermore, if they did invest, it would more likely be in existing stock than in new-build. The Coalition government is currently consulting once again on how it could be made to work, but there are many hurdles to be overcome before significant sums of money from these sources can be relied upon.[11]

Our assessment is that local authority pension funds are the most likely source of institutional investment for new house building in England (CLGC 2012). These funds can be patient and their management boards include councillors, who understand both the need for more housing and the potential solid return over the long term offered by investment in it (Hull et al 2011).

Obstacles to this particular form of investment include understandable concerns about achieving the best returns for pension-holders, about investing in one's own backyard, and about achieving viable scale.

The London Borough of Newham pension fund has looked into investing in a residential real estate fund run by the Mill Group that aims to provide institutions with a low-risk route to invest in residential property. The fund enters into co-investments with individuals in the UK looking to buy a

11 For detail on the government's current consultation, see: http://www.communities.gov.uk/news/corporate/2057868

house, allowing individuals to acquire a share of 25–50 per cent of the property while the fund acquires the balance.

Islington council in north London is also developing proposals to invest £10 million of its pension fund with the Mill Group, giving residents the chance to acquire a property with a 5 per cent deposit, plus a 7 per cent rent payment each year (LBI 2011). After five years, the resident would be given the option to buy the whole property at a further 5 per cent discount. The proposal is designed to meet the needs of the borough's residents who do not qualify for social housing but are ordinarily unable to purchase a property by enabling them to part-buy a home with a minimal deposit while saving to complete the purchase.

The Scottish executive has also shown leadership in this area. Scottish first minister Alex Salmond has called for pension fund investment in Scottish infrastructure, including major house-building programmes (Salmond 2012). Scotland's National Housing Trust has already invested £100 million in building affordable homes and it intends to bring in private investors to do more.

In the run-up to the recent London mayoral election, Labour candidate Ken Livingstone also initiated talks with London local authorities over a scheme to pool their pension funds' money to invest directly in social housing, getting a better return on their investment by foregoing management fees (Martin 2012). In support of such a proposal, successful mayoral candidate Boris Johnson said: 'I will convoke a meeting of the pension funds and bang their heads together' (Brown 2012). Chancellor George Osborne has also summoned finance officers from local authorities nationally to discuss turning this prospect into a reality (Sherman 2012).

A national investment bank

In previous work, IPPR has called on the government to create and capitalise a national investment bank to invest in infrastructure by widening the remit and increasing the capital of the new Green Investment Bank and allowing it to raise funds on the capital markets immediately (Hull et al 2011, Holtham 2012; see boxed text for details). We believe that such a development could have major advantages for a house-building programme.

Infrastructure is the basic physical and organisational structures and facilities needed for the operation of society. If we conceive of housing not just as atomised units of individual homes but as developments or settlements linked to transport and jobs then it quickly becomes apparent that housing ought to be seen as infrastructure of the sort that would fall under the remit of a national investment bank.

National investment bank

A national investment bank (NIB) has been proposed as the potential solution to a number of problems facing the UK economy, including the long-run tendency for the UK to invest less, as a share of national income, than other similar economies and the difficulties small businesses face in obtaining the finance they need to expand. It has also been mooted as a possible source of additional funds for house building.

The model that proponents of a British NIB usually have in mind is the German Kreditanstalt für Wiederafbau (KfW). This bank was established in 1948 as part of the Marshall plan to help fund the reconstruction of Germany after the second world war. It remains a state-owned development bank to this day, lending to small and medium-sized businesses, for housing, and to support the transition of the German economy to a low-carbon future. Other examples of national investment banks include the Nordic Investment Bank and the European Investment Bank.

A UK national investment bank would need an initial injection of capital, probably provided by the government. It would then raise additional funds in the financial markets by issuing bonds. These funds could then be lent to commercial businesses finding it difficult to raise funds from elsewhere. This idea – that lending by the NIB would be additional to existing lending – is a crucial one: the NIB should increase the funds available for investment in the economy, not just substitute for lending by commercial banks.

It would also be important for the bank to be divorced operationally from government. Lending decisions would be made by bankers working in the NIB, not by government or by civil servants. The role of government would be limited to identifying the broad priority areas for the NIB. These would almost certainly include spending on infrastructure and lending to small businesses, where there is evidence of insufficient finance being available historically. But it could also include housing.

The government is already committed to setting up the Green Investment Bank. Initially this will have capital of only £3 billion and no ability to raise additional funds, so its effects in macroeconomic terms will be limited. Its remit is also narrow: to fund offshore wind, industrial energy efficiency and waste generation and recycling projects. A British NIB could be developed by enlarging the Green Investment Bank and broadening its remit.

There are many competing priorities for such a bank's funds: securing the UK's future energy supply, upgrading the transport system, enabling the transition to a low-carbon economy, and improving the flow of finance to small and medium-sized businesses, for example. But we believe housing merits a place near the top of the list of these priorities.

Public land

Undeveloped land with the potential for development is very valuable. Much of it is owned by local and national government. More of this publicly owned land should be released to finance and accommodate new house building.

While this is already occurring with central government-owned land, such as Ministry of Defence airfields and disused Department of Health hospital sites, more could be done to release for development the 51 per cent of all publicly owned developable land that is held by local authorities, as well as the large swathes of land that the mayor of London is responsible for, particularly after he has inherited the land previously owned by the London Development Agency and the London section of the Homes and Communities Agency (McCarvill et al 2012).

Public land release needs to be carefully structured (CLG 2011a). Such land should be released to developers with clear conditions, including rapid build-out and low profit margins. Government should also secure additional public benefit by taking out an equity stake in the development, so that the public purse benefits from the resultant rental streams or capital gains (Local Partnerships 2011). Cabinet members for finance and housing will need to take a lead on this within their individual councils and can draw on the examples of good practice that Inside Housing has collated as part of its 'Get on our land' campaign.[12]

Tax

There are also progressive fiscal measures that could be taken to generate finance for new house building and incentivise the development of residential property.

A particular package of tax measures should be adopted for foreign buyers of UK residential property. London property purchased by foreign buyers – much of it sold off-plan in Shanghai, Singapore and Hong Kong – now accounts for upwards of 10 per cent of all house sales in the capital, with a ripple effect driving up prices throughout the rest of the housing market (McCarvill et al 2012).

To the chancellor's credit, George Osborne announced in the 2012 budget significant moves to end the avoidance by super-rich housebuyers of stamp duty land tax. Firstly, he raised the rate of stamp duty on homes worth £2 million or more to 7 per cent (from 5 per cent).

12 For more detail on this campaign, see: http://www.insidehousing.co.uk/IHSection4.aspx?navCode=1575

Secondly, he raised to 15 per cent (from 0.5 per cent) the stamp duty levied on homes enveloped in property-owning companies, whether UK resident or not (HM Treasury 2012). Before that, non-UK-resident property-owning vehicles could avoid both UK stamp duty and stamp duty land tax entirely by transfering the deeds of the property into a trust or company registered as offshore. Future buyers would purchase the company, rather than the property, and thus avoid any stamp duty. This practice was seen by industry commentators as widespread, particularly for higher-value properties where the avoidence incentives were greater (Gibson 2011).

The Treasury has estimated that some £250 million each year was lost to the taxpayer through the registration of property at a lower rate by placing it in a UK-owned company. Estimates for the cost to the taxpayer from offshore companies were considerably higher – between £500 million and £1 billion annually.

We should also now level the playing field so that foreign buyers of second homes in the UK have to pay capital gains tax when they sell them, just as British people do, and so that their estates pay capital gains tax again when they die (in lieu of the inheritance tax that would be paid by a domestic resident). And we should introduce a new holding tax of 2 per cent annually of the value of any UK property worth over £2 million that is purchased by a foreign buyer as a second home. Both of these measures are currently the subject of government consultation.

The most significant change we could make to the fiscal regime as it relates to housing would be to introduce compulsory registration, with sanctions for non-compliance, of all land with the Land Registry[13] – not just land that is transacted – and then to levy a new land value tax on all developable but undeveloped land above £2 million in value.

This would have the effect of incentivising development in some cases and generating revenue for new house building in others.

The economics of a land value tax enjoy the strong backing of the Institute for Fiscal Studies (IFS) among others (Inman 2012). Avoidance of such a tax would be difficult. Land is, of course, a fixed asset that cannot be hidden or sent offshore, although a mechanism would be needed to handle landowners who sought to parcel their land up into small pieces to avoid the tax. The Valuation Office Agency would need to employ a robust methodology for valuing the land at a reasonable frequency. And the system would have to recognise that, in some cases, landowners may wish to see their land developed but be blocked from doing so by the planning authorities.

13 The Land Registry is currently only 75 per cent complete (Land Registry 2011).

The primary problem with the idea, however, is its political difficulty. But if a new land value tax was targeted only at undeveloped developable land, not at buildings, and only then at holdings above £2 million in value, then the tax would only affect wealthy landowners and only then those that were unprepared to countenance developing the land they hold. To put this into context, two-thirds of the UK's 60 million acres are owned by 0.36 per cent of the population (Adams 2011).

1.4 Planning reform

Difficult and important as finding finance for new house building is, it is not, on its own, enough to address the problems we face.

To see homes built at the sort of volumes needed to secure easier pathways to homeownership for more people, we must reform our sclerotic planning system to free up land and secure the consent required to develop it.

Planning systems are fundamentally systems of constraint and control on the market, and the UK has one of the most heavily constrained systems in the developed world (Whitehead 2011). Despite half a century of planning reforms, the fundamentals of the Town and Country Planning Act 1947 have not changed: statutory planning authorities still have to grant permission for development or change of use. Planning constraints undoubtedly contributed to the rate of house price growth in the UK in the period 1970–2006, which was one of the highest in the world (Goodhart and Hoffman 2008).

The mainstream planning system

The planning system in its present form systematically advantages those who already own their home. Too many homeowners are able to use the planning system to protect their property prices, and politicians are currently incentivised to respond to this dynamic.

Meanwhile, those in need of new housing have effectively no say in the process. Collective action is easier to organise among opponents of a proposed development – that is, primarily existing homeowners – than those who might support it. Those who currently already own a home are a clearly identifiable group with a clearly defined interest. They are also more numerous and are able to make potentially decisive interventions in the process at a variety of junctures. Those who do not own but would like to are less readily identifiable, their interests may not be recognised, and any intervention they make is unlikely to prove decisive. The system combines hostile interests with a particular responsiveness to them (Turner and McAndrew 2010).

We therefore require a planning process in which the broader community is more involved and invested, particularly if we are to see the densification of our cities – including building 'up' rather than 'out' – that would bring our cities into line with comparable cities internationally[14] and go some way towards alleviating the country's chronic housing shortage (Massie 2011).

The Coalition government has been active on planning policy reform since coming to power in 2010.

The two main vehicles for this have been the Localism Act 2011 and the National Planning Policy Framework 2012. The government's localist drive has meant the dismantling of much of the national and almost all of the relevant regional policy architecture. While CLG continues to produce national estimates of household projections, national and regional house-building targets have been scrapped. In practice, this had the effect of removing the useful excuse of 'someone above' for local councillors to 'blame' for permitting new development (Hull et al 2011). It also leaves a new planning landscape that resembles a complicated jigsaw of many small pieces.

In this new and fractured landscape, local authorities still have to maintain a local housing needs assessment and five years' land supply, but power has been devolved to the neighbourhood level, with the advent of neighbourhood forums and the community right to build. Community members will be able to come together to form a neighbourhood forum, and the local authority will have a duty to help it to develop a neighbourhood plan by, for example, providing background information, running workshops, advising on matters of policy and producing maps and diagrams. The neighbourhood forum is then to 'lead the way' in shaping its area (Kurland 2010).

These are steps in the right direction, and we return to the need to expand the government's localist agenda in chapter 3 of this report.

The development of the national planning policy framework has been mired in a stale greenfield/brownfield debate, and the important 'presumption in favour of sustainable development' at its heart will still need to be reconciled with local plans. Meanwhile, development has stalled in part because local decision-makers are waiting to see how the government's policy and guidance will unfold. Even though it is now finalised, the new framework will be slow to take effect. The current reforms are therefore unlikely to provide the necessary impetus to build new homes in the short term. Getting England building again will take additional policy innovation.

There are refinements that could profitably be made to the mainstream planning system, going with the government's localist grain. These include ballots of local people on a proposed development to give voice to those in housing need – making public involvement in the planning process more about a vote than a veto – and using the new duty to cooperate

14 For example, London is less densely populated than Paris, Berlin and New York.

to ensure councils do draft joined-up local plans with neighbouring authorities to ensure a sustainable supply situation at the housing market area level (Viitanen 2012). Higher planning fees could be charged in return for an expedited planning process, which is currently anachronistic and therefore unable either to influence or to respond to the market in a way that is relevant to housing pressures at any point in time.

Likewise, and as recommended by the Barker Review of Land Use Planning,[15] some low-grade green belt land (such as low-value agricultural land or previously developed land) should be reclassified to make it more amenable to development.[16] Such a move would recognise that brownfield sites,[17] while important, cannot alone deliver the volumes of new homes required at reasonable densities. Over-reliance on brownfield sites in the past has resulted in, for instance, large numbers of empty city-centre flats, such as in Leeds. It might also limit the need for environmentally unfriendly 'jumping' out of areas landlocked by green belts, 'where commuters travel long distances over protected land in order to reach work, in part due to restrictions in the expansion of those towns and cities themselves' (Barker 2006).

Much of the low-grade green belt[18] is only classified as green belt because of a system that differentiates insufficiently between land of differing quality. But the quality of this land does vary considerably, with some of it previously having been developed, as in the case of old airfields that offer little social value now. Only 10 per cent of England's land is currently developed (GOS 2010) and 13 per cent of England is green belt (Barker 2006). CLG should also deliver on the promised community land auction pilots – a market-friendly approach, capturing for the local community the uplift in land value bestowed by planning permission – although their change of focus to public land only somewhat defeats the purpose of the original idea (Hull et al 2011).

Planning policy also has to play a vital role in helping to create the more integrated society to which we aspire. When lower-income and vulnerable people are located in a single area, multiple aspects of deprivation can result and become entrenched (Bennett 2005). Genuinely mixed communities will require genuinely mixed developments in which people of different means live side by side and share communal facilities. As such, planning policies should discourage developments that are of a single tenure type or which segregate

15 Kate Barker writes: 'Planning authorities and regional planning bodies should continue to review green belt boundaries to ensure that they remain appropriate given sustainable development needs, including regeneration … given the high proportion of land that is green belt, limited and properly justified change of classification could be allowed without jeopardising the overall goals for which green belts are designed' (Barker 2006).

16 Including, for example, around London and Birmingham, where green belts have imposed exceptional restrictions on development (GOS 2010: 68, 187).

17 Brownfield land is previously developed land that is now vacant or derelict, or land that is currently in use but with known potential for redevelopment.

18 Which, contrary to popular misconception, is not an environmental designation (Barker 2006).

communities according to wealth. Likewise, resources received through the community infrastructure levy should be prioritised for community facilities that will bring residents of different backgrounds together locally. Planning policy can support geographically integrated communities, but it would be a mistake to believe that reducing physical separation is the only ingredient of reduced social segregation.

A parallel, strategic planning system: a new wave of new towns
Fundamentally, however, what England requires in order to lift levels of housing output to anything like those required is to supplement reform of the mainstream planning system with the addition of a parallel, strategic planning system designed to create a new wave of 'new towns', delivering many more new homes without leaving any existing settlement feeling invaded.

This would require intelligent government intervention to resolve the twin tensions of risk and reward centred on the land market and its control. The viability of development should not be predicated on landowners getting vast multipliers and developers banking large profit margins, as is currently the case (Griffith 2011).

The government should act strategically to identify and designate areas of the country where new towns are desirable. These should be near areas with high housing demand, healthy recent economic indicators, such as business growth, and projected demographic increase. This would point towards smart development in existing green belt areas around growing cities that are facing high housing pressure and constrained housing supply with relatively high surpluses of land nearby. There may well be local opposition. Below, we outline approaches that might assuage that opposition. Wherever a new town is proposed, winning local support will be crucial and may be far from easy.

Once locations have been identified,[19] a government agency should then use compulsory purchase orders to buy significant swathes of land from landowners in these areas, as it recently has done for the High Speed 2 rail developments and the Olympic Park in east London. It should pay at or a low multiple of agricultural value for the land, as happened with the last wave of new towns. The government agency could then ensure competition in the design and construction of new homes by private developers in these areas, encouraging new entrants (including from overseas) into the market. Such a process would effectively separate the acquisition of land from the building of homes. Government would also integrate the necessary infrastructure into the plans for these new towns. The Homes and Communities Agency (HCA) and local authorities already have most of the powers – which could be supplemented as necessary, for instance with ad hoc powers to raise capital – to effect this approach.

19 The government is due to consult shortly on the possibility of 21st-century garden cities, including their potential locations.

When it comes to places where people already live, we advance elsewhere in this report a localising agenda (see chapter 3). But in the case of altogether new settlements, a combination of local *and* central state intervention is required, with a serious plan to secure the active support of local people themselves.

Planning a new wave of new towns would revitalise a proven approach, while learning the lessons of previous strategic planning and large-scale development. The new town development corporations effectively cut the Gordian knot of land risk, the planning system and underperforming house builders, and in doing so were the single most successful post-war development model, achieving large-scale house building and enjoying substantial cross-party support. CLG's own review of new towns was highly favourable (CLG 2006a). And 2 million people now live in the 22 new towns like Stevenage, Harlow and Milton Keynes built since the second world war.

This approach focuses development intensively on a handful of areas and so concentrates and reduces opposition. It removes problematic externalities, as it minimises building on existing settlements[20] (Morton 2011). It confers the advantages of urban living: density, proximity, connectivity, productivity (Glaser 2011). And by building new towns within commuting distance of existing major cities it would maximise the agglomeration effects of city-regions, while seeking to maximise opportunities for residents' local employment.[21]

Reflecting on the development of previous new towns and so-called garden cities, we can see the crucial importance of eliminating land risk and reducing land costs through compulsory purchase. In the past, buying land essentially at agricultural value made the developments cheap and reduced (although could not eliminate) the exposure to residential cyclical swings in producing the development.

Compulsory purchase also made it much easier to plan strategically where development would happen, namely in key locations outside major growth areas, and how it would relate to infrastructure provision. The new town corporations were also able to handle the internal strategic planning – deciding where the roads and schools would go, planning for the necessary numbers – as well as eliminate tensions between private developers as to who got the prime land and who got the less desirable land. All of this makes large-scale development much more possible, both in terms of financial cost and the market dynamics of building and selling houses. No other post-war form of development has got anywhere close to delivering similar numbers of new homes.

20 It is very difficult to avoid populated areas altogether, especially in the more congested south east: Milton Keynes was built across three towns and 12 villages.

21 Milton Keynes, for instance, has more people commuting into it than commuting out of it to work each day.

Previous iterations of this approach have not, however, been faultless. In later periods, new town corporations (and some of their institutional heritage, such as English Partnerships) had their borrowing power restricted and some of their capital receipts siphoned off by government to fund other localities. This meant they could not get land at such knock-down prices and got caught out by cyclicality, and so struggled to fund subsequent phases of growth as well as capital maintenance of expensive infrastructure such as roads and bridges. Moreover, one corporation making all the choices (and doing all the development) does not necessarily ensure high-quality buildings or a feeling of diversity of place.

The most recent attempt at a new town type of development – the Eco-Towns programme – was not a success.[22] New Labour proposed to build up to 15 new eco-towns by 2020, generating small,[23] mixed, green,[24] low-carbon settlements in areas including Hampshire, Oxfordshire, Essex, Norfolk, Cornwall and south Yorkshire. The idea was to combine sustainable technologies[25] with Ebenezer Howard's original vision for garden cities, such as in Letchworth. But the initiative floundered, and not only because of the financial constraints imposed by the credit crunch and the Coalition government's move to cut the programme's funding in half a few months after coming to power.[26] Any new approach to developing new towns must learn from the eco-towns programme's mistakes.

Eco-towns were proposed with inadequate consultation. Few of the bids emerged through existing local development frameworks. So, crucially, while they commanded the support of some local authorities, who wanted to avoid expanding existing settlements, alongside developers and opportunistic landowners who had failed to get permission through the mainstream planning process, they did not enjoy the support of local communities. Where eco-towns have worked elsewhere in the world, as in Freiburg in Germany, they have been predicated on local buy-in and ownership of the development agenda, and at the same time benefited from local authorities' commitment to sustainable models of development.

Moreover, the proposed settlements were too small to be economically self-contained, threatening to become 'dormitory suburbs' whose residents would have to travel elsewhere for work.[27] This, in turn, related to the other major flaw in the programme: an over-emphasis on being 'eco' and an under-emphasis on being a 'town' as a desirable place to live. Insisting on unrealistically stringent zero-carbon conditions put

22 For detail on this programme, see CLG 2007b and CLG 2008.

23 5,000–20,000 homes each.

24 At least 40 per cent of their area would be designated as green space.

25 Such as smart energy meters, accessible public transport with real-time information, and renewable power sources.

26 For a colourful example of the failure of the eco-towns programme, see Burns 2012.

27 On these grounds, larger new towns such as Milton Keynes in England and Almere in Holland (each with a population of approximately 200,000) offer a significant advantage.

off otherwise-willing potential developers and empowered a coalition of objectors on the grounds that plans could almost never be green enough.

Any modern attempt to develop new towns is sure to run into vigorous opposition. When new towns were made to work previously they enjoyed strong cross-party and public support, in the context of a post-war political settlement that was comfortable with the concept of state planning. This no longer holds. Moreover, at that time, land and property had not yet become embedded so deeply as 'money-making' activities, so a key plank of likely opposition to new settlements was missing. And, as the eco-town experiment shows, if the argument is framed as 'central government versus local communities' then it is a hard one for the state to win.

Furthermore, political tensions will be heightened by the fact that any strategic choice of locations for new towns will likely concentrate them in the south east of England, where anti-development sentiment is strongest and where the green belt will prove most problematic.

One route to the requisite consent could be through regional plebiscites, ensuring the participation of those in housing need. This would need to be closely coupled with early, open and intensive engagement with those who voice concerns.

The politics of new large-scale development also demand a more confident planning profession than we currently have.[28] Cultural change at the HCA and CLG would be a prerequisite: the tenor of the latter's recent study on the lessons of new towns is that while in practice they were highly effective, politically they are now too difficult to repeat (CLG 2006a). Bold place-making like this would also require the active backing of other professions, including urban designers, architects and developers.

A future new towns strategy would have to learn the lessons of previous domestic incarnations (see for example TCPA 2007), draw on international good practice (see for example Gaborit 2010) and be adapted to fit today's politics, land economy and consumer tastes. This would mean less hegemonic domination by a central governmental agency. While such an agency would be necessary to buy and control the land cheaply in the right places, as well as to ensure developers built good-quality homes to high minimum standards, it should not look to design or build the houses itself.[29] The government should allow consumer choice and competition between private builders in the actual building of a new town's homes. This should facilitate the entry of new builders into the market.

28 For some detail on current deficiencies in the planning profession, see Egan 2004.

29 It should, however, ensure that the land is indeed developed, rather than ending up in developers' land banks, which is what happened with some of the land in Milton Keynes in the 1980s.

As land prices have been allowed to get so out of control, and with them the expectations of landowners, so the politics of compulsory purchase have changed. Opposition from landowners would now be much greater than before. One response to this would be to opt for compulsory purchase at some low multiple of agricultural value, say three times, rather than agricultural value itself.

A renewed new towns programme would also have to tackle the stranglehold that current developers have over most existing land through options agreements which did not exist to the same extent when previous new towns were built. A new strategy for compulsory purchase would need a legally watertight way of voiding or circumventing these options agreements or risk being forever bogged down in the courts. The alternative would be to offer widespread compensation, which would likely prove costly.

