

# Principles for Social Housing Reform



Stephen Greenhalgh  
and John Moss



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Localis is an independent think-tank, based in Westminster, dedicated to issues related to local government and localism. We aim to influence the debate on localism, providing innovative and fresh thinking on all areas which local government is concerned with.

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## About the authors

**Stephen Greenhalgh** is Councillor for Town Ward and Leader of Hammersmith & Fulham Council.

Much credit for the Conservative resurgence in Hammersmith & Fulham has been attributed to his leadership, notable achievements of which include cutting council tax by 3% three years in a row, improving service standards from a three star to a maximum four star official rating, driving up residents' satisfaction with council services markedly and cracking down on crime, with the only New York-style 24 hour Council-funded police teams in the UK. More than one third of households in Hammersmith and Fulham currently live in social rented housing which is a higher proportion than, for example, Newham or Haringey. This has given him an insight into many of the problems associated with current social housing policy.

In May 2008 Stephen was appointed by the new London Mayor, Boris Johnson to a panel overseeing an audit of City Hall finances. Soon afterwards he was also asked by Eric Pickles MP as Shadow Secretary of State for Communities and Local Government, to head up a new Conservative Councils Innovation Unit that will "formulate a bold Conservative blueprint for local government". He was also voted by 8,000 people as Conservative Home's "Local Hero" of 2008.

**John Moss** is a Chartered Surveyor who has worked in regeneration for over twenty years. Between 1998 and 2008 he was a partner in Complex Development Projects Ltd a developer specialising in working in partnership with Councils and RDAs to develop challenging inner city sites. Before that worked for London Docklands Development Corporation and British Rail Property Board. He was the Conservative Party candidate in the 2005 General Election in Hackney South & Shoreditch, following which he worked on the Party's regeneration policy review under Lord Heseltine.

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We have had a tremendous amount of help as we have developed our thinking from a number of sources including two extremely influential couples: Julie Cowans, Founder Director of theplaceteam and co-author of *Visions for Social Housing*, and David Cowans, Chief Executive of Places for People, have been pushing for the right to expect decent neighbourhoods for some time. Nick Johnson is currently Chief Executive of H&F Homes who are at the sharp end of housing in Hammersmith & Fulham. Kate Davies is Chief Executive of Notting Hill Housing Trust, and is pressing hard for a more flexible approach to social housing allocation and tenure reform, as demonstrated in the recent “Housing Poverty” pamphlet for the Centre for Social Justice. Finally Chris Jones from Hammersmith & Fulham Council, whose knowledge of housing legislation and systems is deeper and much more thorough than ours and Richard Parker of PricewaterhouseCoopers who provided comment on the financial case and helped with various sources of information also deserve a particular mention.

*Stephen Greenhalgh  
and John Moss*

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## Introduction

In a recent speech David Cameron has underlined that there will be no retreat from social reform by an incoming Conservative Government because of the current crisis in public finances: “My Party understands something crucially important. Fiscal responsibility needs a social conscience, or it is not responsible at all.” Now we need that social conscience to focus on the state of social housing in our inner cities.

All our inner cities have relatively high levels of social housing compared to their suburbs. Today social housing has become welfare housing where both a dependency culture and a culture of entitlement predominate. Two thirds of social tenants of working age are unemployed and only 22% are in full time employment. 50% of social housing – some 2 million homes – is located in the most deprived 20% of the country. Competition revolves around drawing welfare support and taking something out of the system. Public sector housing is run as a national housing service that fails many of the very people it was designed to help and delivers a risible return on assets.

Currently the political debate appears to be simply about the quantity of social housing that needs to be built to meet “housing need”. The issues have been reduced to a discussion about numbers – numbers which are as nonsensical as proverbial production figures for Soviet tractor factories. However the professional and academic debate is well ahead of the politicians. There is considerable appetite for reform amongst those working for Registered Social Landlords (RSLs) and amongst council housing officers up and down the country. There is real concern that the current social housing system is failing the very people it was designed to help. Social housing was meant to help lift people out of the slums. Instead many social housing estates have become the very ghettos of multiple social deprivation that they were supposed to replace.

This is a view not just held by Conservatives. Newham's Labour elected Mayor, Sir Robin Wales recently told a conference that "Many council estates have become what they were fighting in the first place – social ghettos."