It would also be necessary to recognise the less favourable politics of new house building that now prevails. This would mean using some of the money from land value uplift to sell the project to existing communities, compensating them for externalities perceived as detrimental, or to offer some other form of quid pro quo, such as turning surrounding agricultural land into high-quality parkland in perpetuity (as in Milton Keynes)[30] or putting the land under permanent community control via a covenant. Indeed, it may be necessary in the current climate to go further, offering more by way of incentive to existing communities, including perhaps some guarantee of jobs for local families and the reservation of a portion of the new town's housing for their sons and daughters. This would be analogous to the present practice of the governments of India and France, which offer cheap electricity to residents near new nuclear power stations. Local people will need to see clearly what is in it for them. Winning local loyalty in a way that eco-towns failed to do would be vital.

Cross-party alliances would also be necessary to take on the landowning lobby.

The necessary political leadership for this may now be possible, with the prime minister recently having praised the likes of Welwyn Garden City as model developments:

> 'It seems to me that our post-war predecessors had the right idea, embodied in the visionary plan prepared by Patrick Abercrombie in 1944. His plan underpinned the south east's economic success by proposing well-planned and well-located new towns which would in time become new engines of economic growth … We absolutely must protect our green belts

30 Government research on future land use suggests that 'there is also some evidence that when offered choices between development strategies … many are content with 'green swaps', trading certain areas of green belt for green space' (GOS 2010). See also: www.cambridgefutures.org

> and national parks. But we also urgently need to find places where we are prepared to allow significant new growth to happen. That's why we will begin consultation later this year on how to apply the principles of garden cities to areas with high potential growth, in places people want to live' .
>
> Cameron 2012

What is clear is that the status quo is not good enough: currently land is captured upstream by big builders, in cahoots with landowners, and then banked, while the state acts as a passive granter of planning permission, introducing risk and losing the uplift (Griffith 2011). A new wave of new towns could turn this around.

New new towns could and should also be planned in a way that optimises not only housing's integration with infrastructure and amenities but also social integration among its residents (Unwin 2012). The new towns committee report in 1945 stated as a founding principle that new towns should seek to attract a balance of all socioeconomic groups in self-contained and balanced communities. The extent, however, to which the new towns realised this principle, especially at first, is debatable (Bennett 2005). It is essential to our vision for English housing that new new towns should offer the prospect of genuine social integration.

This would mean planning to ensure a diverse mix of housing types in terms of size, tenure and cost for residents of different ages, household sizes, employment types and social classes, as well as providing for a variety of community facilities at which residents of different backgrounds could convene. Research by the Joseph Rowntree Foundation demonstrates that such mixed communities: 'are a tested way of delivering high quality, popular neighbourhoods which achieve socio-economic integration … not a panacea for all problems, but … attractive and popular places for a full range of households to live' (JRF 2006).

1.5 Development reform

Even if we can find the finance needed to build enough new homes, and even if we can reform the planning system to free up the necessary land, unless we also reform our uncompetitive development industry then there is little prospect of developers developing the number of new homes we need.

In other countries, such as the US and Ireland, the rapid increases in house prices that were seen in the years up to 2007 brought forth a supply response. In fact, so many homes were built that, when the credit crunch hit, housing markets were left with a big overhang of excess supply.[31] Not so in the UK. British development industry output is, by international standards, very unresponsive to demand.

31 For a stark example, see: http://www.bbc.co.uk/news/magazine-17953165

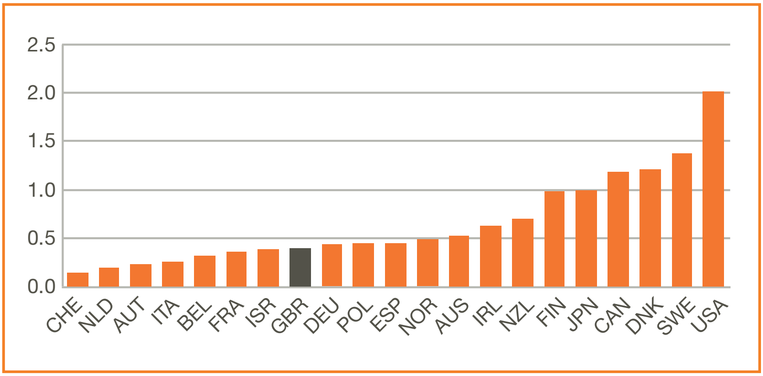


Figure 1.2
Responsiveness of new housing supply to prices (ratio of supply increase to price increase)

Source: Dolphin and Griffith 2011: 26

Now, post-crash, unfavourable economic conditions have led to a precipitate drop in housing production, with overall output down to 115,000 in 2009/10 and only 100,000 in 2010/11. Meanwhile, CLG projects there will be an additional 230,000 households in England each year to 2033.

Since the collapse of council house building in the 1980s, the amount of new housing produced by private developers has remained almost static. The amount produced by housing associations has risen, but this has not compensated for the loss of council-produced supply.

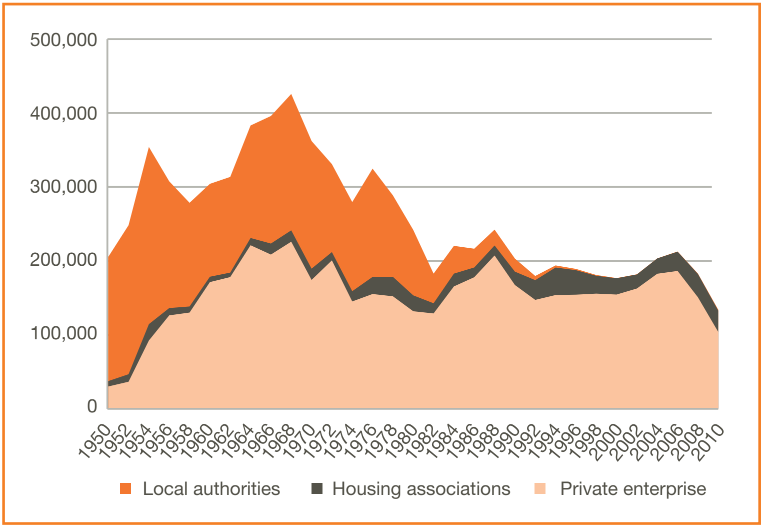


Figure 1.3
UK house building completions by sector, 1950–2010

Source: Hull et al 2011: 5

The developer-led model means that holding land and planning consents can be as lucrative as actually building homes and, where homes are produced, they are produced slowly to drip onto the market and maximise return. Developers deliberately ration supply in order to keep prices high (Griffith 2011). This mentality runs contrary to public policy requirements based on housing need, but so far no government has tackled it adequately. The business model of our oligopoly of major house builders remains to make large profits at high margins on small volumes of output (ibid).

The danger now is that, rather than reform, the development industry goes into subsidised stagnation for a 'lost decade', with output remaining around 100,000 new homes per annum, less than half the amount required.

Builders are currently focused on rebuilding balance sheets after the crash, repaying debt, prioritising margins and restoring cashflow rather than attempting to increase output. Recent comments from executives of major house builders include 'our focus is to rebuild our margins' and, on the prospect of increasing overall output, 'we'll double in size, but halve the margins, so what's the point?' (ibid). Left unchallenged, history suggests this stagnation is likely to continue for another five years at least.

The Coalition government, in what is far from a free market approach, is subsidising the big builders with land,[32] money,[33] and guarantees[34] without insisting on enough for the taxpayer in return. If we do not, in return for this government support, demand faster build-out rates and a greater volume of output, the danger is that we will see not more homes, just homes built in different places (known as 'mix adjustment') – and the fixing of the country's big builders' balance sheets at public expense (ibid).

Throughout this report we argue for a 'something for something' deal between the private and public sectors: government's relationship with the major developers should be no exception. The HCA's delivery partner panel approach developed in 2010 as part of the public land initiative could offer a model for adoption here: it set out strict criteria for lower profit margins and faster build-out rates to spur investment activity. 'Build Now, Pay Later' (see note 32) should employ such an approach across all government landholdings, setting margins slightly higher than at pure construction levels but significantly below those of traditional house building.

One of the reasons that so few new houses are being built is related to the high price of land. Land with residential planning permission costs on average £1.87 million per hectare (compared to an average £20,000

32 'Build Now, Pay Later': giving or selling public land to developers for deferred payment. See: http://www.communities.gov.uk/publications/housing/buildnowpaylater

33 'Get Britain Building': £570 million for developers to build new homes. See: http://www.homesandcommunities.co.uk/get-britain-building

34 'NewBuy': underwriting 95 per cent loan-to-value mortgages for new-build property. See: http://www.communities.gov.uk/housing/homeownership/newbuy/

per hectare for agricultural land). This works out at about £45,000 per new dwelling for the land alone.

Figure 1.4 shows how much more quickly land prices have risen than house prices in the period 1983-2009.

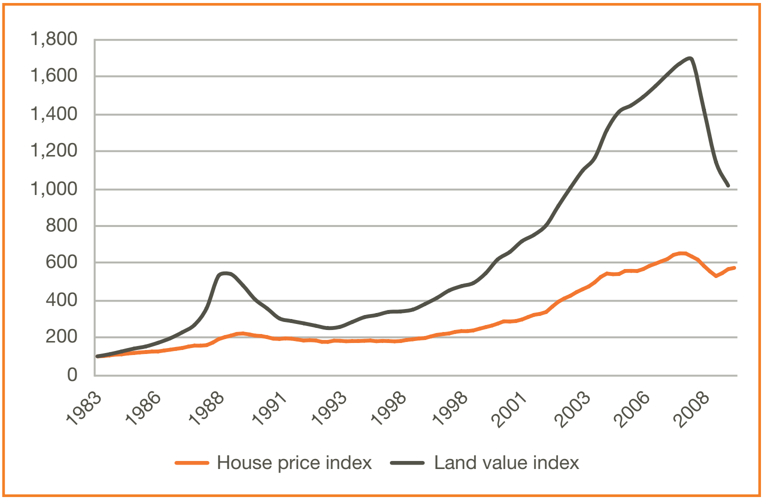


Figure 1.4 Land value and house price change, 1983–2009 (index 100 = Q3 1983)

Source: Griffith 2011: 7

Such expensive land makes for low levels of output and poor-quality homes.[35] It has meant that the big developers have become, first and foremost, land traders rather than house builders. Hence, there are sites for 170,000 homes in London which already have planning permission but which have simply been banked, undeveloped, by developers (London Councils 2011).

Indeed, after the crash, the big builders with large land banks do not want to develop some of their sites, for fear of their land values being realised and damaging their books, which currently show the land as assets at dated, inflated prices. The banks have been complicit with this, as they know that realising these land values could send some builders under, which would hurt their own interests in turn. Meanwhile, new homes do not get built and failing builders who bought too much land in the boom limp on (Griffith 2011).

Rather than propping up those builders producing sub-par outputs, the government should allow failing developers to go to the wall and then act as a clearing house for their land banks. More importantly still, if we want a more competitive house-building industry with more new entrants then we must separate the processes of land acquisition and house building, for instance through the creation of a new wave of new towns, as described in subsection 1.4 above.

35 England has the smallest homes in Europe (RIBA).

1.6 Access to credit

Our initial goal in this report is to suggest new pathways to ownership. This means not only building homes but enabling people to afford to buy them.

We recognise, however, that it is of the utmost importance that we do this without returning to the loose credit and consequent volatility in the housing market which exacerbated instability in the whole economy and helped to cause the recessions of the last five years.

A volatile housing market is bad for the economy. Every recession in the last 50 years has been preceded by a period of rapid house price increases and has then seen prices reverse much of their previous gains. Such volatility does not, in the long run, benefit homeowners, and it creates instability in the rest of the economy too. When prices are going up, people feel wealthier, they borrow more against the value of their homes and boost their spending, generally at a time when the economy is strong. Often the result is inflationary pressures. When house prices fall, people cut their spending and start saving, adding to the economic downturn and deepening the recession. It is no coincidence that those economies that suffered most in the recent crash were those with the least stable housing markets (Dolphin and Griffith 2011).

Volatility in the housing markets is not just bad for the economy. It is bad for individuals and families too, potentially leaving them overexposed and at risk of repossession. Indeed, without historically low interest rates and significant bank forbearance, we would have seen many more homes repossessed in the recent recession.

Internationally comparable figures show that, by the end of the last decade, UK households had more debt, and more mortgage debt, relative to their income than households in any other major economy, as shown in table 1.1.

What we now see is a cohort of 2 million working-age adults who are owner-occupiers with mortgages living in poverty (Gregory 2011). A period of relatively easy mortgage money encouraged marginal buyers to buy overpriced assets and has left them in financial hardship. When interest rates rise, these people may face the misery of repossession, with 11 per cent of mortgage-holders at risk of losing their home if their repayments increase by £100 per month (Lloyd 2012). Given the urgency and importance of this predicament, with interest rates now starting to rise, we suggest the government explores the feasibility of extending the existing mortgage rescue scheme[36] so that it is available to a wider section of society as a new 'right to rent'. This is a concept that has been discussed at the highest levels in the US, where widespread foreclosures

36 See: http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/Mortgagesandrepossessions/DG_174005

have been a more prominent feature of the post-crash landscape than they have been here, so far (Huffington 2011).

Table 1.1 Household indebtedness (% of disposable income)

	End 2002		End 2009	
	Total liabilities	Mortgages	Total liabilities	Mortgages
United Kingdom	134	97	171	133
Canada	117	71	148	92
United States	110	77	128	96
Japan	134	63	127*	65*
France	76	NA	107	NA
Germany	112	72	99	67
Italy	58	NA	80*	NA*

Source: Dolphin and Griffith 2011: 10
* 2008

More broadly, and for the foreseeable future, what we need is nominal house price stability, as has been recognised by the Coalition government (Asthana 2011). Monetary policy has a part to play in this, but it has wider impacts and there will be times when raising interest rates to dampen the housing market will have undesirable effects on other parts of the economy. Fiscal policy can contribute, but it is a blunt instrument that may have little effect once a bubble is beginning to inflate and is probably more effective at redistribution than at dampening activity. Increased supply is clearly fundamental, but is slow to take effect. What we really need is to exert optimum credit control in our financial services as part of a macroprudential regime designed to minimise risk right across the system (Dolphin and Griffith 2011).

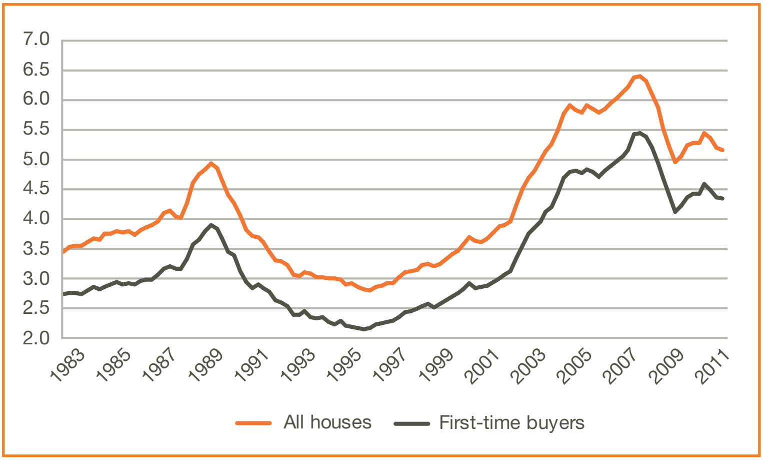
Credit control can take many forms. One simple but effective form is to cap the loan-to-value ratio (LTV) of mortgages. To this end, we recommend that LTVs for mortgages should be capped at 95 per cent by FSA regulation.[37] A simple rule like this is more likely to be workable and less likely to be abused. Recent history reminds us that the risk of the mortgage industry abusing lax regulation is real. As the last housing bubble inflated, lenders in the UK let self-certified mortgages (where no proof of income is required from borrowers) and interest-only mortgages (with no vehicle to repay the capital of the loan specified in most cases) expanded exponentially. These were intended to be niche products only for the atypical buyer, but by 2007 self-certified mortgages made up half of the market and interest-only deals one-third (FSA 2009).

37 By way of comparison, Texas, in the wake of the savings and loans crisis, has since 1998 limited mortgage LTVs to 80 per cent. Subsequently, Texas was hurt less badly than most other US states by the housing crash.

The draft mortgage market review performed by the Financial Services Authority (FSA) contains sensible measures designed significantly to reduce self-certified and interest-only mortgages and to regulate the lending behaviour of non-banks. We recommend that these measures be swiftly implemented. But we also need better regulation of buy-to-let mortgages, which rapidly became the most speculative, leveraged and distorting element of the market in the run-up to the crash. As proposed by the EU Directive on Financial Stability, and as is the norm in most EU countries, buy-to-let mortgages should be regulated by those bodies set to succeed the FSA[38] (Dolphin and Griffith 2011).

It has been argued that measures that make mortgage credit harder to access are unfair because they affect potential first-time buyers while leaving most existing homeowners unaffected. But we can never break the cycle of volatility in the housing market if we do not clamp down on too-easy credit. In the long run, it is not to the benefit of potential first-time buyers to be allowed access to credit to an extent and in such a way that another house price bubble inflates and house prices become ever-more detached from average earnings, as happened in the 2000s.

Figure 1.5
Ratio of UK house prices to earnings



Source: Dolphin and Griffith 2011: 15

Reckless lending that results in rapid rises in house prices only really benefits existing homeowners who want to 'trade down'. For first-time buyers, the freer the lending, the faster house prices rise relative to income, driving owner-occupation ever further out of reach (Andrews 2010, IMF 2011). The number of first-time buyers has declined ever since the onset of significantly loose lending around the turn of the millennium. Trying to improve affordability through continuously loosening credit is always destined to fail, as prices will grow faster than earnings – and first-

38 The Financial Conduct Authority and the Prudential Regulatory Authority.

time buyers know it.[39] At the start of a period of looser lending, there may be a short-term boost for a handful of first-time buyers, but there will be a much larger medium-term deterioration of affordability. This can then only be bridged by extending the levels of debt first-time buyers take on over their lifetime, which means they will be both poorer and more vulnerable to external shocks.

Far from being a roadblock to aspiration, therefore, proper credit regulation serves the interests of first-time buyers. During the most recent boom, countries in which mortgage lending was looser saw a greater deterioration in affordability, confirming that loose lending actively worsens the housing prospects of would-be first-time buyers. Moreover, when housing bubbles burst, it is the first-time buyers, having pushed themselves to the limit to buy a house, who suffer the most.

1.7 Ownership and control in housing associations

We advance in this report a social argument for homeownership and for giving residents control over the places where they live. Through exercising their right to buy, right to acquire and right to manage, tenants in council housing and some housing association homes can purchase their social property at a discounted rate or can team up with neighbours to establish a tenant management organisation to oversee their estate.

However, there are currently over a million housing association properties which cannot be bought by their tenants through the right to buy or right to acquire (Davis and Field 2012), and the right to manage does not apply to housing association homes. Notwithstanding the legal, logistical and administrative challenges entailed, the rights to buy and acquire (with the discount rate sensibly capped) and the right to manage should be extended to all housing association homes.

1.8 Alternative models of ownership

We also need to improve the 'intermediate offer' between renting and buying a home. Home ownership need not be 'all or nothing'.

There is a case for offering shared equity and equity release as housing options, whether it be for prospective first-time buyers unable to raise the funds to buy outright but eager to begin to invest; for other households wanting to limit the financial risk (via interest rates and capital value variations) that they otherwise take on through homeownership; or for older people wishing to release equity in their property to pay for social care without having to move out of their home (Whitehead and Yates 2008).

Our recent track record in this regard, however, is poor in terms of both targeting and delivery (Shelter 2010a, King 2011). Rather than using taxpayers' money to subsidise tail-end or substandard product at inflated prices, as the Kickstart and HomeBuyDirect programmes did

39 See: http://england.shelter.org.uk/news/may_2011/first_time_buyers_back_tough_mortgage_rules

and the NewBuy scheme does now,[40] we need genuine innovation in the mortgage market and products that are structured to reduce risk in the market and not to put it first and foremost on the customer.

We must not oversell the contribution shared equity can make to solving the country's housing crisis, nor underplay its demerits: after years of ministerial and departmental attention, it still accounts for less than 1 per cent of UK housing; relatively few shared owners (at best 25 per cent) make the step up to 100 per cent ownership; and selling up (into negative equity) or renting out (against housing association rules) a shared property can prove impossible even if circumstances (such as a new job) demand it (Jones 2012). Nevertheless, it must be the case that homeownership is not necessarily a binary choice between 0 per cent ownership or 100 per cent ownership, with nothing in between. Intermediate options, while in need of significant development, do have an important part to play in the country's housing offer.

Mutualism and cooperatives may have a role here, adding to the diversity of models of homeownership. Internationally, condominiums in the US and the Andelsbolig in Denmark[41] both represent successful cooperative housing movements concerned with self-government and participation. There is scope for significant development of more mutual and cooperative models for land and housing in England, such as those promoted by The Mutual Housing Group. These could include:

- commonhold[42]
- community self-build[43]
- housing mutuals[44]
- co-housing[45]
- community land trusts.[46]

Community land trusts, in particular, have been a focus of recent political attention in the capital. All of the London mayoral candidates in 2008 promised an urban community land trust. It now looks as if one will be established at the St Clement's Hospital site in Mile End. Another is being mooted as part of legacy plans on the site of the 2012 Olympic and Paralympic Games.

40 While these schemes may tick Whitehall's boxes and give the housing minister something to (re-) announce, they do more for big developers than they do for ordinary housebuyers. They have the effect of artificially inflating house prices and propping up a dysfunctional building sector, while loading risk onto the consumer.

41 See: http://www.nyidanmark.dk/en-us/Integration/informationguide/housing/cooperative_housing.htm

42 See: http://www.cml.org.uk/cml/policy/issues/37

43 See: http://www.communityselfbuildagency.org.uk/ and http://www.communities.gov.uk/documents/newsroom/pdf/1647749.pdf

44 For example, in Rochdale, the birthplace of the cooperative movement, 13,800 tenants recently became members of Rochdale Borough Housing, now the country's biggest housing mutual. For details of this co-ownership collaboration between tenants and employees, see: http://www.guardian.co.uk/housing-network/2012/feb/17/rochdale-staff-tenants-mutual-housing?CMP=twt_gu

45 See: http://www.cohousing.org.uk/about

46 See: http://www.communitylandtrusts.org.uk/ncltn

1.9 Housing as an asset

It is central to our commitment to creating a properly integrated housing sector that houses should be seen as homes before assets. The attractions of ownership should lie primarily in the sense of security, rootedness and control that it offers to people rather than in its potential investment advantages.

But people will always want to save, if they can, for their old age, and when other assets, such as pensions, appear to offer less and less security in later life, as well as less favourable taxation regimes, it is understandable that the English have come to put a premium on the role of houses as assets. People have also realised that – for most – housing is the only way they can build wealth using leverage. If someone buys a house with a 10 per cent deposit and its value eventually doubles, their stake has increased 11-fold.

But putting too much emphasis on homeownership at the expense of other forms of asset ownership concentrates risk for vulnerable groups in one very illiquid asset. This becomes very clear whenever prices start to deflate. A house is only useful as a savings vehicle for retirement if you can realise the gains by selling it – and the gains will be considerably less if everyone is doing the same thing at the same time.

It is true that many people in England still regard buying a home, at least in part, as the acquisition of an asset rather than simply the act of obtaining a future supply of housing services. This presumes, however, that housing will produce attractive returns.

In the UK, over the longer term, it is not clear that this has been the case. Based on Nationwide data, the average house price in 2010 was 73 times its value in 1960 (an annual rate of increase of 9 per cent over 50 years). But over the same period the UK equity market increased 228 times (an annual rate of 11.5 per cent).[47]

This is not a comparison of the total returns of investing in housing and equity. The return on equities also includes dividend income and capital appreciation; the ‘return’ on housing reflects only capital appreciation. (Though buy-to-let investors would also receive rental income.) It also needs to be taken into account that the cost of buying, holding and selling equities is relatively small. The costs involved in buying, owning and selling a home are significantly greater.

Housing does, however, have two advantages over equities: tax and leverage. An investor in equities will, unless they are investing in an individual savings account (ISA), pay income tax on dividend payments and capital gains tax on any appreciation in the value of the equities between purchase and sale. Someone buying their own home does

47 Authors’ calculation based on Dimson et al 2002 and FTSE data.

not pay capital gains tax, although second homes[48] and houses bought for buy-to-let purposes are liable. Perhaps more importantly, housing is the only asset that most people can buy using leverage and so create the potential for larger capital gains. A couple who invest £20,000 in the equity market through ISAs will get £40,000 back if equity prices double – a return of 100 per cent. But for another couple who use £20,000 as the deposit on a £100,000 flat and fund the rest of the cost with a mortgage, if the value of the flat doubles then their stake will be worth £120,000 – six times their original investment. Even after allowing for capital gains tax, interest on their mortgage, stamp duty and maintenance costs, it is likely that the investment in housing will have produced a far superior return.

If an asset-focused view of housing, predicated on making significant capital gains, is problematic for the housing system as a whole, one response must be to enhance the alternatives – in particular, to improve the country's pensions offer. This is a subject on which IPPR is working elsewhere.

1.10 The economic benefit of new housing

Building more homes without resorting to an unsustainable credit boom would – particularly in the current circumstances, when there is ample spare capacity in the construction sector – make a serious and sustainable contribution to England's economic growth.

Spending on housing has a clear multiplier effect. For every £1 spent on construction, the economy gets roughly £3 of gross output back (Hull et al 2011). In 2008, the construction of new dwellings generated £91 billion in economic output and accounted for over 1.5 million jobs (Shelter 2010b). As the chancellor and the communities and local government secretary have observed, housing development 'is our opportunity to unlock the new investment and new jobs the country needs. We cannot afford to miss it' (Pickles and Osborne 2011).

When residential construction declines, national economic output suffers. For every £100 million cut to capital investment in new homes, there will be 2,500 fewer jobs in the construction sector and 1,650 fewer homes built, and economic output will fall by £351 million (Shelter 2010b). Oxford Economics has estimated that lower housing activity and the effect of lower housing wealth on consumer spending together resulted in a fall of around 2 per cent in UK GDP from 2007 to 2009 – around one-third of the total fall (Regeneris Consulting 2010). The credit crunch saw UK residential investment plummet, falling 50 per cent from peak to trough (André 2011). As a result, between the third quarter of 2008 and the first quarter of 2010, about 300,000 construction jobs were lost, making up about half of all UK job losses during the downturn (Griffith 2011).

48 Which constitute around 1 per cent of all houses in the UK (Johnson 2012).

Providing the whole population with a secure, decent and affordable home would also make for significant savings by reducing 'exported costs' in other public policy areas, particularly health, the environment, education and crime. Research by Cap Gemini for CLG found that £1.6 billion of housing-related support services generated savings of £3.4 billion to the public purse, including £315 million to health and social care through avoidance of more costly acute services (NHF 2011). A recent study in Wales found that every £1 spent on housing-related support saved £1.68 from other budgets (Gregory 2011). The annual costs of poor housing have been estimated at £2.5 billion to health and £1.8 billion to criminal justice (Hull et al 2011). It has been argued that £14.8 billion is 'the amount of money in lost earnings for the current group of young people going through the school system based purely on differences resulting from the impact of poor housing on their GCSE results' (Friedman 2010). Moreover, about 30 per cent of all UK carbon emissions come from our homes and around half of that is from heating our thermally inefficient stock (Hitchin 2011).

Housing is also important to employment outside of construction: jobs and homes are intimately linked. New homes in the right places enhance labour mobility and facilitate local economic growth, enabling the recruitment and retention of key workers. Labour immobility owing to a lack of affordable housing is estimated to cost the economy £66 million per year (Gulliver 2010), even though most job moves do not require relocation and the vast majority of house moves (around 90 per cent) are not job-related (Regeneris Consulting 2010).

In light of these potential effects, a case can be made for spending money from budgets in other areas of public policy, especially health, on increasing and improving the country's housing stock.

Housing is at the crux of our economy. It must be a cornerstone of our economic policy too. But it is the social impact of poor housing that troubles us most. As the former chair of the House of Commons' communities and local government committee has observed, 'poor housing imposes very high costs on the social fabric of our communities' (CLGC 2010).

1.11 Conclusion

Homeownership remains the primary housing aspiration of most people in England.

For all of the anxiety that it provokes among some policymakers, ownership is an aspiration that makes much sense. Homeownership can offer real security, enabling families to put down roots in their communities and plan effectively for their long term. It also enables people to feel a real sense of control over their own lives, encouraging them to take responsibility for their own environments and allowing them to play a more effective role in the places in which their live. In this way, more widely distributed homeownership can contribute to our long-run goal of creating an integrated society.

Unfortunately, however, homeownership remains an impossible dream for too many people in England. The difficulties caused by unrealistic prices driven by the shortage of good-quality housing stock have been exacerbated by an unresponsive planning system and an uncompetitive development industry, by the difficulty of financing new house building, and by some serious disincentives in taxation and regulation.

Simply easing access to mortgage credit once appeared to be the solution to these problems, but the economic crash has revealed the folly of that approach. Although easy credit and high–LTV mortgages appeared to provide opportunities for those who had previously been denied access to homeownership, the advantages were short-lived and often-devastating consequences have been the result both for individual families and for the broader economy as a whole.

What is required is not to advocate for people to give up on the aspiration to homeownership per se but instead to develop realistic plans for increasing the availability of homes to own without relying on unsustainable lending. We believe the plans we have laid out in this chapter are a series of moves in the right direction. If quickly acted upon, they would free up a significantly greater number of homes for ownership and occupation and make an important contribution to an overhaul of the English housing sector.

2. A BETTER DEAL FOR RENTERS

2.1 Introduction

In the previous chapter we outlined a number of crucial ways by which we might make people's dream of owning their own home a more realistic one while also contributing to the generation of a more effectively integrated housing system.

But there will always be a proportion of the population who cannot afford or do not want to own their home at a particular moment in their life. For them, we need a better rental housing offer. For those who choose to avoid the risks and commitments of homeownership, we need an alternative that does not penalise them in financial and social terms for 'missing out'.

We must ensure, in particular, that there is effective mobility between owning and different forms of renting; that the experience in each of these sectors is comparable in terms of the quality of accommodation; and that we can provide rented accommodation in a way that helps to generate common interests rather than segregating particular social groups. We should also aim for everyone to have a real say in decisions that shape the nature and the quality of the accommodation in which they reside.

This means we need to transform both the private and social rental sectors and to integrate them within the overall housing sector.

For too long, however, there have been significant and inexcusable differences in the experience of groups of tenants within the private and social rented sectors. These experiences have generated a strong sense of segregation, with little mobility either between the sectors or within qualitatively different parts of them.

In this chapter, we set out a series of reforms to both the private rented and the social housing sectors that can help us achieve our primary aims of:

- ensuring that all social groups have access to decent, affordable and secure accommodation in whichever part of the housing sector they are located
- increasing the mobility of different social groups between different parts of the housing sector, including between the social housing sector, the private rented sector and homeownership
- enabling local communities to shape their own responses to their own housing needs.

2.2 The private rented sector

The private rented sector accounts for 17 per cent (3.6 million households) of all housing stock in England (21 per cent in London) and is growing faster here than in other countries, reflecting the recent trend of declining owner-occupation in the UK.

The private rented sector is the fastest-growing sector, with most new households making their home there, including a young 'generation rent' (Alakeson 2011) which earns wages that are too high to qualify for rationed social housing but too low to save the deposit required for a mortgage to buy a home at currently inflated prices.

The sector is also increasingly home to families – including a million households with children, twice the figure of a decade ago (CLG 2012a) – and to older people in lower-income groups. Roughly one-third of private rental tenants are in receipt of housing benefit.[49] The Localism Act 2011 means that local authorities can now discharge the homelessness duty in the PRS as well.

Yet tenancies remain comparatively insecure, with six months of security still the standard, rolling into a two-month notice period for tenants after the initial letting period has expired. The quality of accommodation is lower than in other tenures, with 37 per cent of the private rented sector nationally – over a million homes – classified as non-decent (ibid).[50] And affordability is a serious problem, with recent research suggesting that private rents are now technically 'unaffordable' (in that the average rent is over 35 per cent of the average local take-home household pay) in 55 per cent of local authorities in England (Shelter 2011).

While the private rented sector is diverse,[51] it remains largely a cottage industry in which three-quarters of landlords are individuals or couples with a single property which they keep on average for 15 years. Less than 5 per cent of private landlords have more than five properties (CLG 2011b).

Rogue landlords and bedsit barons persist, but allegations of widespread Rachmanism are outdated and unfair.[52] It is fair, however, to observe that quality and professionalism in the sector remain uneven. And small-time landlords are here to stay.

Recent growth in the size of the private rented sector is primarily due to a shift in the tenure mix from owner-occupation to private renting

49 Although many private landlords discriminate against local housing allowance claimants, refusing to take them as tenants even if, through their benefits payments, they could afford the rent (Curtis 2012).

50 For detail on decency standards, see http://webarchive.nationalarchives.gov.uk/+/http://www.communities.gov.uk/housing/decenthomes/whatis/

51 It can be categorised into sub-markets for young professionals, students, housing benefit recipients, 'slum' rental, temporary accommodation, immigrants, asylum-seekers, and people on very high incomes paying prime rents (Rugg and Rhodes 2008).

52 Peter Rachman (1919–1962) was a London landlord who became notorious for unethical practices, including driving out tenants to maximise revenue from his rental properties.

(buy-to-let) rather than the construction of new properties (build-to-let). Buy-to-let mortgages increased from zero to 1 million in the seven years from 2000, accounting for 26 per cent of all mortgage lending in 2007. A critical view of this phenomenon would cast it as the cannibalisation of private ownership by private rental, reducing the supply of the former and so driving up house prices, which in turn drive up rents in the latter. But from a lender's perspective, properties to own and properties to rent are no different.

Given the excess capacity in the construction sector, and the risks associated with building homes for sale, now may be a good moment to revisit the prospect of developing property specifically for private rent. To date, however, institutional investment in new-build in the private rented sector in England has been limited, with investors seeing it as unrewarding (at around 3 per cent return compared with other assets at 6 per cent) and high-maintenance.

The private rented sector is the single part of the housing sector in most immediate need of reform. Such reform should focus on rendering it more secure, decent and affordable. Its current general insecurity, widespread non-decency and frequent unaffordability mean that, while it is the tenure into which many are being funnelled, it remains primarily a tenure of resort rather than one of choice.

We propose that the private rented sector needs to be reformed in three areas in order to ensure:

- greater security of tenure for families with children
- higher levels of decency through effective landlord licensing
- greater stability in the cost of renting.

The necessary PRS reforms should come in the shape both of national legislative change and locally brokered 'something-for-something' deals between local government and landlords.

Security of tenure

Greater security of tenure in the private rented sector is increasingly important, as the sector becomes home to more and more families with children who need the comfort of knowing that they cannot be evicted at a moment's notice. If the sector is to make its full contribution to the more integrated society we want to see, then enhancing the security and stability it offers will be crucial. If we want people to invest in building relationships with others in the areas in which they live, then they need to know that if they put down such roots they will not be torn up unexpectedly by their landlords. A greater degree of stability than that currently offered in the sector is a prerequisite of this greater commitment to place and community on the part of private tenants.

Landlords in general do not wish to evict good tenants, and most tenancies are indeed terminated by the tenant rather than the landlord (after an average of three years). But many moves are not instigated by tenants, with 'the accommodation is no longer available' cited as one of the top three reasons for moving between privately rented homes (Shelter 2005b) and with the ending of a shorthold tenancy being the cause of homelessness for 11 per cent of households accepted as homeless (Crisis 2010). It is reasonable then for tenants for whom the security of their family's base is paramount to want more by way of reassurance. The landlord may have no intention of evicting the tenant, and may therefore see the tenancy as secure, but the tenant is less likely to see it that way without a 'piece of paper' to fall back on. Tenants know that even respectable landlords may for a variety of reasons come to want to sell the property, and that others may see evicting tenants as a way to raise the rent.[53]

The people who really benefit from churn in the private rented sector are lettings agents who take a cut or commission on every transaction. It seems a good idea then to establish local not-for-profit lettings agencies, as happens already in some parts of the country, such as Cambridge and Cornwall, to cut profiteering agents out of the equation.

The *de jure* minimum when it comes to security of tenure in the private rented sector becomes the *de facto* maximum: if the law requires landlords to offer at least six months' security followed by two months' notice, as it currently does, then six months' security and two months' notice become the norms.[54] These basic levels of security and notice are not always adequate in a sector that houses a million families, all with connections in their communities and many with children in nearby schools.

The law on shorthold tenancy should therefore be amended to offer an additional, alternative 'family tenancy', with a five-year secure period and a five-month notice period thereafter. This new form of tenancy, offering the same period of security as that offered by new flexible tenancies in social housing, and giving families more time to arrange to move if evicted, would be available exclusively to families with children. Local authorities could then strike deals with local landlords to identify a certain number of homes in their area that would offer these family tenancies, and would then signpost families with children towards these properties.

Negotiations may be required with the Council of Mortgage Lenders to ensure that lenders will continue to lend mortgages to landlords in the light of longer secure tenancies.

For landlords, break clauses could be included in these family tenancy agreements to maintain the condition of good behaviour, so that they can legitimately evict a genuinely undesirable family before the five-year limit.

53 For example, Shelter and the BBC have found evidence of this happening in the run-up to this year's London Olympic and Paralympic Games: http://www.bbc.co.uk/news/uk-17987648

54 Although most, but not all, tenancies do extend beyond the initial secure period.

If a landlord really needs – for reasons of their own financial health – to sell a property mid-tenancy, then local authorities or housing associations could be given the option to buy the property and to continue to provide it for the existing tenants. An equivalent arrangement already exists in the form of mortgage rescue schemes, which aim to keep defaulting homeowners in their home while ownership of the property transfers to a housing association.[55] Alternatively, and at no cost to the public purse, private sale could occur with the sitting tenants *in situ*.

Levels of decency

Taxpayers' money should not be going to landlords if they neglect their properties at the expense of their tenants. And non-decent housing undermines policy on health and social care. It was for these reasons that, in 2002, the Decent Homes programme, initially focused upon improving standards of decency in social housing,[56] was supplemented with a commitment by government to increase the proportion of 'vulnerable households', including families with children, living in the private sector in homes in a decent condition.[57] Yet, by 2007, among the 3.1 million vulnerable households in the private rented sector, 61 per cent were still living in non-decent accommodation (CLGC 2010). On the basis of such evidence, the president of the Chartered Institute of Environmental Health told the Commons communities and local government committee that the government's work to improve decency in the private rented sector had been an 'inadequate afterthought' (ibid).

Former housing minister John Healey told the same committee that a future iteration of the policy as it related to the private rented sector would be 'a matter that we will consider for the next spending review period'. Now that we are well into that next spending review period, this new government should spell out what action it intends to take to promote decency in the private rented sector. It must help to end the scandal of non-decent private rental accommodation and level the playing field for potential institutional investors, who would insist on decent homes anyway at their own expense.

Notwithstanding the potential for national action, at a local level a new social contract between the state and landlords operating in the local housing allowance (LHA) sub-market should be brokered to codify a series of undertakings from both sides, including on decency. These 'something for something' deals, which would vary from place to place, could be negotiated in discussions initiated by the local authority with both landlords and tenants in the area.

55 See note 36

56 Where it has been a noteworthy success.

57 With vulnerable households defined as those in receipt of one or more of the principal income-related or disability benefits.

Items for each side of such a ledger could include the following.

For the landlord:

- supply of tenants from the local housing register to reduce the risk of voids (most viable in areas with long social housing waiting lists)
- more rapid reversion to direct payment of LHA to the landlord (rather than the tenant) if the tenant falls into arrears, leaving the landlord out of pocket and the tenant in debt
- behavioural conditionality, so poorly behaved tenants can reasonably be evicted with local authority support
- low-cost loans to bring properties up to the decent homes standard, or a diluted PRS equivalent, with loan repayments being recycled to create a continuous scheme
- access to council contractors for gas checks, energy certificates and repairs
- professional development in the form of training schemes
- regular updates on relevant regulation and legislation
- accreditation as an accepted provider
- a transitional period, giving the landlord time to adapt to the new arrangements.

For the tenant:

- reasonable minimum levels of decency
- longer secure tenancies and/or notice periods
- reduced and/or stabilised rents
- compulsory landlord accreditation as part of a local family of providers
- 'mystery shopper' style checks by the local authority to ensure these deals are kept.

For such deals to be realistic, the standards expected of landlords would need to be achievable without excessive cost and there would need to be a transitional period to allow them time to make any necessary improvements. And in order to fund the support described above from the local authority to landlords, a small fee could be levied from all landlords as part of the deal (as it is in Newham – see below), sufficient to cover the administrative and other limited costs incurred.

The result would resemble a sort of hybrid private–social arrangement, not dissimilar to that which already exists under various private sector leasing arrangements.[58]

Local authorities could make the signing of such deals by landlords a condition of their receiving payment of LHA – in other words, landlords would have to sign up if they wished to receive public money to do

58 Where councils or housing associations increase their pool of housing stock by taking on private rented properties, generally in order to accommodate homeless people in critical need.

business and make profit in this sub-market. Social landlords must be registered with an authority in order to provide state-supported housing: private landlords should be as well.

In the London Borough of Newham, a mandatory landlord licensing scheme including some of the elements detailed above has recently been introduced, although it is still too early to assess its overall efficacy (LBN 2012). In conjunction with the UK Landlord Accreditation Partnership,[59] it offers landlords accreditation and a range of incentives, support and services in return for signing up to a series of principles which affirm they are 'responsible landlords' providing good-quality homes for local people.

London Borough of Newham landlord accreditation service
The aims of the Landlord Accreditation Association are:

- To work together to improve local housing conditions in the private sector and make Newham attractive for investors
- To promote and reward responsible landlords
- To encourage best practice amongst landlords in the private rented sector.

Why it pays to be accredited. We will provide:

- Market rents – market rents paid for your properties
- Priority – will be given to accredited landlords when making referrals to the private rented sector
- Access to the bond scheme
- Training – training and support on property management matters, such as housing benefit rules, possession proceedings and changes in housing legislation
- Housing benefit – accredited members will benefit from a 'Fast Track' housing benefit administration
- Mediation – a comprehensive mediation service offered to landlords to resolve disputes with tenants through mutual arbitration
- Landlord hotline – a dedicated telephone advice line for accredited landlords
- Landlord forum – quarterly meetings with all accredited landlords.

59 For more detail on this partnership, see: http://www.londonlandlords.org.uk/portal/index/

Selective licensing schemes have been used to tackle areas previously blighted by poorly managed private rented stock, in places like Bolton, since the passing of the Housing Act 2004. Licensing is also standard when it comes to houses in multiple occupation (HMOs), but it need not be restricted to these properties only.

It is possible that such a move would cause some landlords to exit the market altogether. This would mean they would have to divest themselves of their properties either to another landlord or into owner-occupation, meaning first-time buyers may benefit, either directly or at the end of the chain. It may therefore result in some tenure shift but not an overall decrease in housing supply. It is likely that those exiting the market would be some of the less professional amateur landlords that the market can do without. Providing them with supported exit routes would minimise any negative fallout.

Some improvements in the private rented sector may merely require local authorities to use their existing powers of enforcement more proactively when it comes to standards, hazards and behaviour. Councils already have the formal powers (such as improvement notices, hazard warning notices and prohibition orders) to deal with landlords who fail in their responsibilities, including the ability to force landlords to take action to rectify hazards in their property and, if they fail to comply, to carry out improvements for them and then bill them for the work.

The cost of renting

Finally, we turn to the consistently controversial question of rent regulation. There is notable consensus among most economists that rent controls are a bad idea and that they did drive significant numbers of responsible landlords out of an important market (see for example White 2012). This is why the government abolished such regulations in the Rent Act 1957 (see Simmonds 2002) and why we believe they should not be repeated now. But the high levels of private rents in some parts of the country, notably London, and the steep rises in those rents over the past decade, do force us to consider what can be done at least to check their continued rise, if not also to reduce their current levels.

There are examples elsewhere in the world on which we could draw. In New York, high private rents are a significant political topic, with the single-issue Rent is Too Damn High party[60] fielding candidates in mayoral and gubernatorial elections – there, a nuanced form of rent regulation operates. Rent regulation has a long history in New York,[61] and today includes both rent limitation and rent stabilisation measures.[62]

60 The theatrical performance of the Rent is Too Damn High party's spokesperson, Jimmy McMillan, in this televised debate has been viewed over 7 million times: http://www.youtube.com/watch?v=x4o-TeMHys0

61 See: http://www.nycrgb.org/html/about/intro%20PDF/historyoftheboard.pdf

62 See: http://www.nyshcr.org/Rent/FactSheets/orafac1.htm

In adapting this model for a UK domestic setting, it might be possible for the local deal-making described above to include a maximum base rate for rents in the LHA sub-market, possibly equivalent to one-third of the average income of tenants in that area in that sub-sector, in combination with the establishment of a local, tripartite rent stabilisation board for the mid-market private rented sector. Such a board would bring together local authorities, local landlords and local tenants to collectively negotiate limits on reasonable rises in rents over time, with these limits perhaps only being invoked when vacancies in the sector fall below 5 per cent of the relevant stock (that is, when steep rent rises are most likely).

It is not only on issues of rent regulation that we can profitably look overseas for inspiration. The following table illustrates some of the other private rental practices elsewhere in the world that we could usefully look to emulate.

Table 2.1 Notable private rental practices in other countries

Country	Purpose	Practice
Ireland	Tenant security	Four years' security of tenure after initial year
Sweden	Tenant security	Offers indefinite leases
Hong Kong	Tenant security	Offers two-year leases
Netherlands	Landlord finance	Depreciation allowance
France	Landlord finance	Offsetting rental losses against other income – 'negative gearing' – makes investment more appealing
US	Single ownership	Blocks of rental properties under single ownership, making properties easier to manage and portfolios easier to assemble
Switzerland	Rent regulation	Rent ceilings, regularly adjusted by officials, that may not be exceeded for affordable properties
Denmark	Rent regulation	Sets an officially determined rate by which rents are allowed to increase for new tenancies and has local rent control boards
Austria	Rent regulation	Only permits mid-tenancy rent rises in line with CPI
Finland	Rent regulation	Bans landlords from passing on costs to cover maintenance
Belgium	Rent regulation	Allows landlords to increase rents to make improvements to property
Germany	Tenant control	Landlords rent out a 'shell' that tenants can then decorate themselves
Spain	Social–private	A public institution (Sociedad Pública de Alquiler) has been created to provide guaranteed rental schemes for tenants and landlords in order to encourage the development of the rental sector*

Sources: Scanlon and Kochan 2011, Andrews et al 2011, Ball 2011, Office of Jack Dromey MP
* It manages the letting procedure, guarantees the contract arrangements, manages the necessary legal actions if the contract is breached, and provides full management services, including the search for a new dwelling should the tenant move for employment-related reasons.

For these reasons and others the private rented sector in other countries can be a tenure of choice for older, better-off and more stable households than it has been here.

Taken together, these proposals for reform of the private rented sector offer the prospect of significant improvement. If tenants felt more stable and secure, were assured of good-quality housing and did not feel in danger of unaffordable rent rises, then they would be more likely to approach renting in the sector as a desirable option for the longer term, raising demand for accommodation in the sector as a whole. Similarly, if landlords were encouraged to improve their professionalism, to develop proper relationships with local authorities in a series of something-for-something arrangements and to guarantee the quality of their offerings, then they would be more likely both to secure a profit and to offer a crucial service.