The Hills Review was a masterpiece in analysing the problems of social housing. However this thoughtful academic ducked pinpointing solutions which would deliver mixed communities that incentivise people into employment instead of leaving them in welfare ghettos. Whilst the social case for reform is undeniable, the financial case is just as strong. A conservative estimate values public sector housing stock at around £300 billion and yet the return to RSLs and councils on this capital investment is barely 1 per cent.

“ There is real concern that the current social housing system is failing the very people it was designed to help ”

So what should we do? Politicians responsible for large swathes of social housing must make every effort they can to create mixed communities in their most deprived areas. The Labour Government's 'Decent Homes' initiative is simply upgrading the deckchairs on the Titanic. It is the social and economic health and well being of the neighbourhood which matters as much as, and in some cases more than the physical condition of the buildings. Estates where deprived households are concentrated because of housing policies – where few people work or train, where schools are underperforming, where the combined community income cannot support shops, banks, and other local services – are not places sought by people with any choice. These environments are "barracks for the poor" and do nothing to support and assist the vulnerable – indeed just the opposite.

A decent neighbourhood is a place where people want to live and they have pride in. At the heart of a mixed and sustainable community is a mix of people with different income levels, at different life stages and with different occupations who occupy

their homes on a mixture of tenures but where no single tenure predominates. This balance across tenure provides real choice to attract a broad range of households and people. It is also about having good public (schools, local GPs) and private (shops, restaurants, businesses, places of entertainment) local services in the neighbourhood. Across the country there are isolated examples of the creation of mixed communities such as Norfolk Park in Sheffield which saw the regeneration of a mono tenure council sink estate into a successful mixed income community, Hulme in Manchester, Holly Street in Hackney, Adcocks Green in Birmingham and Crown Street in Glasgow. All these initiatives required winning over tenants and involving them in the redevelopment process which is one of the keys to success. However, Councils should not be put off taking forward plans by a vociferous minority.

Here are some of the steps to create a decent neighbourhood in areas of concentrated social deprivation:

- Carry out a neighbourhood audit of the people who live on an estate in terms of relative deprivation (the percentage of those households in a neighbourhood at or below 60% of the area's median income – a commonly used and accepted definition of relative deprivation – is a good trigger on which to base decisions on how to redress imbalances), services that residents currently access including housing management, the police and NHS, the let-ability and saleability of the buildings on the estate and of the infrastructure supporting the neighbourhood;
- Develop an asset management plan which is geared to meeting needs across a wider area than just a single estate. This can minimise the impact of decanting and keep residents in the local area, even if not necessarily on the same estate;

- Sell vacant homes. Strategic open market sales of void properties either directly (imminent HRA rule changes should make this process more viable) or by transferring ownership to a partner who will then sell on. This process could be accelerated by creating a time limited exception to the housing transfer policy which prioritises requests from those estates in need of rebalancing;
- Identify “hidden homes” as Wandsworth Council has pioneered through selective demolition and/or infill new build for sale. The council can undertake this type of activity directly or in partnership with a 3rd party. Land in the ownership of the local authority is a valuable asset and rather than simply being sold off should be levered to best effect, for example leased or offered as an equity share in a joint venture. (see earlier);
- Change lettings practices via (i) the introduction of local neighbourhood lettings plans on identified estates requiring proactive mixed communities policies – or those on the cusp of decline and (ii) changing homeless lettings practices. Being homeless is generally a symptom of other problem, for example ill health, domestic violence, financial crisis, drug/alcohol abuse or marital breakdown. Housing such vulnerable households in areas of concentrated deprivation will serve only to magnify their problems. Such households should be housed in more supportive, opportunity rich neighbourhoods, with access to good schools, transport etc. The suspension of lettings from the Priority Homeless list to areas currently with disproportionate relative deprivation would ensure efforts such as those above are not be frustrated. In order to ensure minimum negative impact on the transfer and Homeless waiting list, this could be co-ordinated as part of the Housing Options initiative with transferring and homeless households being offered a range of alternatives to social housing in more opportunity rich neighbourhoods.

But we also need a brave government to reform the rules controlling public sector housing. Councils and RSLs should be given a statutory duty to fix broken neighbourhoods where there are concentrations of deprivation and be set free to manage their housing assets in a more sensible way based on what is right for the local area. There are huge social, economic and financial pay-offs if we get the reform of social housing right. The current social housing is warehousing poverty in the core of our great cities – cities which need to be the very engines of economic growth. With fundamental reform, social housing would continue to be available to those who cannot house themselves and would provide properly for them, but the system would provide a hand up rather than a hand out to people who work hard and play by the rules.

Those who cannot afford to buy market housing or pay private sector rents would be encouraged to buy part shares with a substantial incentive, extending the ladder of opportunity much further down the income scale. Residents with a stake in the place where they live, however small, will care more about what happens to their homes and in their neighbourhoods and will be more inclined to hold landlords and managers to account. More homes would be built but there would be a greater mix of housing type and tenure and mix of people in them.

Breaking up the current concentrations of welfare housing in our inner cities and introducing positive role models should see educational outcomes rise, health improve and crime levels drop as neighbourhoods thrive once again. A system that puts home ownership or partial home ownership at its core would see an increase in personal wealth and encourage greater social mobility.

Now we just need the incoming Conservative government – which will have an unprecedented opportunity with so many of our councils also being in Conservative control – to be bold and be brave and act on its social conscience, by listening to the housing professionals who are fed up with tinkering around the edges and embrace a reform agenda that will contribute hugely to fixing our broken society.

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# 1

## Executive summary

### The context for social housing reform

Throughout the last century, the focus of social housing policy was on “building homes” rather than on helping households to secure adequate accommodation to meet their needs. That focus has ultimately led to concentrations of multiple social deprivation in areas dominated by social housing, with the very significant impacts of crime, ill health, broken families and poor educational outcomes affecting the most vulnerable in society to a far greater degree.

Politicians are fearful of embracing radical reform because of political scandals of the past, but the professionals working in Registered Social Landlord (RSL) and Council housing and academics working in the field are open to a new approach to address the root causes of the failures of the current policy framework.

### Where we are today – policy

Councils are heavily restricted in what they can do with their social housing stock and through S106 and other agreements, this flows through to the RSL sector. The current system of Allocations sets up perverse incentives encouraging households to present themselves as being in greater need and results in social outcomes such as high levels of teenage pregnancies and family breakdown which exacerbate the “Broken Society” problems of the poorest and most vulnerable areas.

### Where we are today – finances

The cost to government of housing benefit has continued to rise, reaching £13 billion per annum in 2006-07 and capital budgets have also increased to around £7 billion. Rental Income to Councils and

RSLs is around £12.4bn of which around £8.4bn is housing benefit paid on behalf of tenants. Returns are poor, with the total surplus of Councils' income from rents over costs being around £2 billion per annum, against a potential vacant possession value of £200 billion. This £2 billion is clawed back by Government.

#### Where we are today – socio-economics

There are 4 million social homes more than half of which are in the 20% most deprived areas of the country. Overly prescriptive housing allocation policies reinforce this by prioritising poor and vulnerable households for vacant units in existing social stock. There has been a fall in social tenants in work and the household mix is skewed towards less stable households. Social housing has become a destination for the majority of households, 82% of which are still living in social homes after ten years.

#### Conclusions

The policy of “building more homes” has led to concentrations of multiple social deprivation. Instead of improving matters, further interventions around rent control, security of tenure and micro-management of allocation policy and investment have not improved matters indeed, they have made things worse. We have created and are perpetuating a vicious circle of dependency.

“The challenge is to recognise the individual household's need and to support this through income subsidies allowing people to make choices for themselves in the market”

The challenge is to recognise the individual household's need and to support this through income subsidies allowing people to make choices for themselves in the market. This

would leave a small, residual need to physically house those in the very worst circumstances who cannot act for themselves given the right financial support and advice. Councils and RSLs can then concentrate on developing properly balanced, mixed communities

to turn round the poor environments and social outcomes which blight many areas dominated by social housing.

Working within the current budget constraints it is possible to achieve radical change by utilising the massive public investment “sunk” in existing stock, but only by having the courage to open up the social housing estate to radical innovation, for which the professionals operating in the field are ready and enthusiastic.

*“There is a clear acknowledgement that what is required is not, yet more tinkering around the edges!”*

Julie Cowans

### International perspectives

Internationally, similar problems have been identified across a range of developed countries. Only the Dutch seem to have achieved any progress on tackling these issues, through a bold policy of deregulation which has resulted in a move to mixed tenure, a break-up of “estates” with home ownership and a reduction in the cost to the taxpayer.