Once reformed in this way, the private rented sector could become a vital component of a more effectively integrated housing sector. It would potentially offer more families housing of choice and enable people to move more easily between types of tenure. It could also enable tenants to enjoy the necessary security to make commitments to their own communities and neighbourhoods and ensure that they felt that they had a voice in shaping their own accommodation experience. As such, it could contribute fully to our overall aim of overcoming the segregated housing experience that England suffers from today.

2.3 The social rented sector

The other option for people who are not able to own their home, or do not want to, is to rent in the social housing sector (SRS).

In fact this is often a preferred option, not least because security is greater and rents are lower than in the private rented sector. In comparable sections of the housing market, quality is often higher in the social sector too, especially after the £27 billion Decent Homes programme of refurbishment and renewal under the last Labour government (Wallace 2010).

However, the current system of social housing allocation and entitlement – combined with high levels of inequality, demand outstripping supply, and the relative unattractiveness of the private rented sector – restricts that opportunity to a minority. It also contributes to social, spatial and economic segregation.

If social housing is available only for a relatively small section of the population, separated from both the private rented sector and the aspiration of homeownership, then we risk a seriously segregated society, prone to all of the evils that such division brings.

It was not always like this. In the post-war period, social housing expanded significantly under both Labour and Conservative governments. It replaced poor-quality privately rented housing and offered a secure and affordable home to millions of working class and lower middle class families. Social housing – alongside wider economic and demographic change – played an important part in these families enjoying rising prosperity and upward mobility in the 1950s and 1960s (Lupton et al 2009). It was part of an integrated vision of housing and of broader society, and not a contributor to social segregation.

In the late 1970s and early 1980s, however, major legislative reforms together with wider economic forces produced a series of dynamics that fundamentally altered the role of social housing (Gregory 2009).

First, the Housing (Homeless Persons) Act 1977 placed a statutory duty on local authorities to house the homeless. This led to a shift in social housing allocations towards a firm preference for meeting the greatest and most immediate need. Previously, a local authority had considerable freedom over the distribution of its housing stock, subject to a transparent local policy (in the context, it should be noted, of rising supply). Many had operated a needs-blind waiting list to allocate properties as they became available.

The second major change came with the Housing Act 1980, which greatly expanded the ability of social housing tenants to purchase their home through the 'right to buy' scheme. Discounts sometimes worth over 50 per cent of the property's value were offered. Over the following two decades, more than 1.5 million people took advantage of this opportunity for ownership, though many properties were then rented out in the private sector.

However, the Housing Act also placed severe restrictions on the scope for local authorities to build new social housing, despite the release of significant new capital from right to buy sales. Annual construction of social housing units dropped from over 150,000 in the 1970s to virtually zero in the 1990s. It was only when housing associations blossomed, outside the public sector though drawing on public funds, that social housing development restarted on any sort of scale.

In retrospect, these reforms locked in strong forces for segregation. In providing many people with an affordable route to homeownership, the right to buy scheme was hugely successful and popular, at a time of rising house prices. However, it took many of the most desirable properties out of the sector and dramatically changed the profile of social housing tenants. Social housing rapidly became increasingly segregated from the rest of the housing market and from wider society.

In this context, a declining number of properties, at a time of rising social need, were ever more tightly rationed to the most disadvantaged people. This process was exacerbated by the entrenchment of the legal right to lifetime tenure for those who gained access to social housing (a less commonly remembered aspect of the 1980 act). This provided much greater security for sitting tenants but at the cost of reducing the turnover of properties. Such a position further decreased the likelihood of individuals moving between different housing tenures.

The consequence of these trends is that instead of providing affordable homes for a broad swathe of the population, as was the case in the post-war era, social housing has become a segregated sub-market serving a distinct minority of vulnerable households. This has, among other things, transformed its role and place within the housing market and the welfare state (Stephens et al 2002).

If we are to achieve our aims of generating a more fully integrated housing sector we will need, therefore, to address the social housing sector's tendency to segregate.

The drivers and impacts of segregation

In recent years there have been many reports exploring the challenges facing social housing in this country (see for example Hills 2007, Fitzpatrick and Stephens 2008, JRF 2011b). The issues are well-known, ranging from a chronic mismatch between supply and demand to the higher prevalence of poverty, poor health and worklessness among social housing tenants. The current combination of recession and austerity only serve to further entrench many of these problems.

Many, if not all, of these challenges can be traced back to the extent to which social housing properties and the people who live in them are segregated from the wider housing market and society as a whole. On top of the legislative changes noted here already, there have been other trends and forces affecting social housing which have been leaning towards segregation over the past three decades.

First, there have been rising levels of need. Since the 1970s there has been a significant rise in the share of households with no one in work and an increase in wage inequality.[63] This is the result of a large fall in the employment rate of working age men (from 92 per cent in 1971 to 75 per cent in 2011) and an increase in the proportion of lone-parent and single-person households. These trends partly reflect the legacy of various recessions, but also long-term labour market, demographic and industrial shifts. The consequence is a large share of households in need of help with housing. Over the last year, the number of people classified as homeless has jumped by 14 per cent, reflecting ongoing fallout from the financial crisis (Rogers 2012).

Second, there has been lower tenant turnover. In recent years, tenant turnover in housing association properties has remained relatively stable,

63 In addition to rapid overall growth in population and household numbers.

but has fallen in the local authority sector. In 1997, there were 422,000 new local authority lets, across 3.4 million properties (a turnover rate of 12.4 per cent). By 2011, new lets had fallen to just 146,000, equivalent to an 8.5 per cent turnover rate (given that the total number of council-owned properties had by then dropped to just 1.7 million).[64]

This trend is partly the consequence of a younger age profile of tenants and rising longevity, which means fewer new lets becoming available. Also, the 1988 deregulation of the private rented sector has made it a much less attractive alternative for sitting social housing tenants. And rapid house price inflation – far outstripping growth in wages or benefits – has made it increasingly hard for social tenants to move into homeownership.

Third, there have been important planning decisions. One consequence of the right to buy scheme was to remove many properties in mixed income areas from the social housing sector. The remaining stock is more heavily concentrated in larger estates and inner cities (Hills 2007). More recent social housing developments, particularly by housing associations, have moved away from the old high-rise, high-density approach. However, mixed tenure, socially integrated housing remains the exception. As suggested in chapter 1, social mix should be high up the list of planning authorities' priorities.

As it is, millions of properties in mixed areas have been sold off, taking middle-income families with them out of the sector. New developments have been few in number and largely concentrated in more disadvantaged areas. At a time of declining supply and rising need, allocation policies have led to even stricter rationing. And turnover of properties has fallen as alternative tenures have become both less attractive and less affordable.

The consequence of these forces has been to entrench various aspects of segregation:

- Over two-thirds of all social tenants are in the poorest 40 per cent of the income distribution (a third are in the bottom 20 per cent), while less than a fifth are in the top half (Hills 2007).
- The median weekly income of households in social housing is £250, compared to £485 for those in the private rented sector and £652 among owner-occupiers (CLG 2012c).
- The share of social housing tenants in employment fell from 47 per cent in 1981 to 33 per cent in 2009. Among mortgage-holders it dropped only slightly, from 93 per cent to 90 per cent over the same period (Wilcox and Pawson 2012).

64 Authors' calculations based on CLG 2012b.

- Nearly a quarter (24 per cent) of social housing is located in the 10 per cent of most deprived areas of the country, with over three-quarters (76 per cent) in the bottom half.
- By contrast, only one in 20 owner-occupied properties is in the most deprived 10 per cent of areas.

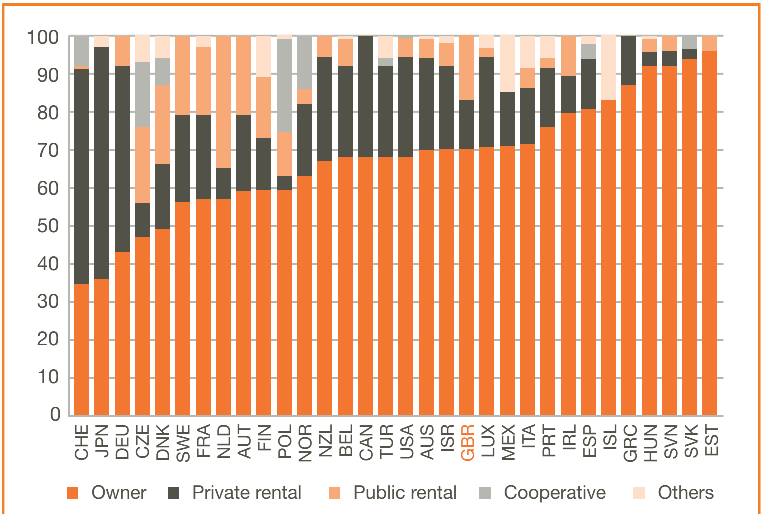
At the end of his wide-ranging study for the last government, John Hills argued that: 'If ensuring that social tenants can live in mixed-income areas is a key potential advantage of social housing, we do not seem to be achieving it' (Hills 2007). It is hard to disagree with this conclusion; since Hills wrote, the extent of segregation has, if anything, gotten worse.

International experiences of housing segregation

Variations in the profile of housing tenures partly reflect different individual choices, constraints and life stages. It is unlikely that the demographic composition of outright owners, mortgage-holders, private renters and social renters would ever be the same – and there is no clear reason why they should be. However, viewed from a comparative perspective, it is clear that the design and structure of social housing systems affect the degree to which they contribute to entrenching or overcoming segregation (Andrews et al 2011, CECODHAS 2011).

To begin to unpick why this might be the case, it is first worth comparing the tenure mix in this country to that of our international partners. The graph below shows that Britain is among those countries where social housing continues to play a substantial role in the balance of housing (along with the Czech Republic, Denmark, Sweden, France, the Netherlands, Austria and Finland).

Figure 2.1
Tenure structure across countries, 2009 (% of dwelling stock)



Source: Calculations based on OECD Housing Market questionnaire (Andrews et al 2011)

More recent data suggests that only Austria (23 per cent) and the Netherlands (32 per cent) have higher shares of social housing in their overall housing mix than Britain (18 per cent) (CECODHAS 2011). Therefore it is hard to argue that social housing is a force for segregation in Britain because it is a niche part of the housing market – it is not. It is also worth noting from the graph above that our country is far from an outlier in relation to homeownership rates: at around 70 per cent, Britain is broadly in the mid-range of OECD countries.

Beyond simple size, the OECD finds that social housing systems across countries can be divided into either 'broad-based' or 'targeted' (Andrews et al 2011). In the former, social housing is open to all (or most) citizens and is largely allocated on the basis of a queue, with some consideration given to need, including income levels. In some parts of Denmark, priority is given to 'role models', such as those in work (CECODHAS 2011). A feature of these systems is that there is less segregation between the social and private rented sectors, in relation to the type of people living there, rent levels and tenant security. Sweden, Denmark and the Netherlands are examples of countries whose social housing systems fit into this category.

By contrast, targeted systems are more explicit in focusing social housing on disadvantaged households, for whom the private market will not cater. As such, a much greater emphasis is placed on immediate need in allocation criteria. These systems operate very separately from the private rented sector and play a more limited market regulating role. France and Italy – as well as the UK – are examples of these more targeted regimes (though the overall size of the social housing sector in these countries varies considerably).

To illustrate these points, table 2.2 sets out a general typology of social housing systems across the OECD. It shows that Britain is among a collection of countries which combine a relatively large social housing sector with a heavily targeted system of allocation.

In principle, the advantage of targeted systems is that they meet housing need most efficiently and minimise deadweight costs. However, the OECD finds that these systems tend to be associated with forms of segregation.[65] And that: 'such residential segregation can result in significant disparities in the quality and access to education and in employment outcomes as well as in access to transport networks and public services' (Andrews et al 2011).

65 This is partly to do with social housing being concentrated in urban, industrial and peripheral areas (and in large, single-tenure estates).

Table 2.2
Types of social housing systems across the OECD

Size: Percentage of social housing in the total dwelling stock	Broad-based system	Targeted system	
	No income limit: Waiting list	Income limits: Waiting list with some combination of priority groups	Income limits: Needs/priority-based allocation
0–5%	Luxembourg	Estonia Korea Mexico Norway Slovakia Switzerland United States	Australia Italy Portugal Hungary Greece Slovenia
6–10%		Belgium New Zealand Ireland	Canada Germany Israel
11–20%	Sweden	Poland Spain	Czech Republic Finland France United Kingdom
More than 20%	Denmark Netherlands	Austria	

Source: OECD Housing Market questionnaire (Andrews et al 2011)

Drawing on similar cross-national data, John Hills concluded that: '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' (Hills 2007: 180).

It is important to note that Hills recognises that, while Britain's relatively large social housing stock should make it possible to avoid this situation, the combination of high levels of housing need, demographic pressures and sluggish rates of new house building intensifies the impacts of a heavily targeted allocations policy.

The final dimension of segregation to consider is that between social and private renting. In their recent review of housing market structures, the OECD assessed two aspects of rental market regulations, allowing for comparison between the social and private sectors (Andrews et al 2011). The first relates to the degree of external control over initial rent levels for new tenants and subsequent rent increases for sitting tenants. Figure 2.2 presents data from that OECD study, showing that regulation is stricter in the social housing sector in every country except Mexico.

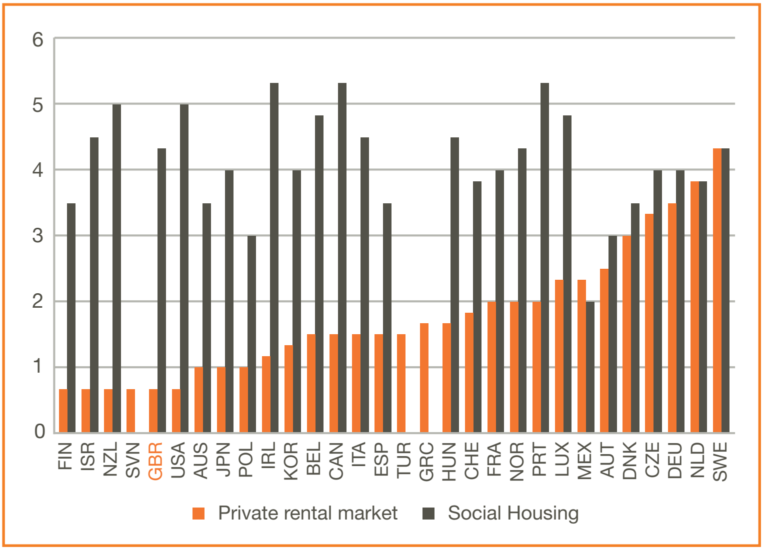


Figure 2.2
Rent control, 2009 (scale 0–6, increasing in degree of control)

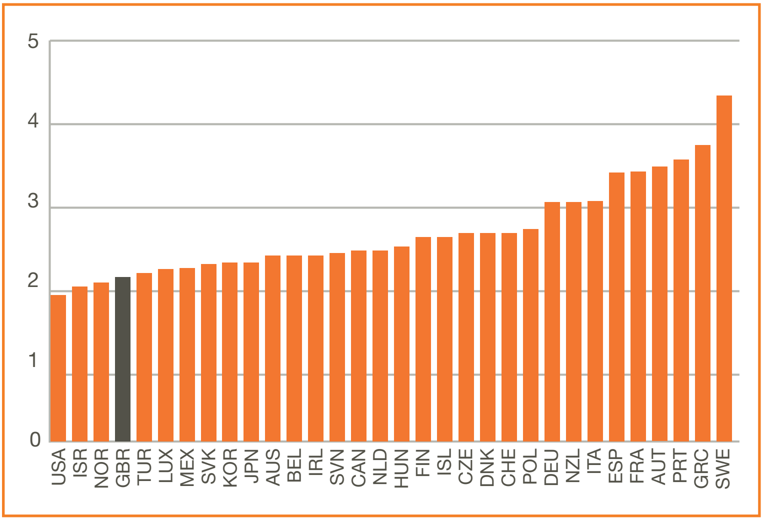
Source: Calculations based on OECD Housing Market questionnaire (Andrews et al 2011)
Note: This indicator is a composite of the extent of controls of rents, how increases in rents are determined and the permitted cost pass-through onto rents in each country.

However, it is striking that Britain combines one of the most heavily regulated rent-setting regimes in social housing with the most lightly regulated private sector rents (jointly with the US, Slovenia, New Zealand, Israel and Finland). This disparity between sectors is matched only by a clutch of other English-speaking countries, such as Canada and Ireland.

The chart also draws attention to the group of European countries which have similar levels of rent regulation in both their social and private rental markets (including Sweden, the Netherlands, Germany and Denmark). While these countries have much greater regulation in the private sector than the average, it is interesting to note that many have relatively *weaker* regulation in their social housing sectors than a number of the more classically ‘liberal’ Anglo-Saxon states (including Britain). In Sweden and the Netherlands, social rents act as *de facto* guideline rates for the private sector.

The other dimension of regulation that the OECD has assessed relates to the relationship between tenant and landlord, in terms of factors such as tenure security, ease of eviction and deposit requirements. Figure 2.3 sets out comparative levels of such regulation in the private rented sector.

Figure 2.3
Tenant–landlord regulations in the private rented market, 2009 (scale 0–6, increasing in protection for tenants)



Source: Calculations based on OECD Housing Market questionnaire (Andrews et al 2011)
Note: This indicator measures the extent of tenant–landlord regulation within a tenancy. It includes the ease of evicting a tenant, degree of tenure security and deposit requirements.

This shows that Britain also has one of the most lightly regulated regimes for private sector tenant–landlord relations in the OECD. Many of those countries with greater control over rent-setting also offer greater security to sitting tenants, to prevent landlords from evicting them in order to be able to increase the rent substantially.

There was insufficient data in this OECD survey to produce comparable data for regulation of tenant–landlord relations in social housing. However, reassessment of sitting tenants' eligibility takes place in about half of OECD countries, though not in Britain. The frequency of such reassessments varies from annually to every five-yearly. If a tenant's eligibility has changed during that period the most common consequence is to increase rents or terminate the rental contract (Andrews et al 2011).

Partly as a result of these disparities between the regulation of social housing and the private rented sector in the UK, there are marked differences in the characteristics of those living in these sectors (see table 2.3). Social renters tend to be older, less likely to be in work and more likely to be resident in their property for longer.

These differences also reflect other factors, like levels of income and the importance of tenure security to different households. However, these are, in turn, significantly structured by the opportunities provided by the two rental sectors. For example, accessing social housing is not an option for someone with a reasonable income, just as a secure tenancy is currently hard to come by for those living in the private rented sector (whether out of choice or necessity).

Table 2.3 Characteristics of social and private renters, 2009–10 (by head of household)

	Social renters	Private renters
Aged under 35	20%	50%
Aged over 54	44%	15%
Working	33%	69%
Retired	33%	8%
Resident for less than three years	23%	66%
Resident for 5–10 years	66%	20%
Resident for 10 years or more	43%	10%

Source: CLG 2012d

It is worth remembering that the sharp distinctions between the rules governing the social and private rented sectors in this country – at least in respect of rent-setting and security of tenure – are relatively recent phenomena. In the post-war era there was much greater regulation of the private rented sector, while it was not until the Housing Act 1980 that social tenants enjoyed lifetime tenure by law. Rent controls and tenant security in the private rented sector were only abolished in 1988.

Transforming the role of social housing

The implication of our analysis is that the role of social housing needs to be recast. Its purpose should continue to be to offer people on low to middle incomes a decent, secure and affordable home to rent. However, it should do this in ways that make it an agent for promoting integration in wider society. This means broadening its reach, enabling more and different types of people to access it. And it also means giving local authorities more power and responsibility to use social housing to shape their local communities and housing market.

This is a vision which echoes that of previous generations of housing reformers, such as Aneurin Bevan, minister for health and housing in the post-war Labour government. In 1949, he said:

> 'It is entirely undesirable that on 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.'
>
> Cited in Foot 1973: 78

However, it contrasts with two alternative accounts which are often heard in housing policy debates.

The first is that the provision of housing is best left to the market, with public authorities' role simply being to subsidise rents for those unable to afford them on their own. This view underpinned the sell-off of council homes, the suspension of new social housing developments, and the drift towards allowing housing benefit to 'take the strain' in the 1980s and 1990s (see subsection 3.3 for more on housing benefit). Policy under the current government appears to be informed by this world view, indicated by recent suggestions that income caps would be placed on access to social housing.[66]

The second alternative account is that which sees social housing as one of the last lines of defence for an increasingly besieged welfare state, offering some protection from the winds of market forces and inequality. This perspective views social housing as providing some baseline entitlement for the most disadvantaged, as a function of the welfare state rather than the wider housing market. However, rising need and stagnant supply mean it does not fully deliver on this role.

Arguably, the last Labour government blended these two perspectives. It continued the constraint on new social house building, while improving the quality of the existing stock. But it sidestepped fundamental reform.

Our vision is different. It is to revive the role of social housing as an institutional force for the common benefit in the wider housing market while returning it to its original purpose of offering decent, secure and affordable homes for the mainstream. Only then can social housing work with homeownership and the private rental sector to play its proper role in an integrated housing sector.

This could begin to be achieved through the following reforms, each a step on the path to giving local government real power and responsibility to shape the local housing market.

First, local authorities67 should be given freedom over how to allocate social housing in their area, ending the requirement to give strict priority to immediate need.

This would give councils greater scope to use their social housing stock to shape their local housing market and wider local community. Local authorities should be required to develop a clear and transparent allocations policy through a democratic process, which would cover properties owned by the council and registered social landlords under nomination agreements in the area. These would have to be reviewed periodically. There would be no further change in the homelessness

66 See: http://www.guardian.co.uk/society/2012/may/19/social-housing-income-cap-shapps

67 In this chapter, 'local authorities' refers to those councils that currently have responsibility for housing: district councils and unitary authorities (which include metropolitan boroughs).

legislation, beyond the Coalition's recent reform which means that those owed the highest duty can be required to accept suitable accommodation in the private rented sector rather than hold out for a secure social housing tenancy.

Alongside a significant expansion in supply, this reform would enable local authorities to open up access to social housing to a broader range of people. It would create a bigger constituency with a stake in this element of public provision, while also providing the scope to take a broader range of criteria into account when allocating new social housing lets.

In addition to choosing to continue to give weight to immediate need, this could include:

- providing homes for key public sector workers, such as teachers or nurses
- helping young people struggling to get on the housing ladder
- supporting those in low-paid work[68]
- helping older people to continue living in the community
- recognising people with local relationships.[69]

The current guidance, published by the previous government, does allow councils to take other factors into consideration when setting their local allocation policy (such as work status or length of residency in the area). However it makes clear that 'priority for social housing should go to those in greatest housing need'. The guidance sets out various categories of people in such need to whom the council is required to give 'reasonable preference' in social housing allocation (CLG 2009). Legislation should be brought forward to remove this requirement (while not affecting homelessness duties).[70]

The recently passed Localism Act did not change the rules governing allocations. However, it did give local authorities the power to keep off the waiting list those 'who have no need for social housing' (CLG 2011c). While it makes good sense to periodically 'clean up' waiting lists, to remove people who no longer want a property, it would be a mistake for councils to use this new power to place tight restrictions on those eligible for social housing. An income ceiling should be set so that no more than, say, the most affluent third of local households could be barred from putting themselves on the waiting list, to prevent this becoming a new way to restrict social housing to a minority.

68 Some councils, such as Newham in London, have decided to give greater weight to people in employment in their social housing allocation policies. This proposal goes beyond that in arguing for a wholesale decentralisation.

69 Establishing some local residency criteria would prevent people from coming to an area and accessing social housing straight away. Among other things, this might help to address public perceptions about migrants' access to social housing without requiring specific rules for that group.

70 There would be nothing to stop local authorities combining this new legislative framework with allocation mechanisms, such as Choice Based Lettings.

Local authorities should continue to be required to ensure people are housed in decent accommodation and to prevent homelessness (as set out in current legislation). This duty should, however, be decoupled from the allocation of social housing, which should be seen instead as a valuable public asset to be used to shape the local housing market and help promote integration.

Councils would still have a range of tools to meet housing need. These would include: the provision of affordable rented housing, supporting people on low incomes to pay their rent, and getting a better deal for tenants and taxpayers from the private rented sector.

In affording greater power to local authorities over the allocation of social housing and the way they meet their duty to house local people, consideration should be given to establishing a stronger national framework within which that freedom is exercised. For example, there could be a requirement to house people in properties of reasonable quality, such as those that meet a version of the decent homes standard.

Similarly, there could be a maximum radial distance placed on where councils could house those in need (without the consent of the person in question), to prevent them forcing people to move long distances. Location is already a factor in establishing whether a property provided to someone under the homelessness legislation is deemed 'suitable'. In addition, 'local connection' rules are already in place to help establish which council is responsible for someone in housing need, which would prevent local authorities trying to 'export' them to other areas (CLG 2006b).

Second, local authorities should use their new powers to offer all new social housing lets as fixed term tenancies, maintaining security but allowing greater tenant mixing.

This would enable many more people to benefit from sub-market rents in social housing, while continuing to offer a significant degree of security to tenants. The system of lifetime tenure means that the benefit of social housing is restricted to those who get access to it at a given point in time. This has left many people who are unable to buy forced to seek accommodation in the private rented sector, where rents are much higher and security much lower. This is a major source of inequality. Fixed-term tenancies would redistribute the benefits of social housing to a much broader range of people, significantly increasing the likelihood of mobility between types of tenure.

The Coalition government has taken a large step in this direction by reforming social housing tenure in the Localism Act. The legislative change is fairly complex, but the consequence is that social landlords will have the scope to grant tenancies for fixed, not indefinite, lengths

(CLG 2011c). These could be as short as two years, but five years is expected to be the norm, although councils can continue to offer lifetime tenancies if they wish. We strongly encourage local authorities to exploit this new freedom, which can help to broaden the reach of social housing (by increasing the number of new lets) and bring it more into line with the rest of the rental market, reducing segregation.

One objection to fixed-term tenancies is that they create perverse incentives, in particular for tenants not to improve household circumstances to the point where their entitlement to social housing ends. This is an important point which needs addressing. The most important response is that removing the strict priority to need in allocation policies gives local authorities the scope to significantly mitigate this concern. However, given that even under such a reformed system there would still be criteria for allocation of some kind, it would remain the case that changes in circumstance during the period of a tenancy could affect future entitlement.

In some cases this might be quite reasonable; indeed, the rationale for this reform is that entitlement should not be indefinite based on a person's situation at a single point in time. That said, there would be strong grounds for local authorities and housing associations to design tenure policies which reduce perverse incentives. For a start, five-year tenancies would mean infrequent reassessments – in stark contrast to current housing benefit entitlement, which adjusts to *any* change in earnings or household circumstance.

Beyond that, local authorities should ensure that the scope for extending a tenancy (should the household concerned want to do so) is not too tightly drawn. For instance, it could be the case that the option for reletting would only be barred if household income had risen above the (reasonably high) ceiling for initial access to the waiting list. Another option for consideration is to give a household whose circumstances have changed by the end of their tenancy the choice of buying a share of the property (at market rates) or paying a higher (market) rent as an alternative to moving out. Assuming the household chooses to stay, both options would release resources – capital or revenue – for the local authority to reinvest in more affordable housing. Local authorities could also consider basing their reassessment on household circumstances across a significant part of the tenancy, not just at the point it ran out.

A further objection to fixed-term tenancies is that lifetime tenure was one of the few countervailing forces *against* segregation in social housing. It allows those whose circumstances improve to stay in the sector, partly offsetting the impact of highly targeted initial allocations. There is some validity to this argument and it explains why, given current allocation rules, there are *any* households other than the most disadvantaged living in social housing. It is, however, a very haphazard and partial route to advancing integration. It relies on people who manage to access social housing at a point of drastic need subsequently both doing better and then not choosing to leave the sector. As John Hills argued, if the intention of lifetime tenure was to achieve a social and economic mix, it has failed.

It is far better to enable both a greater number and a broader range of people to benefit from (and experience) social housing. The reforms proposed here would open up access to a wider group and then allow for greater reallocation of a valuable public asset, without the negative impacts of the immediate and drastic means-tested system which currently exists under the housing benefit. Fixed-term tenancies would also have other benefits, creating the context for more active tenant–landlord relationships, clamping down on illegal subletting and increasing the levers for local authorities to manage their housing stock strategically and shape their local housing market.

These reforms will have the greatest positive impact if they are combined with measures to:

- increase the supply of housing in general and social housing in particular
- improve quality, affordability and security in the private rented sector
- make better use of existing properties across all tenures
- ensure planning rules encourage the development of mixed tenure housing to reduce spatial segregation.

Finally, these two steps would point towards two broader directions of reform:

- Recasting social housing as a force for shaping local communities and housing markets rather than as an instrument of welfare policy. This starts from separating the allocation of social housing from the duty to meet housing need. The latter can also be addressed through housing benefit, the private rented sector and an increase in the overall supply of affordable housing. For example, in France, the 'Solidarity and Urban Renewal Law' requires that there must be at least 20 per cent social housing in every municipality of over 3,500 inhabitants (with local discretion as to how to achieve this). Our vision is for social housing to become both a viable tenure option for the broad majority of families on low to middle incomes and a force for integration.
- Breaking down the sharp distinctions between the operation and rules governing the social and private rented sectors. This involves increasing *security* in the private rented sector, especially on rents and tenure, and increasing *flexibility* in the social sector. Such a shift would improve mobility, by reducing the huge disparity that currently exists between the 'deal' for tenants in the respective sectors – and the costs to social tenants of giving up the security

and subsidy they benefit from (Andrews et al 2011).[71] Our aim is not to close down all the differences between the two sectors, because they serve different purposes. The goal of social housing is to serve the public interest, not private profit. However it is worth noting that in Germany the differences between the social and private rented sectors were essentially dissolved in the late 1980s. Public funding for housing is now allocated to any housing provider on the condition that the property, in terms of rent and allocation, is used for social purposes.

2.4 Conclusion

This chapter has aimed to show how reforms to the private and social rented sectors can secure a better deal for people who rent their home without imposing huge new financial burdens on public authorities. A number of the proposals we make also involve strengthening the role of local authorities in respect of housing, in ways which go with the grain of the existing policy framework.

What we have shown is that there are ways to improve the contribution of rented housing to the development of a more effectively integrated society in the relatively short term. Such changes would require political effort, of course, but they would not require a full-scale transformation of the nature of the rented sectors. They could be achieved at relatively little cost, a crucial feature in times of austerity.

Such reforms would not, however, entirely reshape the nature of housing in England. They might still leave a sense that England was divided into those who have an opportunity effectively to shape their own housing experience and those who do not. They might also leave local authorities unable to respond effectively to the needs of their own communities.

In the final chapter, therefore, we explore the potential for advancing more fundamental change, through a radical set of institutional innovations and a thoroughgoing redistribution of power, resources and responsibilities. These we believe might require a more substantial political effort than the recommendations covered in the first two chapters, but their contribution to the creation of a more effectively integrated society would more than offset their costs.

71 However, to prevent barriers to mobility under these proposed reforms, consideration would need to be given to the 'portability' of social housing entitlement between different local authority areas. This could involve people being able to apply for social housing in a new location on the basis of having a job to come to or a family connection in that new area.

3. A NEW DIRECTION FOR ENGLISH HOUSING

In the two preceding chapters, we have analysed some of the major housing challenges facing this country and set out a series of reforms to begin to address them immediately. These proposals have largely gone with the grain of recent policy, although in some cases they involve significant change, in order to expedite their progress. We have a housing crisis in England right now and so need to act swiftly and effectively to redress it.

However, we also want to open up a debate about the possibilities for more fundamental reform. In particular, we want to make the case for institutional innovation that would advance a radical decentralisation of power, responsibilities and resources in housing. In the current fiscal and political climate, we argue that this could open up substantial new opportunities for local areas to advance the goal of decent, secure and affordable homes for all, while shaping their communities according to their own circumstances and priorities. The current policy trajectory is towards a spending review in 2013 or 2014 that is likely to bring further deep cuts in both housing benefit and housing capital expenditure.

3.1 The case for decentralisation

The case for considering institutional reform is threefold. First, housing policy has been bedevilled by initiatives rather than strategy for many years. There has been endless tinkering and countless worthy but ultimately diversionary schemes that have avoided, rather than solved, the central issues. Both the previous Labour and current Coalition governments have been guilty of this, with the recently announced NewBuy scheme just the latest example (CLG 2012e). More of the same is unlikely to produce a different outcome.

Second, the absence of any coherent long-term strategy is not simply accidental. No area of public policy is simple, but housing is widely recognised to be fiendishly complex (Stephens et al 2005). It famously stumped even Beveridge (Timmins 1995). And because people's homes are an emotive and personal subject, the politics of housing are always controversial, with the story of Newham council seeking to find affordable housing in Stoke for its local housing benefit recipients just one recent example.

While the nature of the issues – and their interrelationship with wider market forces – makes a strategic approach difficult, the structures of Whitehall make it even less likely. Housing is split between departments;

most problematically, the Department for Communities and Local Government (CLG) is responsible for housing policy but the Department for Work and Pensions (DWP) is in charge of the vast bulk of public expenditure (via the benefit system). This actively works against clear-sighted, long-term policy thinking.

Third, these political and institutional constraints suggest that the search for strategy in housing has been focused in the wrong place. The policy challenges are seemingly intractable in part because circumstances in different areas of the country are so contrasting. Political difficulties often arise when a policy that is appropriate for some areas is applied to others where it is not. Similarly, attempts to overcome departmental boundaries in Whitehall tend to lead to more committees and more documents, rather than a rethink of strategy or a real reengineering of government. The result is that policy gets stuck, defaulting to the micro level rather than the systemic, as the pressures of inertia and compromise far outweigh those of action and clarity.

In light of these factors, there are strong arguments for striking a decisively localist stance in housing. This would accept the impossibility of an effective *national* housing strategy, recognising instead the need for different approaches that reflect local housing markets, needs and priorities. Rather than hoping that political controversies can be either solved or avoided – that utopia can be achieved and all tensions resolved – it would give local politicians the tools to make a difference in their own area. Instead of futile exhortation for ministers and civil servants to 'join up' in Whitehall, this would drive integration directly through the devolution of power, responsibility and resources to a local (or at least sub-national) tier of government.

There is a final reason for considering institutional innovation in housing at this particular political moment. The scale of the challenge facing the UK's public finances means it is highly unlikely that there will be significant additional public resources for housing over the next five, possibly 10 years – at least through traditional expenditure routes. In fact, there will almost certainly be less. In this context, there is a premium on making better use of scare resources and advancing structural reforms. Fortunately, in the realm of housing, there are good reasons for thinking that such opportunities exist.

3.2 The Coalition's half-hearted localism

Until the 1970s, local government was firmly in the lead on housing. It had responsibility for large-scale building programmes (actively encouraged by central government) and local control over the allocation of both social housing and support with housing costs (Timmins 1995). Since then, however, there has been a gradual shift to a more national system, with local authorities increasingly left in the role of managing housing need and administering Whitehall policy.

This process began in 1972 with the creation of a national system of rent rebates and allowances, the precursor to housing benefit, which was introduced in 1988. In 1977, the Housing (Homeless Persons) Act placed a statutory duty on councils to ensure people were housed, leading to the strict priority of need governing social housing allocations. That was followed in 1978 by the introduction of housing investment programmes, which increased central control over local authority capital spending plans (Stephens et al 2005).

These reforms were followed by the Housing Act 1980, most notable for a dramatic expansion of the right to buy programme. However, it also marked the shift in spending from bricks and mortar to personal subsidies, strengthening central government leverage over local authority rents,[72] and it entrenched local authority tenants' security of tenure in law for the first time. The 1980s also saw a rapid decline in the level of new social house building and the establishment of housing associations as alternative housing developers and managers, as the role of local authorities was severely constrained (ibid). The Housing Act 1988 spurred this process further forward by enabling housing associations, in contrast to local councils, to borrow privately to top up the central grant funding they received from what was then the Housing Corporation.

Significantly, this 'nationalisation' of housing policy was advanced by governments of both main parties. Broadly speaking, Labour was motivated by the establishment of minimum standards across the country and the reduction of variability (what today is called the 'postcode lottery'). For the Conservatives, the motivation was a distrust of local government, seen as too socialist or too spendthrift, and often both (Butler et al 1994).

The consequence of these political stances is that, despite major disputes over particular aspects of housing policy, the last few decades have seen a strong consensus in favour of greater central control and national direction.

The last Labour government was no exception to this trend. It significantly increased public expenditure on the national Decent Homes programme (to improve the existing stock) but gave councils few new tools to manage their local housing market strategically or increase the supply of local housing. It was only in the very late stages of the Brown government that local authorities were granted greater scope to build new social housing and given more control over their rental incomes through reform of the housing revenue account (HRA).

From the opposition benches, the Conservatives and Liberal Democrats were strongly critical of Labour's approach, attacking it as top-down,

72 This had actually first been attempted under the Heath government, only to be (temporarily as it turned out) reversed a few years later once Wilson had been reelected.

centralising and target-driven. On coming to office, the Coalition agreement promised a Localism Act aimed at shifting power decisively away from Whitehall. Now on the statute book, this legislation provides local councils[73] with a range of new freedoms, not least a 'general power of competence' which means they can do anything not specifically prohibited by law (CLG 2011c).[74] In relation to housing, the act gives local authorities powers to:

- decide who is able to join the social housing waiting list in their area, while retaining a duty to give 'reasonable preference' in allocations to those in most need[75]
- grant fixed (or flexible) length tenancies in social housing, including housing association properties under 'nomination agreements' in their area
- meet their homelessness duty through use of the private rented sector
- keep the money raised from social rents in their area, through reform of the housing revenue account (alongside the redistribution of historic deficits)
- prudentially borrow against future rental incomes, albeit in the context of centrally controlled borrowing caps.

While these legislative reforms extend the powers of councils over housing in some areas, they do not mark a fundamental change in the balance between central and local control. As discussed in the previous chapter, there remain substantial restrictions on how councils allocate social housing in their area. They have been given no new tools to build stronger relationships with the private rented sector, in the interests of tenants and taxpayers. And they have limited scope to use their housing assets and rental income to meet local needs by investing in affordable homes to rent and buy. Despite the advent of HRA self-financing, tight borrowing caps still constrain local authorities' ability to build new homes, a situation which is compounded by the restrictive rule on the treatment of local authority borrowing. However, this constraint exists also because the vast bulk of public expenditure on housing continues to be channeled through housing benefit, which local authorities simply administer according to national rules.

Therefore, for all the Coalition's rhetoric, in respect of housing at least, the Localism Act is a half-hearted act of localism. It leaves the basic architecture of housing policy unchanged: central government retains the key financial, regulatory and strategic levers, and local authorities are left with major duties and democratic pressures but little real power.

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73 This refers to the relevant tier of local government which has responsibility for housing. In England this is district councils and unitary authorities (which include metropolitan boroughs, such as in London). In Scotland and Wales there are single-tier authorities with responsibility for housing.

74 More precisely, it means councils can do anything that an individual can do that is not prescribed by law. So, for instance, they cannot raise new taxes, as this is a power that individuals do not have.

75 Taking the legal position back to that which pertained prior to the Homelessness Act 2002.

While many were concerned by Newham council's recent decision to try to find housing for its local people in Stoke, for example, it is not clear what alternative options were open to the local authority. To put this in perspective, table 3.1 sets out the broad division of responsibilities for housing between different agencies, actors and tiers of government:

Table 3.1
Division of responsibilities for housing

National government is responsible for…	• setting the budget and priorities for capital expenditure on housing • setting rules for housing benefit (and support for mortgage interest) • setting rent guidelines in the social housing sector • setting the national planning policy framework • designing and allocating the funds for first-time buyer schemes.
Local government* is responsible for…	• preventing homelessness and ensuring people are adequately housed • owning and managing social housing, either directly or via arm's length management organisations (ALMOs) • allocating social housing, in line with national guidelines (including to housing association properties under a 'nomination agreement') • administering housing benefit (and local housing allowance in the private rented sector) • local planning decisions, including deals with private developers.
The mayor of London is responsible for…	• strategic planning decisions in London • procurement of housing association new-build housing and allocating capital expenditure for housing in London (transferred from the HCA).
Housing associations are responsible for…	• building affordable homes to rent and buy • owning and managing social housing properties (including through 'nomination agreements' with local authorities, with whom they have a duty to cooperate).
The Homes and Communities Agency is responsible for…	• programme managing capital grant expenditure to support the building of affordable homes to rent and buy (outside London) • regulating social housing (following the abolition of the Tenant Services Authority). • determining housing association borrowing capacity.
Private landlords are responsible for…	• providing (and managing) homes to rent, on the open market and to recipients of housing benefit.

* See note 74 for the tier of local government this refers to.

As part of their deficit reduction plans, the government is devolving power and resources over council tax benefit (CLG 2011d). This is currently a national benefit with standard rates and rules, but is administered by local authorities. Under the planned reform, local authorities will receive a grant allocation based on local circumstances, with full discretion over how to design and deliver a local scheme to assist those on low incomes to pay their council tax (though pensioners will remain on a national system). Unfortunately, this act of devolution comes with a 10 per cent reduction in total expenditure and no mechanism to adjust allocations in light of changes in the economic cycle. These are major problems.

3.3 From building homes to subsidising rents

In this report we have already set out a number of areas where the government should further advance its localist intentions. We argue that councils should be able to borrow against the value of their housing assets and rental incomes to invest in building new homes, to regulate the private rented sector to secure a better deal for tenants and taxpayers, and to exert more control over how social housing is allocated and used in their areas.

These reforms would give local authorities more scope to respond to their particular needs and circumstances. However, even if all these changes were adopted, local authorities' attempts to make a real difference to housing in their area would still be substantially constrained by a crucial long-term shift in public expenditure: from building homes to subsidising rents. This shift in focus has locked resources away in current spending, driven up rental costs and contributed to the under-supply of affordable housing.

In 1975, more than 80 per cent of public expenditure directed to housing was spent on supply-side capital funding, with rent rebates and other personal subsidies playing only a limited role. By the end of the century this balance had more than entirely reversed, with 85 per cent of spending being routed through demand-side revenue funding in the form of housing benefit (Stephens et al 2005).[76] This shift has had a profound effect on the nature of housing policy, and understanding its causes is vital to thinking through any future reform agenda and the scope for making any realistic progress in housing policy, given current financial constraints.

In explaining the rise in demand-side subsidies during the final quarter of the 20th century, Stephens et al (2005) point to the shift in housing payments from what was then the supplementary benefit[77] to what would become housing benefit, as well as rent rises across all tenures and the impact of higher unemployment and economic inactivity.[78] Building on these findings and bringing them up to date, the recent IPPR paper *Build now or pay later?* analysed the factors which account

76 This shift is even more dramatic considering that mortgage interest relief, a demand-side subsidy for homeowners, was phased out during this time.

77 The precursor to income support, which is gradually to be replaced by the universal credit.

78 They also find that alongside this shift in the composition of spending, overall public expenditure on housing fell by 16 per cent in real terms at a time when spending on social security and health trebled, real GDP rose by almost 80 per cent, and real local authority rents more than doubled.

for rising housing benefit expenditure, including the steep increases of the last few years (Hull et al 2011). This study found that spending on housing benefit has been on an upward trajectory, in real terms, for the last 40 years – from £1.1 billion in 1970/71 to £22 billion in 2010/11 (in 2011/12 prices). The explanation for this increase lies in the interplay between shifts in tenure, rents, caseload and generosity.

In the 1980s and early 1990s there was a rapid increase in housing benefit expenditure driven by a significant growth in caseload as a result of two recessions, increased economic inactivity and rising poverty and inequality. During this period, a substantial amount of social housing stock was transferred from local authorities to housing associations, where the scope to charge higher rents drove up benefit payments.

From the mid-1990s until the turn of the century, the housing benefit caseload dropped by 1 million, yet real expenditure fell only slightly, from £15.6 billion in 1994/95 to £14.9 billion in 2000/01.[79] In the years 1991/2 and 2008/9, the housing benefit caseload was virtually identical, at around 4.2 million, yet expenditure rose from £10.2 billion to £18.3 billion in real terms (2011/12 prices).[80] Higher expenditure during this period was driven by continued stock transfer to housing associations (and so higher rents), the shift in the balance of claimants from pensioners to those of working age (with larger households and so higher average awards) and the greater use of the (more expensive) private rented sector, particularly in London.

In the three years after the financial crisis of 2008/09, the housing benefit bill rose very rapidly, by £4.5 billion, to reach £21.9 billion by 2010/11.[81] This was partly the result of three-quarters of a million more recipients being added to the caseload, as the impact of the recession caused unemployment to rise. Recent analysis has also shown that recent caseload growth has been concentrated among working households. Between January 2010 and December 2011, the housing benefit caseload grew by 300,000, with the net number of in-work claimants rising by 293,000 over this period (BSHF 2012). This growth is likely to be related to the prevalence of reduced wages and working hours experienced by those in employment during the current downturn.

However, the impact on spending of this caseload growth has been accentuated by market factors, principally that around two-thirds of the rise in recent years has been concentrated in the private rented sector. In fact, patterns of housing benefit expenditure are less tightly related to caseload, and therefore the economic cycle, than other income replacement benefits.

79 At 2011/12 prices.

80 Using a nominal cash comparison, the difference is even starker: £6.4 billion rising to £17.1 billion.

81 The data presented here has been updated from that used in Hull et al 2011. It can be found at: http://research.dwp.gov.uk/asd/asd4/index.php?page=medium_term

To illustrate, figure 3.1 below shows that caseloads for jobseeker's allowance (JSA) and housing benefit rise and fall broadly together (with the latter always at a higher level), reflecting growth and contraction in the economy. This picture is slightly misleading, given that the sharp drop in the number of people in receipt of housing support in the late 1980s not only reflects the Lawson economic boom, but also the creation of housing benefit in it's current form in 1988, which was accompanied by an immediate drop in caseload.

However, while the chart shows JSA expenditure and caseload tracking each other very closely since the late 1970s, housing benefit spending has risen consistently and substantially throughout this period, with little demonstrable relationship to the number of claimants.

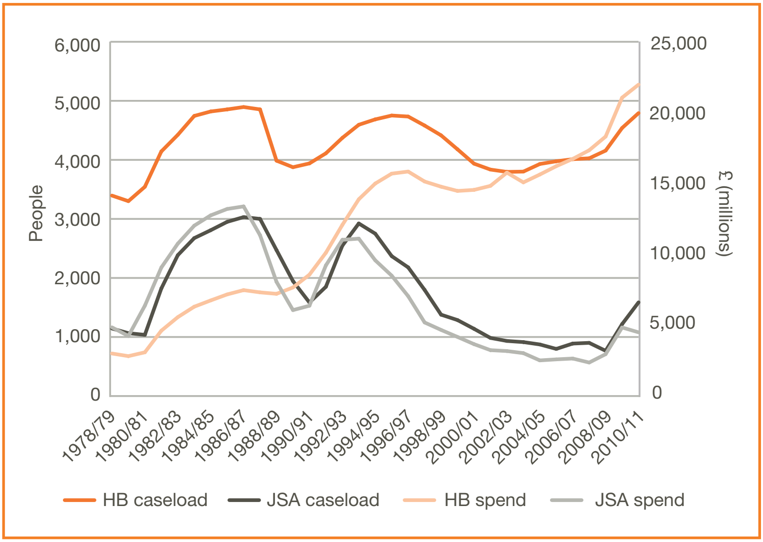


Figure 3.1
Trends in housing benefit and JSA caseload (left) and expenditure (right), 1978–2010

Source: Authors' analysis of DWP data

The poor alignment between housing benefit expenditure and caseload is underlined further by the two charts below, which show how far their trends have diverged from a fixed point in the late 1970s. While the number of people in receipt of the benefit has not risen in relative terms over that period, relative spending has grown sevenfold. This contrasts starkly with relative fluctuations in JSA caseload and expenditure, which have mirrored one another very closely.