### Principles of social housing reform

In this pamphlet we set out four key principles for the reform of social housing:

- *A duty to fix broken neighbourhoods and the freedom to manage public sector housing.*

We call for a shift of focus to the fixing of broken neighbourhoods as a platform for improving all round social outcomes. We believe this can only be achieved through the extensive deregulation of the social housing sector allowing RSLs to diversify and councils to manage their assets to deliver mixed and sustainable communities. This will require an end to the

prescriptive national allocation system for social housing, moving to local systems which address local problems and much greater innovation and flexibility from Councils and RSLs in “place-making”.

- ***A duty to house and a duty to help.***

This sets out to define the role of social housing, separating this between a duty to house physically those who cannot act for themselves through age, infirmity or disability, from a duty to help those in need, but who can act on their own behalf to secure a suitable home in the market, through funding and advice to the individual. This requires a move to near market rents and higher income subsidies, with a corresponding fall in capital subsidies over time and simplified structures to provide clarity to claimants and incentives to keep increases in the cost to taxpayers within current expenditure levels.

- ***A right to buy part of your home.***

We want innovation and freedom for Councils and RSLs to be balanced by stronger rights and greater incentives for residents. There are many ideas out there, but we see the core of this being a ladder into home ownership for social tenants through the right to buy part shares in their homes matched on a “buy one get one free basis” to provide a substantial discount so extending that ladder further down the income scale and across generations.

- ***A common and consistent tenure.***

This calls for tearing down the Berlin Wall of varying tenure and rent levels that operates between the private rented and social rented sectors to promote easier understanding and more transparency in management.

Adopting these principles will create a virtuous circle of independence.

## Implementation of social housing reform

Moving to higher income subsidies and market rents is affordable within the current annual cost to Government and may reduce this over time.

Councils and RSLs will garner increased rents of over £5 billion with which to replace lost capital funding for building new homes and they should achieve sales of £75 billion over ten years through the right to buy part scheme.

The potential number of new or rebuilt homes delivered through these reforms is around 900,000 over ten years.

This “perpetual motion”, recycling the funds invested in social homes, will provide a long term source of funds for regeneration, repayment of debts to central Government and other priorities, or tax reductions, without recourse to the taxpayer or further borrowing.

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# 2

## The context for social housing reform

A review of the history of welfare in housing over the past century and beyond helps to define the purpose of social housing. One of the main features has been the emphasis on “building homes” as the way of solving the problems of people with often very different and complex housing needs. Throughout history there is a very strong sense of Government believing that it knows best what to provide for people and a sense that housing is very much a political tool to be used against political opponents rather than focusing on the outcomes for the people these policies purport to help.

Nowhere is this better illustrated than remarks attributed to Hebert Morrison, Labour leader of the London County Council in the 1930s that he is alleged to have said that he wished to “build the Tories out of London”. Whether he said it or not there have been many examples of politics overriding the very real problems of multiple social deprivation which has often been the outcome of social housing policy over the years. The most recent example was the scandal surrounding Dame Shirley Porter in the 1980s. While leader of Westminster City Council she oversaw the “Building Stable Communities” policy, later derided as “homes for votes”. The policy was judged illegal by the district auditor and a surcharge of £27m levied on her in 1996.

Social housing today remains heavily politicised with the main campaign/lobby groups focused on the same narrow agenda of “building more homes”, rather than looking to the potential role of social housing providers in helping break down areas of multiple social deprivation and exploiting a huge reserve of capital value

built up over a century of taxpayer funding. Political parties appear to be very wary of suggesting anything beyond minor tweaks to the current system, perhaps from a fear of being attacked - from whichever side of the political divide - as being either for or against social housing.

Yet, many professionals in social housing recognise that the existing policy suite is not delivering and there is an appetite for radical reform to address the root causes of the failures we see today. International perspectives on reform have indicated the potential effectiveness of such reforms and in UK Local Government there is new thinking emerging as to the role that Local Authorities can and

“ Political parties appear to be very wary of suggesting anything beyond minor tweaks to the current system, perhaps from a fear of being attacked as being either for or against social housing ”

must play in solving the wider social problems which have resulted in large concentrations of multiply deprived households in areas dominated by social housing.

## 2.1 History of social housing

### *Early history*

It was only at the end of the 19th Century that the concept of municipal social housing entered statute law. The creation of the London County Council in 1888 and legislation in 1890 for other Local Authorities, had the development, (and redevelopment), of housing in mind and included the power to build homes for people in need, though no money was provided to support this power.