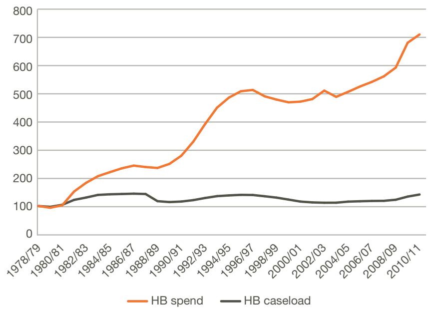


Figure 3.2
Relative growth in housing benefit expenditure and caseload (index 100 = 1978/79)

Figure 3.3
Relative growth in JSA expenditure and caseload (index 100 = 1978/79)

Source: Authors' analysis of DWP data

If trends in housing benefit expenditure are not solely – or even largely – driven by caseload levels, what does account for them? Three drivers stand out, underlining the impact of wider housing market factors.

- **Tenure:** There has been a long-term decline in the share of housing benefit recipients who live in local authority-owned properties, where rents are lower. This firstly reflected stock transfer to housing associations and, more recently, increased use of the private rented sector. Between 1994/95 and 2010/11 the proportion of housing benefit expenditure going to tenants in the local authority sector dropped from 52 per cent to 25 per cent (a drop in spending from £7.8 billion to £5.5 billion).[82] Over the same period, spending on housing association tenants rose from 13 per cent to 34 per cent of the housing benefits bill (a rise from £1.9 billion to £7.5 billion a year). Meanwhile, expenditure in the private rented sector, which had dropped to just 24 per cent of the total in 2000/01, has again risen to make up 40 per cent of the overall housing benefit bill. Spending in this sector went up from £3.6 billion a year at the turn of the century to £8.9 billion in 2010/11.
- **Rents:** The reason shifts in the tenure mix have filtered through to the balance of expenditure so dramatically is because of different tenures' dramatically different rent levels. Between 2001 and 2007, rents in the private rented sector rose by 42 per cent, compared to 29 per cent in local authority properties and 23 per cent in the housing association sector (Hull et al 2011).[83] In May 2011, the

82 All figures in real terms at 2011/12 prices.

83 In the 'boom years' between 2000 and 2007, house prices grew much more rapidly than rents, partly as a result of the housing bubble and the expansion of buy to let, which acted against rent rises. Since the financial crisis, house prices have stabilised but private rents have risen more substantially.

average housing benefit award in the private sector was £112 a week, compared to £71 and £80 in the local authority and housing association sectors respectively (Wilcox and Pawson 2012: table 118). While most benefits have statutory rules for annual uprating, which provide the government with some control over expenditure, this is not the case for housing benefit, where awards are heavily dictated by market rents.[84]

- **Demography and geography:** The share of working age households relative to pensioners in the housing benefit caseload has been gradually rising, as the former find it progressively harder to buy their own home. These households are generally larger, which is reflected in a shift in the age-profile of expenditure. In 1978, 45 per cent of housing benefit was spent on the over-60s; this fell to just 31 per cent in 2007.[85] In addition, there is a considerable regional skew in expenditure towards London, where house prices leave more people renting and high rental costs push up the benefits bill. In 2011, London accounted for 17 per cent of housing benefit recipients but 26 per cent of all expenditure (Wilcox and Pawson 2012: table 118, DWP 2012).

Looking ahead, the government is forecasting that housing benefit expenditure will peak in 2012/13 at £23.2 billion, before falling back to £21.4 billion in 2016/17. This is based on an expectation of declining caseloads as a result of lower unemployment and the impact of policy decisions,[86] which aim to leave expenditure £2 billion lower than it would otherwise have been by 2014/15. However, the consequences of these measures are highly uncertain and, as this analysis has shown, the direct impact on expenditure of any upward swing in the economic cycle is likely to be less significant than trends in the housing market.

In fact, in the absence of more fundamental shifts in the housing market, it is very likely that housing benefit expenditure will revert to its rising trend. More than once already the current government has had to revise upwards its estimates for housing benefit spending as a result of higher unemployment (BSHF 2012). In reaction, it can keep trying to control benefit spending by restricting eligibility and generosity. However, without addressing the underlying factors driving higher costs, such attempts are likely to fail and cause significant hardship in the process – not to mention that this would constitute an inefficient use of public resources.

84 This is especially the case for out-of-work claimants, who are entitled to the maximum housing benefit to cover their entire rent (subject to a 'limit rent' in the social sector and caps in the private rented sector).

85 Authors' calculation based on DWP benefit expenditure tables.

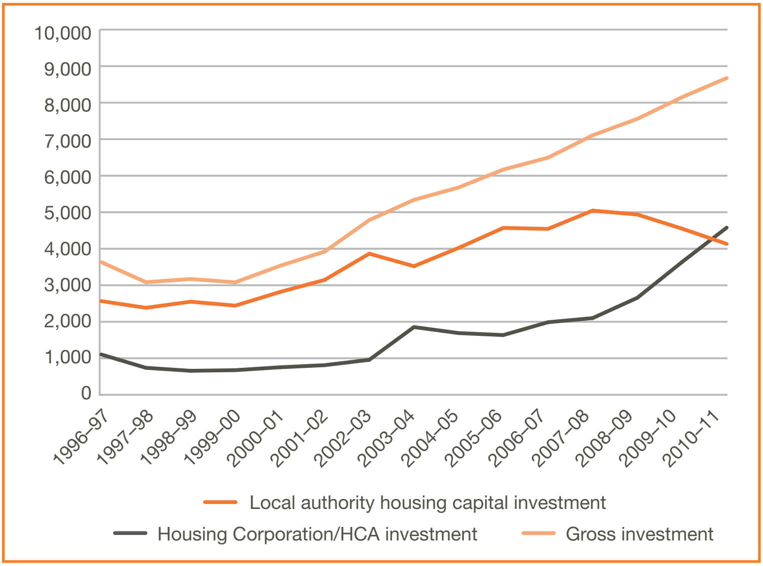
86 These changes include: capping the level of the local housing allowance available for different family sizes; setting the allowance rate at the 30th percentile of local rents; reducing deductions for non-dependents; limiting entitlements to reflect family size; and increasing the age limit for the shared room rate from 25 to 35.

Fortunately, there is an alternative course of action. But before we turn to what that alternative might be, it is necessary to explore the flipside of these rapid increases in housing benefit spending: the relative decline in supply-side investment to support the building of new homes over the last three decades. This is not straightforward, given that capital expenditure on housing comes from a range of sources: central government, local government and housing associations (as well as private developers and institutional investors outside of the social sector). It is also difficult to disentangle capital spending funded from grants, borrowing, receipts and revenues, all of which are used to fund new house building.

Assessing trends up to the end of the 20th century, Stephens et al (2005) found that supply-side investment in housing dropped in real terms from £12.7 billion in 1975/76 to £1.8 billion in 1999/2000. This latter figure marked a notable trough – and it should be noted that this calculation did not take into account the economic subsidy locked into the existing stock of social housing due to its ongoing provision at sub-market rents.

On a separate measure – capital investment in England – expenditure has gone up significantly since the turn of the century (illustrated in figure 3.4), while spending on housing benefit rose from £16 billion to £22 billion during the same period. By breaking down the sources of this investment, the chart also shows that local authority investment, funded from local authority borrowing, revenues and receipts, constitutes the largest share.

Figure 3.4
Capital investment in housing, England, 1997–2011 (£m in real terms)



Source: Wilcox and Pawson 2012: table 62

By contrast, the amount coming in grants from central government, via the Housing Corporation and now the Homes and Communities Agency, made up a much lower share – and remained under £2 billion a year until the financial crisis. At this point, capital spending on housing from the exchequer increased substantially, enabling overall levels of investment to continue rising despite a £1 billion drop in capital resources from local government. Since 2010/11, capital investment from central government has fallen sharply.

As we explored in chapter 2, the scope for local authorities to invest in housing in their area is affected by a number of factors: their freedom to borrow (particularly against their assets and revenue sources), their scope to use receipts from council house sales (such as under right to buy), and their control over social rents raised in their area. This final factor was severely constrained under the old housing revenue account rules, where rental incomes were collected centrally by the Treasury and redistributed under a subsidy system. This is changing under the recent HRA reforms, though it is unclear how much additional scope for capital investment this will allow.

Our primary focus here, however, is the level of capital expenditure coming from *central* government to support the building of new affordable housing to rent and buy. During the current four-year spending review period, covering the years 2011/12 to 2014/15 inclusive, this amounts to £4.5 billion in total, which is administered by the Homes and Communities Agency.[87] As figure 3.4 implies, this marks a substantial reduction on previous years. However, over the same period, a staggering £93.9 billion is expected to be spent on housing benefit. In other words, *for every pound of central government funding for housing between 2011 and 2015, 95p will go on subsidising rents and just 5p will go on building new homes*.

The perversity of existing expenditure patterns is underlined by comparing this spending review period to the last. Looked at on an annual average basis, the previous period (2008–2011) saw £2.8 billion a year committed to new building and £19.5 billion spent on housing benefit; comparative figures for the current period are £1.1 billion and £23.5 billion a year respectively. So while this government has significantly reduced capital investment in housing, that saving is set to be cancelled out more than twice over by corresponding increases in housing benefit (and that despite the government's various attempts to restrict entitlement).

In short, the element of public expenditure on housing which invests in an asset that increases the stock of homes whose value is likely to rise significantly over time has been dramatically cut, while the part which

87 Through the Affordable Homes programme. For more detail, see: http://www.homesandcommunities.co.uk/affordable-homes

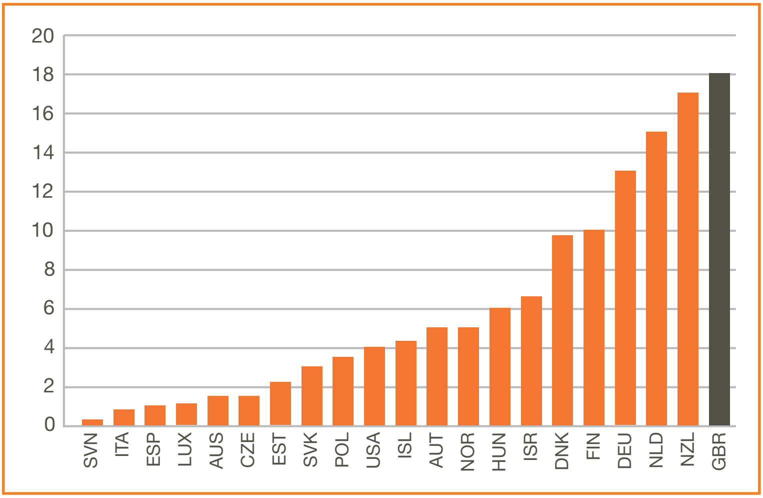
has a very marginal impact on housing supply – and arguably increases future costs through higher rents – has been substantially increased. Under current arrangements, this pattern has some political logic: housing benefit spending has been adjusted to meet immediate needs, which have been rising due to the recession, while capital spending is an obvious cost line that can be scaled back as part of a deficit reduction plan. However, the very fact that this is a logical response by politicians to current incentives merely serves to underline the perversity of housing policy and the need for institutional reform.

3.4 English housing allowances in an international context

The final important area of analysis to consider is the UK's balance of housing spending from an international perspective. The shift from supply-side investment to demand-side subsidies is not unique to this country: there has been a general drift in that direction across the OECD (Kemp 2006, Andrews et al 2011). However, comparative analysis suggests that the UK is an outlier in terms of the overall amount spent on housing allowances (Hull et al 2011).

As figure 3.5 shows, the UK has the widest coverage of personal subsidy to assist with rental costs. In this country, almost one-fifth of the population (18 per cent) are in receipt of a housing allowance (Andrews et al 2011). This is likely to be the result of high levels of worklessness and inequality, which leave a substantial minority of households in need of public support to meet rental costs. The absence of any cost controls in the private rented sector could also be a factor (which recent caps on local housing allowance rates partly address).

Figure 3.5
Proportion of population receiving cash allowances for rental costs, 2009 (%)



Source: OECD Housing Market questionnaire
Note: Australia, Austria, Netherlands and New Zealand refer to households.

OECD analysis also finds that the UK has relatively generous housing allowances, at the household level. However, this is largely because in many countries an element of support for housing costs is included within the main income replacement benefit, supplemented by an additional housing allowance. This is not the case in the UK, where all support for rental costs is provided through the housing benefit, quite separately from JSA or any other income replacement benefits.

Beyond this, the main distinction concerns whether the value of the allowance is set in relation to household income or the value of the property the household rents. OECD researchers find that most countries operate on the latter principle, which has the disadvantage of encouraging an overconsumption of housing (Andrews et al 2011). They suggest there are significant benefits from 'portable' allowances, by which entitlement to support with housing costs is established independently of particular properties and actual rent levels. This provides recipients with an incentive to 'shop around' to find housing that best meets their needs within the budget they have (ibid). Other advantages of portable housing allowances are that they are more likely to enable residential and labour mobility, compared to entitlements that are tied to specific properties and so tend to 'lock in' tenants (ibid).

Housing benefit in the UK is portable, in the sense that it is a household entitlement. However, the level of support provided for housing costs in the social rented sector is, in practice, tied to the rent of particular properties (as are tenure rights). By contrast, since the introduction of the local housing allowance in 2008, eligible tenants in the private rented sector have had the level of their support determined by multiple factors, including household size, income and local rents. This has created incentives for people to trade off factors like size, quality and location in choosing a property; in the absence of any scope to control rent rises, this risks driving up costs.

Beyond particular design features, the OECD suggests that there are major downsides to personal housing allowances which subsidise rents rather than build homes. They argue that:

> 'At least part of this government spending may end up shifting from renters to landlords. Since supply is constrained in the short run, it is possible that landlords capture part of the subsidy through rent increases, partly offsetting the targeted increase in housing consumption. The existing empirical evidence confirms that rent allowances are passed onto higher rents, although to a varying degree across countries. This means that such allowances may entail fiscal costs without necessarily large improvements in housing opportunities for low-income households."
>
> ibid: 55

They also point out the risk that demand-side subsidies can undermine work incentives, particularly for the second earner in a household, if support is withdrawn at a high marginal rate. This is currently the case with housing benefit, tapered at 65 per cent, which the universal credit will slightly improve (ibid).

3.5 Summary: the case for reform

This analysis shows that, over the last three decades, there has been a dramatic shift in public spending from building homes to subsidising rents. This has been an explicit act of policy, which has contributed to a much slower rate of house building than was the case for the first few post-war decades and a benefits bill which has risen at a far higher rate than might have been expected given only modest caseload growth (until the last few years). Shifts in tenure, rent increases and changes in the composition of claimant households – as well as some impact from the economic cycles – have left Britain with a housing benefit system which is expensive, widespread and exposed to market-driven rents.

This policy direction has significant drawbacks, not least in delivering poor value for taxpayers' money. Housing benefit is a subsidy to landlords rather than an investment in an asset. While it provides some certainty for private and housing association investment in new housing, it is an inefficient and poorly targeted form of subsidy. In their comprehensive study for the last government, Stephens et al argued that: 'While it would be naïve to assume that demand-side subsidies have no supply impact, such a shift in the composition of subsidies [has] inevitably helped curtail the supply of new housing' (Stephens et al 2005: 21). The negative impacts of housing benefit on work incentives and labour mobility are also well known (Hills 2007).

In the social sector, housing benefit at least contributes to the maintenance of properties (in addition to underpinning borrowing or new supply). However in the private rented sector, the unit cost is much higher, while the money does not necessarily feed through to upkeep and repair, let alone to the financing of new building. It may even inflate rents, thereby pushing up public spending further, a trend that is exacerbated by the rising share of households claiming housing benefit in the uncontrolled private sector. All the while, capital spending on new development declines, both in absolute terms and as a share of public expenditure on housing.

In short, having been travelling down the wrong road for a long time, we are in the process of accelerating ahead rather than finding a new direction. Something needs to change.

3.6 The constraints and possibilities of reform

Given significant constraints on public spending and the weaknesses of the current allocation of expenditure, there is a strong case for shifting resources from subsidising rents to building homes. But how could this be done? To develop a plausible reform agenda it is vital first to understand why things have ended up the way they are – and the forces acting against change.

Politically, the shift in public expenditure outlined in this report – and its consequences – is not widely appreciated among politicians and the public, even if it has long been the subject of debate among housing specialists. And while it is dramatic when looked at over a generation, the change is gradual year by year. Because housing benefit counts as 'AME' in the government's accounts, politicians do not have to make explicit decisions about levels of expenditure, in contrast to capital spending, which counts as 'DEL'.[88] This means that there is much tighter control over one aspect of housing spending – capital spending – than the other. Also, popular concerns about access to social housing and the size of the benefits bill are rarely attached to these underlying drivers.

More broadly, the last generation has seen housing split as a political issue. On the one hand, housing benefit and social housing have increasingly been seen through a welfare lens, with support targeted at the most disadvantaged with the goal of addressing poverty. On the other, ownership has been seen as a personal asset and investment issue, access to which has been increasingly constrained. This leaves out those in the middle, who are poorly served by both the housing market and the welfare state. This bifurcation of focus has worked against the construction of broad popular alliances with shared interests in housing, as well as inhibiting the development of a housing agenda capable of mobilising the mainstream. This is precisely the form of segregation of interests to which this report is critically addressed.

There are also strong **institutional barriers** to reversing the current direction in housing policy. As noted at the beginning of this chapter, responsibility in Whitehall is split, with CLG in charge of the policy but DWP in control of the money. This means that the trade-offs between supply and demand side funding are never explicitly drawn out, not least by HM Treasury, which has sought reductions in housing benefit with little focus on what is driving higher spending. The current institutional arrangements make it extremely difficult to shift money to capital investment, given that housing benefit meets immediate need now. Similarly, while central government finds it very hard to advance a coherent strategy, given the variety of local housing conditions, local government is stuck with duties to fulfil and needs to meet without the power and resources to do so.

Finally, there are **ideological constraints** to take into account. The initial decision to shift spending towards personal subsidies in the 1970s and then again in the 1980s was no accident. These decisions reflected

88 Annually managed expenditure and departmental expenditure limits.

a desire to put purchasing power in the hands of individuals and to promote a more market-based system of funding that followed people's choices. Many involved in housing policy also trusted a nationally guaranteed individual entitlement rather than the contingency of a locally determined system. This shift was also motivated by hostility to state provision and the power of local government, at a time when councils did not have an outstanding record for financial management or service delivery. These arguments continue to have force: there are benefits from having a portable housing allowance and there are significant problems with a system run by bureaucracies which lack far-reaching democratic input.

Conversely, while the idea of extra investment to build more affordable homes would receive strong backing from the political left, there would be concerns about switching money away from benefits to fund it. More broadly, moves to dilute national benefit rates and rules would face strong resistance from those concerned about the impacts of discretion and variability in public services or financial support. These concerns are not without foundation. The potential gains from moving away from standardisation should be balanced by protections and accountability – especially as they affect the most disadvantaged and least powerful in society.

These political, institutional and ideological factors present real barriers to reform. And this is far from the first report to point to the disadvantages of the shift from supply to demand-side funding in housing (see Hills 2007, to name just one notable example). However, there are a set of factors – some developing gradually over time, others only recently emerging – which suggest that there could be space for change now in a way that has not been the case in the past.

- **The Localism Act and the improved performance of local government:** By increasing the freedoms of local authorities in relation to housing, this recent legislation has created the logic for further reform. It also demonstrates this government's interest in devolving real power away from Whitehall – and the possibilities for holding them to a fuller version of their stated intent. Similarly, by significantly improving efficiency and financial management over the last 15 years, local government has come to be seen as a more attractive recipient of devolved power and responsibility across the broader political class. This is a significant change from the 1970s and 1980s, when local councils were often poorly run and widely seen as financially incompetent.
- **The reform of the housing revenue account:** By ending the national system of social housing rent collection and subsidy redistribution, this reform has substantially untangled local authorities from one another and central government. From now

on, councils will keep social rents raised in their area, to maintain their stock and service their debts and – potentially – to invest in building new homes (subject to strict borrowing limits). The previous system was a major barrier to local expenditure control because subsidies, debts and rents were intertwined across local authorities (and through the Treasury).

- **The consequences of austerity:** By embarking on a programme of deficit reduction, the government has focused greater attention on where public spending is directed and its value for money than in the recent past. Meanwhile, the reality of constrained budgets might spark greater focus on how the DEL/AME split in housing affects the scope to control expenditure – and also could open up new space for institutional innovation. Similarly, those who fear greater reductions in housing benefit might become more interested in creative thinking about the best way to maximise the impact of resources within limited budgets.
- **The localisation of council tax benefit:** By decentralising what was previously a national benefit, a precedent has been created for passing resources down to councils in order that they are empowered to design and deliver locally appropriate schemes. Also, this reform is forcing civil servants to work through a range of issues that would require consideration as part of any bid to decentralise housing benefit. These include dealing with geographic boundaries, the fit with other benefits, the impact on work incentives, coping with fluctuations in the economic cycle, and protections for the most disadvantaged.
- **The introduction of the universal credit:** By shaking up working-age benefits and tax credits, the government has created an opportunity for reform. This window might be time-limited though. If support for rental costs becomes subsumed within a single benefit payment then it would become hard to untangle again. That said, designing a housing component within universal credit which operates as a tenure-blind, portable allowance would either incur substantial new costs or create a large number of 'losers'. So, if the housing element within universal credit ends up looking broadly similar to the current housing benefit then future options for redirecting this spending might be retained. Also, given the huge implementation challenge it poses, the prospect of keeping housing support outside universal credit might become an increasingly attractive option.

These factors create new opportunities for housing reform, because a number of old structures and certainties are in flux.

However, taking advantage of this opening requires a viable alternative. In such moments, social policymakers often look back to Beveridge for inspiration. But maybe the reason he – and generations since – failed to solve the housing problem is that he looked in the wrong place. Perhaps instead of seeking a *national welfare solution* the answer is to create the conditions to address what is in fact a series of *local housing problems*.

3.7 Our proposal: an affordable housing grant

Reversing the long-term shift from building homes to subsiding rents requires the boundaries between these two elements of spending to be collapsed. Realistically, this is only going to be achieved through an act of radical decentralisation, shifting the focus of housing policy from national to local government. This section works through how such a reform could work in practice, but it is these two shifts – from revenue to capital spending, and from a nationally to a locally driven housing system – that are the essence of the proposal outlined here.

In future, central government should allocate a single **'affordable housing grant'** (AHG) to local authorities for the purposes of enabling local people to live in decent, secure and affordable homes and of developing an integrated housing market that overcomes social, economic and spatial segregation. This grant would stretch over a minimum of three years and be based on a national formula that took account of local population, housing costs and relative deprivation.

The first round of AHG allocations should broadly match projected housing benefit expenditure in each local authority area (subject to the precise reform option pursued – see below), plus an estimate of their likely share of the capital spend currently channelled to the Homes and Communities Agency.[89]

The aim would be to achieve a national redistribution of resources to areas of high cost and high need while giving full freedom to local authorities to decide how best to use that money in light of local circumstances. Councils would be required to set out plans for how they intended to make use of their grant to ensure decent, secure and affordable homes for all. Such a plan would include how they intended to balance capital investment relative to cash support in securing affordability.

Crucially, this reform would mean moving away from housing benefit as a national entitlement. This is essential to making possible the rebalancing of spending towards investment that could increase the supply of affordable homes and reduce the demand for rental support. Institutional constraints in Whitehall and geographic variability across the country mean that this rebalancing can only be done at a local level. In practice, local authorities would achieve this transition over a number of years.

89 It could also include spending currently directed to various initiatives such as NewBuy and the new homes bonus. It could also include the local share of national spend on support for mortgage interest, though there is a case for retaining this as a national entitlement given that it aligns more closely to JSA and the other main income replacement benefits.

Under the affordable housing grant, each local authority would be free to determine how its system of rent subsidy should work, alongside any national entitlement that was retained, including its level and rules. This power would be combined with full freedom over the allocation of social housing. This would permit more variability and undoubtedly lead to a less patterned policy framework, with more contingent outcomes. The shift to a national system has locked in a spending logic with certain far-reaching consequences that have reduced housing supply, increased costs and left councils without the tools to respond to local conditions.

To ensure that a broad range of interests were taken into account in their AHG strategies, local councils would be statutorily required to establish an affordable housing panel. This would include representatives from the council (as funder and landlord), housing associations operating in the area, private landlords and tenants from both the social and private rented sectors. Ideally, the voice of both homeowners and those in housing need, facing exclusion from the current system, should be included too. This panel would be responsible for agreeing the overall affordable housing strategy for the area, requiring different viewpoints and interests to be debated and a common view forged on the right approach for that area.

The panel would be responsible for deciding how resources should be spent, but also for setting out a coherent local housing strategy. This would relate to issues such as the design of a local housing allowance scheme, intervention in the private rented sector, planning rules, land use, social housing allocations policy, and so on. Under this model, the responsibilities of rent stabilisation boards, as proposed in chapter 2 of this report, would be subsumed within this wider local institutional and democratic arrangement.

The local council would ultimately retain a veto on its affordable housing panel, as the representative of the state funder. However, other parties would also hold the power to block the local authority from pursuing a strategy which did not command broad support from other stakeholders in the local housing market. This arrangement would foster local collaboration while preventing local authorities from using their substantial new powers in ways that do not carry local support or fail to take important interests into account. It would be similar, in some ways, to existing local strategic partnerships, which bring together different stakeholders to make coordinated local decisions.

Subject to statutory rules about having to establish an affordable housing panel, its core responsibilities and basic governance arrangements (that is, which interests have to be represented), local areas would retain discretion as to how the panels would be constituted and operate. It should be reasonably straightforward to identify representatives from housing associations in the area and it would provide an incentive for private landlords to become more collectively organised. Existing tenant or resident committees could be the basis for selecting social housing representatives. However, some more creative thinking will be required to establish the representation of private tenants (and indeed of homeowners and the homeless). One option would be for an election to be held (possibly alongside council elections) whereby people self-select into categories of social renter, private renter, homeowner or homeless and pick their respective 'sectoral' representatives.

Beyond local representation, there are further important questions as to which is the most appropriate tier of government to control affordable housing grants. In England, the 380 district councils and unitary authorities (which include metropolitan boroughs, such as in London) are currently responsible for housing. However, their often small size and imperfect fit with functional housing markets suggest that this is not the ideal level of governance. On the other hand, these authorities do already take the lead on social housing, the administration of housing benefit and local planning decisions. On that basis, despite their imperfect fit, this would be the default tier to take on AHG responsibilities.

In time, it may be sensible to consider shifting power over housing resources and decisions to 'top-tier' authorities, which could offer a better balance between scale and local control. In most cases, this would be the county council, though there would be significant obstacles to shifting existing assets and control in this way. Similarly, if the UK were to develop new structures of regional or city government then such a tier would provide another option for decentralisation. Certainly, reforms of this kind would provide concrete content for discussions around so-called 'city deals'.

A significant exception to this broad position is the case of London. There, the mayor is already responsible for planning and is about to take over control of the city's share of capital spending on housing from the Homes and Communities Agency. There is an argument for adding housing benefit expenditure in the capital to this mix, giving the mayor real strategic powers to invest in and shape the London housing market. However, this would raise questions about the role of boroughs under such an arrangement, given their significant existing stake in housing. Possible solutions could include cross-borough agreements or even a pan-London arrangement involving the mayor and London Councils. This latter option would also help to address 'boundary issues' that would arise under a more locally determined system.[90]

90 Housing benefit is a reserved issue, but if Scottish voters choose separatism from the UK then this spending line would have to be disentangled. It would also be possible to play the decentralisation of housing benefit into debates about 'devo-max'. This could involve an affordable housing grant

Advancing the kind of institutional innovation outlined here would mark a radical departure from the last three decades of housing policy and governance and bring with it a raft of implications. It is impossible to work them all through immediately; certainly, a wide-ranging policy debate within central government and across different types of region and local area is needed. However, we can begin to outline the main issues.

What level might affordable housing grants be?

In the first instance, affordable housing grants should be based on projected (non-nationally retained) housing benefit spending in each local area for the following three years and a share of the capital expenditure for housing currently channeled to the Homes and Communities Agency. So far, the Coalition government has set out departmental spending totals until 2014/15 and the total public expenditure envelope up to 2016/17. The expectation is that a spending review will occur in 2013, which would be the first opportunity for AHG allocations to be set. These could cover 2015/16 to 2017/18, based on the most up-to-date projections of housing benefit expenditure in these years, divided by the most recent data on actual spending in local authority areas. Projected expenditure is not currently broken down at this spatial scale.

In subsequent rounds, once the new system is underway, grants should be based on a formula taking account of local population, housing costs and relative deprivation. By way of an illustration, the figures below show housing benefit expenditure in selected areas in the three years between 2008/09 and 2010/11.[91] Over this period, £58.5 billion was spent subsidising rents across the country. In practice, affordable housing grants would be bolstered by capital expenditure allocated by central government (and would take into account more recent benefit spending data). Their levels would also depend on whether or not some element of support with housing costs is retained in the national benefit system.

The first set of figures relates to local authorities with existing responsibility for housing, covering a range of sizes, regions and levels of affluence.[92]

for Scotland, comprising housing benefit and capital expenditure north of the border. Alternatively, Scottish (single-tier) local authorities – who have long operated under different, more permissive, rules in relation to borrowing than their English counterparts – could take on responsibility for local affordable housing grants. A similar set of options would be available in Wales.

91 These figures show actual housing benefit expenditure, rather than projected expenditure. Data is extrapolated from DWP 2012.

92 The number of housing benefit recipients by local authority area in December 2011 can be found here: http://research.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_mar12.xls.

Table 3.2 Indicative affordable housing grant allocations by area

Birmingham*	£1,268m	Southampton	£267m
Newham	£794m	Milton Keynes	£253m
Brent	£794m	Middlesbrough	£189m
Westminster	£729m	Reading	£187m
Hackney	£716m	Norwich*	£163m
Manchester*	£681m	Solihull*	£136m
Leeds*	£663m	Warrington	£134m
Wandsworth	£543m	Taunton Deane*	£77m
Camden	£515m	Woking*	£67m
Bradford*	£421m	South Norfolk*	£65m
Kensington and Chelsea	£407m	Rugby*	£59m
Nottingham	£350m	Corby*	£48m
Barking and Dagenham	£344m	Surrey Heath*	£38m
Leicester	£339m	Daventry*	£37m
Coventry*	£337m	West Somerset*	£36m
Newcastle	£319m	North Warwickshire*	£35m

Source: Authors' analysis based on DWP expenditure tables[93]

These figures make clear that affordable housing grants would be heavily skewed towards cities and urban areas, while being strongly redistributive across the country as a whole.

They also show that many local councils could gain control over a substantial amount of resources. For example, the annual budget of Birmingham City Council is £4 billion, so the affordable housing grant could add an extra 10 per cent to its resources. For some of the district councils, it could represent an even larger rise in their budgets. For instance, Corby Borough Council's budget in 2011/12 was £13 million, so the affordable housing grant could double its annual resources. This strengthens the case for all top-tier authorities holding the purse strings under this reform, with county councils acting as a coordinator across the housing authorities in their patch.

To illustrate this point further, the local authorities marked with an asterisk in table 3.2 above are those that come within a wider geographical area which might form an alternative tier of government to assume responsibility for the affordable housing grant.[94] The indicative allocations for these larger spatial scales – city regions, county councils and metropolitan councils – are shown below. Devolving to these tiers of government would create greater scope for strategic use of resources –

93 http://statistics.dwp.gov.uk/asd/asd4/index.php?page=hbandctb_expenditure

94 Those not marked with an asterisk tend to be unitary authorities and London boroughs, though an overall figure for the capital is given in table 3.3.

and make it easier to overcome arbitrary administrative boundaries that cut across functional housing markets. It would not necessarily require those powers which currently sit with a lower tier of government to be shifted, only a greater degree of coordination across the larger spatial scale.[95]

Table 3.3 Indicative affordable housing grant allocations, by larger areas

London	£15,193m	including the 32 boroughs and the City of London
West Midlands	£2,880m	including Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton
Great Manchester	£2,555m	including Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan
West Yorkshire	£1,815m	including Bradford, Calderdale, Kirkless, Leeds and Wakefield
Surrey	£714m	including Elmbridge, Epsom and Ewell, Guildford, Mole Valley, Reigate and Banstead, Runnymede, Spelthorne, Surrey Heath, Tandridge, Waverley and Woking
Norfolk	£626m	including Breckland, Broadland, Great Yarmouth, King's Lynn and West Norfolk, North Norfolk, Norwich and South Norfolk
Northamptonshire	£454m	including Corby, Daventry, East Northamptonshire, Kettering, South Northamptonshire and Wellingborough
Somerset	£380m	including Mendip, Sedgemoor, South Somerset, Taunton Deane and West Somerset
Warwickshire	£336m	including North Warwickshire, Nuneaton and Bedworth, Rugby, Stratford-on-Avon and Warwick

Source: Authors' analysis based on DWP expenditure tables[96]

What might local councils do with their affordable housing grant?[97]

The purpose of creating affordable housing grants is to break down the strict boundaries in current housing expenditure and the central prescription in existing housing policy. The core requirement would be for local authorities to use their grant exclusively to improve the

95 Decentralising housing benefit expenditure to Scotland and Wales would contribute £4,608m and £2,493m to their respective affordable housing grants. Alternatively, if power and responsibility were located at the local authority level it would result in allocations such as £961m for Glasgow, £520m for Edinburgh, £355m for Cardiff and £219m for Swansea. As with the previous amounts shown, these figures only relate to the housing benefit portion of the affordable housing grant, excluding the relevant allocation of central government capital expenditure.

96 See note 94

97 It is not possible in this report to give a detailed sense of the financial and practical implications of this reform in specific local councils. We are only able to give some sense of scale and options.

availability of decent, secure and affordable housing for everyone living in their area. They should do this through the most efficient and effective deployment of resources in light of local conditions and needs – aiming to grow the supply of affordable housing wherever possible.

A key decision would be how councils balance the need to support people who need help with immediate housing costs against investing in improvements to local housing provision of various kinds. Both are about meeting need, but the latter has the potential to reduce cost pressures over time, while almost certainly representing better value for money. It would be for individual local authorities to decide the right approach for their area, but it is possible to identify some of the ways that local councils might use their grant to meet the core purpose. These could include:

- doing long-term deals with private developers and housing associations to build new affordable homes to rent and buy, with controls on their future use and ownership
- establishing a local scheme to provide support for people on low incomes with their housing costs, as an alternative to housing benefit[98]
- entering into agreements with private landlords to secure a better deal for tenants and taxpayers, to cover such as matters as rent stabilisation, improved management standards, security of tenure, and commitments to increase and diversify property portfolios
- purchasing existing properties not currently in residential use and bringing empty properties into the market, either through compulsory purchase or obtaining an empty dwelling management order[99]
- providing support to get people into employment and reduce worklessness, so that people are better able to meet their own housing costs.

Shifting resources from subsidising rents to building homes would not be straightforward. For it to happen at a national level would require a huge additional upfront investment in new house building – something which has not been forthcoming for 30 years – or crude national controls on the private rented sector that would end up restricting supply. The reason for pursuing decentralisation is precisely because, accepting the reality of resource constraints, such a switch can only be done locally, where the trade-offs can be worked through in a way that is appropriate to local circumstances. During the first year of affordable housing grant allocations it might well be the case that the balance of spending remains broadly similar to its current split. But local authorities would want to put in place plans to increase the supply of local

98 Councils might also consider providing (time-limited) support to prevent people losing their home if they become unemployed, akin to support for mortgage interest.

99 An existing power under the Housing Act 2004.

affordable housing and reduce the demand for expensive rent subsidies. This could include, for example, entering into deals with private landlords to limit rent increases, taking advantage of the multi-year grant allocation to 'invest to save', and leveraging higher revenues and wider borrowing powers to begin larger-scale house-building programmes (assisted by the new housing revenue account arrangements).

To maximise the impact of these sorts of strategies, councils should be given strong incentives to develop land and build new homes. These already exist through section 106 agreements and the new homes bonus,[100] which sees central government match-funding additional council tax revenue raised from increases in local residential housing supply. This could be strengthened by councils retaining the freehold on new private housing, which is either built on its own land or which has been built (in part) with its funding. This would allow the authority to capture part of the uplift in property value, while also generating an income stream from the leaseholder. A variation on this approach would be shared ownership between the council and individuals. These options should give local authorities real incentives to give planning permission for new housing and to release their own land for development.

Under this reform, there would be a strong case for local authorities to cooperate with each other to act and invest strategically and to address spatial boundary issues.

This would certainly be the case if affordable housing grants were devolved to county councils, which would coordinate among their subsidiary district authorities. As part of such agreements, there might be a role for an institution such as the Homes and Communities Agency to act as an aggregator and facilitator. For instance, it could help to coordinate between groups of local authorities on the one hand, and private developers or housing associations with a broad geographical reach on the other, to secure better deals for public authorities by acting at scale. The agency would also continue to regulate social housing – and could take on a broader role overseeing the regulation of the private rented sector and acting as a champion for tenants across the board.

It is not possible to say for certain what difference could be made through this act of institutional innovation. The point of localism is that outcomes are not patterned or predetermined. It will depend on the choices and capabilities of local councils, in light of local circumstances and democratic pressures. In different parts of the country, there is major variability in housing cost pressures, the balance between local supply and demand, and the extent to which social housing is owned by the council or housing associations. Such factors would affect how local areas might utilise the affordable housing grant.

100 For more detail, see: http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/

As a rough guide, the government is hoping to see 80,000 new affordable homes built from the first £1.8 billion of investment released from the Homes and Communities Agency (on the basis of the new 'affordable rent' regime).[101] We are proposing scope for investment on a far larger scale – albeit unlocked over time. Housing benefit does play a role in indirectly subsidising capital investment, by providing investors with some certainty of rental income. However, channeling resources in this way does not maximise the supply impact nor is it possible to strategically direct such investment for the public benefit. Under the affordable housing grant scheme, local councils would have a significant level of resources, backed by the government, to bring to the table in negotiations with housing associations and private developers.

How might the affordable housing grant fit with the universal credit?

Beyond their potential level and use, affordable housing grants would raise a number of significant practical issues. Perhaps the greatest is how this institutional shift might fit with the universal credit, the government's major overhaul of the benefits and tax credit system due to come into operation over the next few years. This raises technical challenges but also important questions about how public support for housing should be delivered and how housing allowances should best be designed.

The government has stated its intention to include housing benefit within the new universal credit, but has not yet announced how it plans to treat support for rental costs in the new system. There are two broad options. The first would involve retaining housing benefit in its current form – same level, same rules – but integrating it into a single universal credit payment. This would almost certainly lead to a centralisation of administration, taking that responsibility away from local authorities. The second approach would be to merge housing support into universal credit in a way that also reformed the structure of entitlements and awards.

This latter option would create the potential for moving towards a 'housing tax credit' model, where support is tenure-blind and not tied to specific properties. This is a direction long debated in housing policy circles (Kemp et al 2002). It has the advantage of giving households incentives to trade off location, quality and cost (reducing overconsumption of housing), while also minimising barriers to residential and labour mobility. This is the principle behind the local housing allowance, which has been in place for private rented sector tenants since 2008. The drawback of moving to such a system across all tenures is that it would entail either substantial extra costs or lead to

101 For more detail, see: http://www.homesandcommunities.co.uk/news/hca-announces-successful-bidders-affordable-homes-funding. Averaged out, this is a unit cost of £22,500 in grant subsidy per new home.

a large number of losers (as benefit awards became de-coupled from particular properties). It could also contribute to rent inflation.

These negative effects could be mitigated by varying levels of support by tenure and geographical areas, though such steps would undermine the broad objective of portable allowances. Either way, the problem with any of these options is that they do not provide any mechanism for addressing the fundamental problem: the shift in overall spending from supply-side investment to demand-side subsidies. In fact, they would exacerbate this problem, by locking housing expenditure more firmly into the benefits system and away from being used to support building new homes.

There are, by contrast, two options for advancing affordable housing grants alongside the universal credit.

Option 1: full decentralisation of housing support outside universal credit

In its pure form, the affordable housing grant would keep assistance with housing costs outside of the universal credit and devolve all public expenditure on housing to local councils. The challenge this would pose is how local arrangements for providing cash support for housing should work alongside a more streamlined national benefit system. This would, by definition, compromise some of the simplicity which the government intends to achieve through the universal credit, by creating a variety of assessment, eligibility and entitlement rules in different parts of the country. In addition, local authorities would have to work out how to administer disregards and taper rates on housing support around the basic universal credit structure.

These are not straightforward issues to resolve. The shift to an affordable housing grant would close off the potential benefits of a fully portable, tenure-blind housing allowance (though there is no certainty that this is what the government either wants or might be able to achieve). Depending on the design of local systems, and their compatibility with each other, there could also be negative trade-offs in relation to residential and labour mobility. However, the current housing benefit system – especially in the social housing sector – already exhibits such weaknesses, and there is no guarantee that the universal credit as currently envisaged will undo them. Also, the simplicity of the government's reform is already compromised by a number of benefits sitting outside the universal credit, including child benefit, disability living allowance and contributory employment and support allowance (ESA) and JSA.

More significantly, council tax benefit (CTB) is not only going to be kept outside the universal credit but is set to be localised (CLG 2011d). In future, a grant will go to local councils who will be responsible for designing and administering local schemes to help people on low incomes pay their council tax bill. Recent analysis by the Institute for

Fiscal Studies highlights a number of challenges raised by this shift, not least in targeting help on low income households while not undermining the government's wider objective of improving work incentives (Adam and Browne 2012).

A similar challenge would arise if support for housing costs was fully decentralised under the AHG model. In such circumstances, local authorities would probably be wise to undertake their assessment for housing support on the basis of net household income, after entitlement to universal credit had been established.[102] Councils could then either dispense cash benefits to individuals or provide what would effectively be discounted rents (with money flowing directly to landlords). It would also be up to local authorities to decide if they wanted to create a local scheme that was in effect a portable housing allowance or an award tied to a specific property.

However, there would be important differences between the localisation of support for housing costs proposed here and the government's CTB reform. Firstly, we are not proposing that devolution should be accompanied with a 10 per cent reduction in overall costs, as is the case with CTB. We are also proposing multi-year grants, to enable councils to smooth their expenditure, as well as the potential to readjust grant allocations in light of significant changes in the economic cycle. There is no such provision for adjustments under the CTB reforms and the timeframe of grant allocations is not clear. Finally, decentralisation under the affordable housing grant would be done within a legal framework requiring local councils to promote affordable housing and to use the grant exclusively for this purpose (which is not the case under the CTB reform). Further details of these design questions are explored later in this report.

The decision about how to design a local system would depend on a council's wider AHG strategy and its plan for engaging with local tenants and landlords. One general benefit of *not* merging housing support into universal credit is that local councils would retain both good data on local tenants and an active relationship with local landlords. Councils would also have the option of designing their local schemes in ways that support employment, such as by fixing entitlements for three- or six-month periods rather than readjusting them with every change of circumstance. Similarly, to promote labour mobility, local authorities should try to come to mutually agreeable arrangements to provide transitional protection for households that move to a different area for a newly secured job (or perhaps for a family connection).[103]

102 Universal credit will operate a taper of 65 per cent on net earnings, creating a overall withdrawal rate of 76 per cent for those also paying income tax and national insurance contributions.

103 To complement schemes such as Home Swap Direct, which aims to make it easier for sitting social housing tenants to exchange properties in order to enable greater residential and labour mobility.

Option 2: Partial decentralisation of housing support, alongside retaining either a 'flat-rate' housing uplift or a temporary housing entitlement within the universal credit

The alternative option under the AHG reform would be to split direct support for housing costs, keeping some within the national benefit system and devolving the rest to local authorities. One way of achieving this would be to create a 'flat-rate' housing uplift within the universal credit, almost certainly restricted to claimants who are renting. This could either be fully tenure-blind or graduated between social and private renters (with the potential for further variability at the regional level). Entitlement for this housing element would be established through the core universal credit assessment process, taking into account family size and household income, with support tapered away as earnings rise.

Under this approach, affordable housing grants to local authorities would be lower, offering them less scope to reshape how public expenditure on housing is spent. However, it would begin to redress the low replacement rates of the main out-of-work benefits in this country compared to most other European countries. A 'split' model would also have the benefit of combining the positive aspects of a portable housing allowance (including potentially in the social housing sector) with the possibilities for shifting resources from demand-side subsidies to investment in new housing supply. The precise balance between a housing uplift in universal credit and the decentralisation of resources through the affordable housing grant would come down, in the end, to a political decision.

The other way of striking a balance between national entitlements and local control would be to turn the housing element within universal credit into a system of *temporary* cash support for rental costs within the benefits system.

An approach along these lines would recognise that housing benefit currently serves two broad but distinct functions: (a) providing reasonably stable, ongoing support with rent for low-income households and (b) stepping in at moments of crisis when households face a drop in income. As recent analysis has shown, this latter role has been particularly important during the economic downturn, reflected in a spike in claims from working households who have seen a drop in earned income (BSHF 2012). This will have been the result of pay cuts, reduced working hours or households shifting from two earners to one (rising rents may also have played a role). In these circumstances, housing benefit plays an important role in cushioning the immediate blow of a drop in income, as well as contributing to the impact of the automatic stabilisers at the macroeconomic level.

This 'crisis support' function could be preserved by proceeding with the integration of housing support into the universal credit but turning it into a temporary entitlement, with the remainder of housing benefit expenditure devolved through the affordable housing grant. Under this approach, support with rental costs through the national benefits system could last for six months or a year, giving the household time to get back on its feet, make alternative housing arrangements or talk to the local authority about how to secure affordable accommodation once their entitlement expires. This longer lead-in time would make it more possible under a devolved system to find suitable solutions. Local councils would be more focused on using their affordable housing grants to support those households with longer-term housing needs – both in and out of work – as part of a more strategic approach to housing in the area. They would also need to work out how to provide support for those households that still need help with rental costs beyond their temporary entitlement, including households with one or more people in low-paid work. Unfortunately data is not collected on housing benefit expenditure by claim duration, so it is not possible to calculate what impact a temporary national entitlement of this kind would have on the scale of affordable housing grants.

A key issue to resolve under this system would be how entitlement to such a temporary housing element within universal credit would be established. It should kick in at the point where household income dropped below a certain level, most obviously the current thresholds. There would need to be protections preventing people from 'gaming' the system by rapidly reclaiming once their six- or 12-month period is over. This could be done by not allowing subsequent claims within a three- or five-year timeframe (with checks to stop households forming and reforming simply to enable new claims). Thought would also be needed in order to design transitional arrangements for moving to such a system, distinguishing between new and longstanding claims.

An alternative, more radical, option would be to make this temporary benefit contributory, with entitlement based on having made sufficient national insurance contributions. Levels of support would still be based on household income, but this would avoid the 'gaming' problems. Instead, a subsequent claim would be possible once further contributions had been made.[104] This approach would be consistent with a move towards a welfare that is more temporary, providing security at moments of risk, and more contributory, rewarding those who have paid into the system. It would build on arguments previously made by the IPPR in this area, such as in proposing the introduction of national salary insurance, which would provide higher levels of short-term income replacement benefit for people losing their jobs, to be repaid once they are back in work (Cooke 2011). We would, however, not envisage any temporary, contributory housing element being repayable.

104 This option is made slightly more complicated by the fact that the universal credit is not a contributory benefit: contributory JSA and ESA will sit outside. However, it would not be impossible to establish entitlement to temporary housing support on the basis of prior national insurance contributions.

How should affordable housing grants be adjusted in light of increases in unemployment?

Transferring responsibility for over £20 billion of taxpayers' money a year from national to local government and moving from national entitlements to local determination would entail two broad categories of risk. The first relates to control of public expenditure, the second to protection for individuals. Both point towards the need for new powers and responsibilities to be matched by strong accountability, clear incentives and greater transparency. They should be linked through a legal requirement for local councils to use their affordable housing grant to ensure the provision of decent, secure and affordable housing for local people, in ways that seek to control public expenditure pressures.

The key insight for minimising these two categories of risk is to hold the two objectives in tension. The aim must be to prevent councils from controlling public spending in ways that undermine access to decent, secure and affordable housing, while simultaneously guarding against authorities that seek to improve housing provision in ways that are financially unsustainable. The purpose of the AHG reform is to make this institutionally possible in a way that is not currently the case. However, it is a tough balance to strike. Moving away from a tightly controlled national system inherently brings with it a greater level of uncertainty and variability. Indeed, this cannot be designed out without negating the central purpose of the reform.

However, if this institutional innovation were to be pursued, there are a number of ways that policymakers and legislators could act to minimise the risks. The first relates to adjustments in AHG allocations in light of rises in unemployment.

Earlier analysis showed that housing benefit is not as sensitive to the economic cycle as the main income replacement benefits. This is because trends in housing expenditure are driven very significantly by factors relating to the housing market, as well as the labour market. However, rising unemployment does drive higher benefit caseloads which, in turn, push expenditure up. Multi-year AHG allocations would provide some scope for local councils to smooth expenditure. However, it would be vital to ensure a mechanism exists for adjustments during the lifetime of a grant in response to a leap up in unemployment, and to ensure that the impact of the automatic stabilisers during a downturn was not significantly depressed. This is not a provision the government has included in plans for the localisation of council tax benefit, which seems a major oversight.

The most sensible approach would be to legislate for a break point at which AHG allocations would be reassessed, probably when local JSA caseloads rise above a given threshold or by a certain percentage (judged either in absolute terms or relative to the national average). This would give some protection for local councils – not to mention local people – from increased demand arising from the economic cycle.[105] Such an arrangement would still give the Treasury greater control over expenditure than is currently the case and ensure that increases were transparent.

As a guide, the table below shows the total and percentage increase in housing benefit and JSA caseloads for a selected number of local authorities over the last five years of economic downturn.

Table 3.4 Selected increases in housing benefit and JSA caseload, 2007–2012

	Housing benefit caseload			JSA caseload		
	2007	2012	Increase	2007	2012	Increase
Manchester	57,770	67,160	16% (+9,390)	12,069	20,546	70% (+8,477)
Leeds	54,900	69,170	26% (+14,270)	14,074	25,752	83% (+11,678)
Birmingham	94,100	114,700	22% (+20,600)	37,445	52,135	39% (+14,690)
Lambeth	35,100	41,520	18% (+6,430)	8,660	12,377	43% (+3,717)
Camden	28,000	28,310	1% (+310)	4,887	5,586	14% (+699)
Wandsworth	23,200	27,430	18% (+4,230)	4,691	6,763	44% (+2,072)
Total	**4,031,800**	**4,952,260**	**23% (+920,460)**	**974,863**	**1,685,989**	**73% (+711,126)**

Source: Authors' calculation based on housing benefit caseloads taken from DWP quarterly statistics for 2007[106] and March 2012,[107] and JSA caseloads taken from NOMIS, comparing the claimant count at February 2007 and 2012.

This table shows that housing benefit caseloads have risen by more in absolute terms than those for JSA since the start of the economic downturn. However, this is not an entirely fair comparison, given that those newly receiving housing benefit might have started claiming ESA or income support instead. What is clear is that the percentage increases in JSA caseloads are much more dramatic, underlining how much more exposed this benefit is *in total* to fluctuations in the economic cycle. By way of context, between 2007/08 and 2011/12, spending on JSA rose by 119 per cent (from £2.2 billion to £4.9 billion) while housing benefit expenditure increased by 44 per cent (from £15.7 billion to £22.7 billion).

105 There does not seem to be a strong case for reducing Affordable Housing Grants in response to unemployment substantially (and unexpectedly) falling. This would be an unexpected windfall outside the Treasury scorecard, which could be used to invest in better housing provision. To the extent that higher employment reduced levels of deprivation, such improvements would feed through the lower subsequent grant allocations.

106 http://research.dwp.gov.uk/asd/asd1/hb_ctb/index.php?page=hb_ctb_quarterly_aug07

107 http://research.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_mar12.xls.

It is also striking that there is considerable variation in the relationship between rises in the JSA and housing benefit caseloads in different local councils. This suggests that the housing impact of higher unemployment plays out differently from place to place. In the end, the point at which a rising claimant count should trigger an adjustment in affordable housing grants would come down to a political judgment, with a rise of over 10 per cent being perhaps a reasonable benchmark. Alternatively, the wider International Labour Organization (ILO) measure of unemployment could be used, though this has a less direct feed through to demand for benefits.

How should local authorities be held to account by voters and the Treasury?

There will not be a significant revival in local government until it has real power to shape its local community and the lives of local people. In that spirit, the primary focus for accountability under this reform should be local and democratic. The AHG decisions made by local politicians would make a big impact and the differences between competing visions would really matter. More active citizen engagement, greater media scrutiny and more meaningful local elections would hopefully follow.

Such engagement and debate would be further enhanced by the establishment of affordable housing panels to oversee local housing expenditure and strategy. Every local authority should be required to publish its plans and performance under the affordable housing grant, as well as a range of local housing data.

Beyond this, it would also be important to think through some elements of national accountability. The affordable housing grant would represent redistribution between areas of resources collected by central government, so society as a whole would have a direct and legitimate interest in how the cash is spent.[108] It would also be vital to think through how Treasury concerns in relation to this reform might be addressed: almost certainly, these would relate to a general interest in sound financial management of taxpayers' money as well as a particular worry about giving up control of public expenditure while implicitly retaining an element of liability and underwritten risk.

In response to these legitimate concerns, local authorities should be required to set out detailed plans, budgets and reporting arrangements for how they would use their affordable housing grant. This should include contingency arrangements for coping with fluctuations in the economic cycle, at a level below the threshold that would trigger any adjustment to the grant. These plans should be shared with the Treasury and signed off by independent auditors to confirm the numbers are sound and the assumptions are reasonable. There should also be a

108 It may be that, under a wider decentralisation, a greater share of affordable housing grant might be raised locally, in which case accountability to the centre could diminish.

step-change in transparency, with CLG collecting information on local councils' AHG expenditure and their progress in ensuring decent, secure and affordable housing for local people.

However, for this reform to really work, decentralisation would have to be real, not strangled by endless central controls.

Accountability should therefore be largely in the form of technical auditing, information transparency and local democratic pressure. In principle, this reform provides the Treasury with a stronger means to control public expenditure than is currently the case under housing benefit. Rather than operating as an AME item, with few cost control measures, the affordable housing grant would look much more like a departmental spending allocation, with the exception of the readjustment valve. This opportunity might interest the Treasury in a reform of this kind.

There might also be greater appetite for giving local councils greater scope to borrow against their housing assets and higher revenue if there was rigorous external auditing of their financial plans and borrowing capacity (along with that of housing associations). To provide further reassurance, provisions should also be made for withholding future affordable housing grants – and returning to centrally directing resources – in circumstances where a particular council has demonstrably failed to use resources for their stated purpose (or displayed gross financial mismanagement).

The final key issue would be how subsequent grant reassessments would work in order to create the right incentives for local councils. Although in the first instance affordable housing grants would be based on a derived projection of housing benefit expenditure in each area, future allocations should be based on a formula involving local population, housing costs and relative deprivation. Using such criteria would prevent councils from focusing on the number of people in receipt of a housing allowance and encourage them to think more strategically. In this sense, there would be no advantage from artificially either inflating or depressing local caseloads.

By the same token it would be vital to avoid any disincentives against improving local housing provision. Improving affordability would not be 'punished' with lower subsequent AHG allocations, as these would be based on local housing costs. However, reduced deprivation would lead to lower future allocations. To prevent perverse incentives, any savings resulting from falling deprivation (and housing need) should be split between central government and the local council in question. This would encourage councils to 'invest to save'. This should not apply to reductions in need resulting from falls in local population.

What is needed to ensure affordability is promoted and disadvantaged households are protected?

The objective of the AHG reform would be to enable councils to put public money to better use in the service of enabling more local people to enjoy a decent, secure and affordable home. However, moving away from housing benefit in its current form would reduce national entitlements to support with housing costs. Therefore, it is important to consider what framework needs to be put in place to ensure the reform delivers its goal, while not undermining the benefits of a more locally driven approach.[109] The centerpiece in this effort would be the local affordable housing panel, which would require different interests to be balanced and would place a check on the power of local councils to move ahead with plans without a local consensus.

In addition, there should be a new statutory duty on local councils to ensure decent, secure and affordable housing, making it illegal for them to act in ways that contradict this goal. Local authorities should be required to report on progress against this core duty, perhaps along the lines of section 17 of the Children's Act 1989, which outlines an unenforceable target duty to 'promote and safeguard the welfare of children in need'. (No country in the world offers individuals an enforceable legal right to a home, as this would lead to a judicially rather than democratically dominated process.)

To make this broad duty bite, 'decent', 'secure' and 'affordable' should be defined in statutory regulations. As a guide, the 'decency' definition could draw on the Decent Homes standard or existing 'suitability' criteria as they relate to local authorities' homeless duty, which include factors such as property size, location and affordability (CLG 2006b). 'Security' could be defined as a minimum length of tenure, linked to reforms of the private and social housing discussed elsewhere in this report. 'Affordability' is the hardest concept to pin down, as it varies by household type and location. That said, differences in housing costs at the spatial level would be accounted for in the affordable housing grant formula, so it should be possible to identify a consistent benchmark across the country.

One option for ensuring affordability would be to set a maximum proportion of household income (or wages) that a council could leave a local household having to spend on rent. This would be a version of the recently discussed 'living rent' concept (BBC News 2011). The problem with this approach is that it would create an incentive for households to overconsume housing. A variant would nominate a minimum amount of help that households with a high level of need (such as those without

109 Pensioners are exempted from the localisation of council tax benefit. This would be a possible option under the affordable housing grant – as would some transitional protection for other existing housing benefit claimants – though this would create considerable added complexity and severely undermine the goals of the AHG reform.

an earned income) should receive towards rental costs, as a share of local rents. This would avoid the overconsumption incentive but would, in practice, involve recreating precisely the weaknesses of a housing benefit-driven system that our core proposal is aimed at resolving.

Therefore, a more fruitful avenue would be to focus on the affordability of the local housing market as a whole, rather than for specific individuals. This would go with the grain of the affordable housing grant reform, creating the scope for switching resources from revenue to capital funding and from individual cash allowances to area-based investments. One option would be a requirement that a certain share of properties in the local area should be affordable (either to rent or buy). This could relate to local rents, house prices or wages, and would have to take account of different household types (principally single people, couples and families with children). It could include the extent to which local rent support schemes made local properties more affordable.

A requirement such as this would encourage a strategic approach to local housing markets: both the nature of new developments and the use of existing properties. Local councils would have a number of options for how they meet their affordability requirements. They could focus on making homes affordable to buy, thereby reducing the demand on the local rent support schemes. They could act to keep social and private rents down, through building more affordable homes or doing deals with local landlords. Or they could decide to rely more substantially on cash support to achieve affordability. In short, local authorities would have real power within a framework directed towards affordability. This would stand in stark contrast to the current system, which simply focuses on individual households' consumption, abstracted from where they live or the drivers of the (often rising) housing costs they face.

To ensure accountability under this model, the government could develop an 'affordability index', based on local house prices, rents and wages. After establishing a baseline at the point of transition to the new system, this would provide a metric against which to judge local performance. Published performance data could also include how much progress is being made to spread access to decent, secure and affordable homes among different demographic and socioeconomic sub-groups. A long term objective should be to close such gaps between different groups.

Another issue to consider is how to determine which local authority is responsible for a given household. This would be vital in preventing local authorities from 'exporting' need and stopping households from 'shopping around' for what they perceive to be the most advantageous system for their particular circumstances. The former would lead to councils abdicating their responsibilities, while the latter would unfairly penalise effective authorities.

One solution could be found in the existing rules around 'local connection', which form part of the homelessness regulations (CLG 2006b). These state that if a local authority believes that someone who has applied for assistance has a 'local connection' elsewhere, a request can be made to transfer responsibility to the 'home' council. 'Local connection' is defined as being where someone is normally resident, employed or has family associations.[110] These criteria are defined in regulations: being 'normally resident' is taken to mean someone who has lived in the area for at least six months in the last 12, or for not less than three years during the previous five.[111] There are also Local Government Association (LGA) dispute resolution mechanisms for situations where there is a conflict between more than one local authority over which is responsible for a given family.

The other significant factor to take into account is residential and labour mobility. This is currently substantially hampered by the allocation and tenure rules in social housing, which the proposals set out in chapter 2 would help to address. However, to minimise any negative impacts on mobility from the creation of different local housing regimes, councils should aim to come to an agreement (ideally brokered by the LGA) either to offer some transitional protection to anyone moving to a new area with a job or to passport them into the local system (so they know what support or property they can access on moving to the area).

As a final layer of protection, the existing homelessness duty should continue to operate as it does now, with the changes brought in under the Localism Act. In addition, there is a further set of existing legislative duties on local authorities which would provide legal protection to vulnerable people, including the Children Act 1989 and the National Assistance Act 1948, which requires local authorities to provide accommodation for persons who 'by reason of age, infirmity or other circumstances are in need of care and attention which is not otherwise available to them'. That legislation remains in place today.

110 Plus some special circumstances, such as the need for medical treatment in the area.

111 The guidance also states that, 'the overriding consideration should always be whether the applicant has a real local connection with an area – the specified grounds are subsidiary to that overriding consideration' (CLG 2006b: 146).

Ensuring affordability is promoted under the affordable housing grant regime

- Affordable housing grant allocations would be based on local population, housing costs and relative deprivation, not caseload numbers. This would mean that if housing need shifted to a different area, resources would follow. If councils were effective at reducing deprivation (not population) they would split savings with the Treasury.
- Local councils would be under a legal duty to use their affordable housing grant to spread access to decent, secure and affordable housing for local people. It could not be used for general council expenditure.
- Local authorities would be required to establish an affordable housing panel, made up of representatives of the council, housing associations, private landlords, social and private renting tenants and, ideally, homeowners and homeless people. This panel would be responsible for agreeing the overall affordable housing grant strategy, including expenditure plans and wider policies. Local authorities would not be able to go ahead with a strategy that did not command support from a broad range of interests.
- Local authorities' expenditure and investment plans for their affordable housing grant would have to be shown to the Treasury and signed off by independent auditors.
- There would be adjustments to affordable housing grant allocations in response to significant rises in unemployment, to help local areas cope with rising need and to retain the impact of the automatic stabilisers. Long-term grants would enable councils to cope with smaller rises in demand.
- The government would establish an 'affordability index' to assess housing affordability across the local area, rather than for individual households. This would be used to judge the progress and performance of local authorities.
- Councils would be required to report on progress in spreading access to decent, secure and affordable housing, including against the 'affordability index' and other statutory definitions.
- There would be a reserve power for the government to 'renationalise' affordable housing grants in respect of local councils that were not using resources for their core purpose (or who displayed gross financial mismanagement).

- Homelessness legislation would continue to operate as it does now. Rules on 'local connection' would be used to prevent councils 'exporting' need and households 'shopping around'. The Local Government Association should establish rules governing transitional arrangements to cover people when they move across council boundaries.

What might be the implications for rent setting in social housing?
At present, social rents are governed by the policy of 'rent restructuring', which aims to achieve broad convergence between local authority and housing association rents for dwellings of the same size and value in the area by 2015/16 (DETR 2001, tweaked in 2006 on the basis of ODPM 2004). This policy has led to the former rising slightly faster than the latter over the last decade or so. However, under the new housing revenue account (HRA) regime, local authorities will have greater control over rent setting in their own properties. Previously, CLG set 'guideline rents' for each authority, which formed the basis of the subsidy system under the old regime. This aimed to ensure councils had sufficient revenues to cover repairs and maintenance, as well as service their historical debts.

However, with the national subsidy regime dissolved, local authorities theoretically have new scope to determine rents for themselves. That said, the new HRA settlement was based on 'target rents' for each council. If these are breached, then government could recalculate the debt; if lower rents are set, then councils will have to cut back on operating costs or defer maintenance work. Moreover, local authorities are under an obligation to set a 'reasonable rent'. And there is a ceiling on the maximum amount of rent that DWP agrees to cover through housing benefit (the so-called 'limit rent'). It is possible that in future, once the HRA reform has bedded in, the 'target rent' regime could be dissolved – and under the affordable housing grant model, there would be no 'limit rent' arrangements. It would, however, be important to retain the legal requirement for social rents to be 'reasonable'.

In the housing association sector, rents remain regulated. Responsibility for this has recently passed from the Tenant Services Authority to the Homes and Communities Agency. The other significant change in this area is the introduction of the 'affordable rent' policy, which will allow new social housing to be rented out at up to 80 per cent of local market rents. The aim of this policy is to provide social landlords with a higher rental income to compensate for declining government capital subsidies.[112]

112 'Affordable rents' will be 'up to 80 per cent of market', which will be defined by 'a RICS approved valuation method' (TSA 2010). They will vary a lot geographically, but will not be set on an area basis, instead being valued on a case-by-case basis.

This is very likely to lead to increases in the housing benefit bill, especially in the absence of any change to allocations policy (though subject to the 'limit rent').

In thinking about how social rents might be set under the affordablesee housing grant, there are good reasons for introducing greater transparency and consistency, in particular to relate rents more closely to property values. This could include a link to prevailing local private rents, albeit while maintaining sub-market prices. A benefit of such an approach would be to help to achieve a more integrated local housing system, preventing social rents from becoming drastically out of kilter with the broader housing market.

In some OECD countries, including Belgium, Italy, Ireland, Luxembourg and Portugal, rents in social housing are set in relation to household income. This enables high rental income to be gained from better off tenants, but also raises problems of viability where tenants are concentrated in low-income groups. In other countries, rents are set in relation to property values. In Sweden, social housing rents are still largely agreed through negotiation between landlord and tenant groups, with a regional rent tribunal able to hear appeals against large and rapid rent rises. In the Netherlands, rent rises are set nationally.

On balance, the right approach under the affordable housing grant reform would be to allow councils to set rents for the social housing they own and to set guideline rents for housing associations operating in their area (at least those operating under a nomination agreement with the local authority). This would enable councils to make trade-offs between rental incomes and housing allowances in the service of greater affordability across the board. For example, if the local authority sets relatively high rents it would receive a greater income stream but would also face a greater personal subsidy burden to ensure those on low incomes could afford their rent. If it set relatively lower rents, the reverse would be true. It could not increase rents *and* cut housing allowances, as this would contravene its legal duty and show up as a negative against the affordability index.

The sharpness of this trade-off would depend on the composition of the local caseload and the extent to which local people could pay their rent without help from the local authority. Greater flexibility in rent setting would also enable councils to charge a higher rent to more affluent tenants. This freedom should be balanced by a requirement that councils set out a transparent and consistent policy on social rents in their area and make clear the extent to which these are based on property value and local prices. This could, for example, involve stating what proportion of the rent reflects property value or setting social rents as a share of local market rates.

3.8 Conclusion

The introduction of an affordable housing grant would constitute a major institutional reform, involving a dramatic shift in power away from Whitehall and a significant break from the longstanding division of public expenditure in this area. Like any substantial reform it would face considerable political opposition, not to mention a range of complex, technical obstacles. This report has not been able to resolve all of these practical issues nor does it seek to dissolve genuine disagreement about the best strategic direction in housing. Our aim is to provoke debate.

However, we do believe that a reform of this kind has the potential to make a real impact.

- It would offer the potential to **shift scarce public resources away from subsidising rents and towards building homes**, at a time of tight constraint on public expenditure.
- It would provide a means by which to **pitch housing as a mainstream issue**, bringing together a broad popular alliance of support.
- It would create a **more politically sustainable strategy**, with expenditure on bricks and mortar more popular than benefit spending.
- It would **enhance the prestige and importance of local government**, with the potential to generate real local democratic energy.
- It would **embody radical institutional reform** consistent with the need for fiscal discipline.

4. CONCLUSIONS

IPPR's ongoing fundamental review of housing policy has shown that English housing is unfit for purpose.[113]

Demand has heavily outstripped supply for decades, with the situation now getting worse, not better. Homeownership is too often out of reach, leaving many people's aspiration to own their own home unfulfilled. Social housing is being residualised. The private rented sector remains largely unprofessional and insecure and those who live in it have too little control over the place where they live. Meanwhile, public expenditure on housing benefit soars at over £20 billion a year, and rising. England remains one of the richest countries in the world, but it is failing properly to house its people. The result is a segregated system with insufficient mobility between sectors and social differentials that are entrenched rather than overcome.

English housing need not be like this.

Everybody needs and wants a secure, decent and affordable home. Secure, so that they need not worry about losing their base at short notice. Decent, so that they can live comfortably, free from hazards to their safety and health. Affordable, so that paying the mortgage or rent leaves them able to live a reasonable life as well. Such a home helps people to play their part in a strong community. It helps challenge the forces of segregation that do so much to drive people in England apart from one another. So, drawing on our previous analysis, we have in this report offered a detailed set of policy prescriptions to turn the current situation around.

Convinced that the formulation of housing policy has been piecemeal and disjointed across CLG, HM Treasury and DWP under governments of all parties, we have sought at this critical juncture to offer a coherent strategy for housing policy in the round by weaving together a number of interrelated threads.

In chapter 1, we made a social argument for homeownership as a way to foster mixed, stable, integrated communities, where people are able to put down roots, feel a sense of control and security and contribute to the common good of broader society. We argued for treating houses as homes in communities before they are assets. And we suggested ways we can increase housing supply to make homeownership a more

113 IPPR's previous papers in this series are: Schmuecker 2011, Dolphin and Griffith 2011, Hull et al 2011, Griffith 2011, Viitanen 2012 and McCarvill et al 2012.

realistic prospect for more people by reforming housing finance, the development industry, planning policy and credit control. To build now, we argued, is to invest in our future.

In chapter 2, we proposed a better deal for those who rent, rebalancing the private and social rented sectors to enhance and equalise the country's rental offer and to ensure more effective mobility between them. This would mean reasonable regulation of privately rented property, matched by greater flexibility in social housing.

In chapter 3, we moved further still from the status quo and advocated a new form of progressive localism, apt for a housing scenario nationally that is far from uniform and that features increasing regional disparities. In doing so, we also addressed directly how we would change the way £25 billion of public money is spent each year on housing: by decentralising power, resources and responsibility through a system of affordable housing grants in order to shift public expenditure, over time, away from benefits and back towards bricks and mortar.

Throughout, we have sought to relate questions that are specific to the housing system to a more general vision of an integrated society. We hope that this vision is widely shared, and that we have provided a plausible account of how housing reform can play a crucial part. If, as a country, we are to solve the worsening housing crisis we face, we will have to engage a much wider coalition of support for the change that is needed. Housing must be seen as a matter of broad public concern, not just private interest. We need everyone who is interested in the health of English society to be interested in housing. And we need a candid public conversation about all of its dimensions. We have aimed, through this report, to advance that cause.

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