Before this there had been both municipal and charitable initiatives to provide housing for those in need and notable philanthropic activity by *inter alia* Guinness, Peabody and Cadbury, albeit in some cases linked to securing a local workforce. However, there was no statutory requirement or framework for the provision of social housing to meet housing needs.

The first major social housing project was the development of the Boundary Estate in Bethnal Green which started in 1890 and opened in 1900. This project saw just over six hectares of slum property cleared, displacing 5,700 people. The new homes were small and by today's standards of a very basic standard, but they were vastly better than those they replaced. In the former slums, known as Old Nichol Street Rookery, the death rate was twice that of the rest of Bethnal Green, and four times that of London, with one child in four dead before their first birthday.

The displaced residents however did not see any benefit, as they were moved out to other areas, exacerbating conditions elsewhere in Bethnal Green and nearby Dalston. New residents, predominantly immigrant Jewish families, were moved in due to their being classified as "homeless". Because of its iconic status as the first major social housing project in Britain, the estate is listed and it is now home to the latest wave of immigrants to the East End, predominantly of Bengali origin.

### *1890 to 1919*

Progress on building social homes was slow and by 1914, only 24,000 social homes had been built by Local Authorities across Britain. In the 1911 census, 90% of all households were recorded as living in privately rented homes and just 10% of households lived in owner-occupied homes. The very small element of welfare housing barely registered.

Welfare, such that it was, was provided in the form of small income subsidies to those with no other means to support themselves, usually from "Parish" bursaries and benevolent funds. Circumstances for such households were not comfortable and in many cases were overcrowded and insanitary.

The First World War led to tremendous shifts of population as military requirements saw the establishment of armament and munitions factories in areas safe from enemy attack. One such

concentration of munitions factories was in Glasgow, where the city's population increased rapidly as workers were imported to man the factories. Demand for housing soared and private landlords were able to increase rents significantly. In response workers demanded higher wages and this started an inflationary spiral that was likely to get out of control. Things came to a head with a rent strike and violence on the streets, resulting in the adoption of a "temporary" policy of controlling rents. The restrictions were never removed.

### *1919 to 1939*

The Great War had seen an almost complete halt in house-building and in 1919 severe shortages were exacerbated by returning troops. Malpass and Murie in their 1999 work, *Housing and Social Policy*, commented;

*"... By 1918 there was a severe shortage which, for economic reasons, private enterprise could not tackle ... and which for political reasons, the State could not ignore".*

However, rent restrictions meant that Landlords found they could no longer earn a reasonable return on their investment, they ceased to offer homes for rent, often seeking to regain possession, and virtually no new homes were built for rent at the lower end of the market. The 1919 Housing and Town Planning Act passed by the Liberal Government, confirmed rent controls, but did give Local Authorities power and funding to build. Malpass & Murie again;

*"Development of Local Authority housing ... was a positive response to the negative effects of rent control".*

One unexpected effect of rent controls was that new Local Authority housing, built in many cases to a higher standard than the existing

stock of rented homes, often secured a higher rent than those for controlled tenancies, in the process, excluding the least well off.

Private renting remained the majority tenure in this period, mainly due to the sheer scale of the sector at the beginning of the period, but around 350,000 Local Authority homes were built in the period to 1929, including around 250,000 under the “Homes for Heroes” programme instigated by Asquith’s Liberal Government. However, no Government succeeded in meeting any of the targets they set themselves for new home building.

“ Something of a bidding war amongst politicians from Labour and Conservative parties saw ever greater emphasis placed on numbers of units and much less focus on the quality of building ”

The Conservative Government of 1923 sought to accelerate the speed of home building passing legislation which sought greater involvement of the private sector, including subsidies to build to rent, but this was largely reversed in the following year by

the 1924 Labour Government. Larger, higher value homes to rent were built by the private sector as these were largely exempt from rent controls. Both Acts however changed the emphasis of development from new homes, largely in urban expansion areas, to slum clearance and re-building in inner urban areas blighted by poor conditions, with the stated intention of addressing the health and social consequences arising from this. Building accelerated and around 600,000 further social homes were built before the outbreak of the Second World War, by which time around 1 million council homes had been built, making up nearly 10% of the total stock.

In parallel with the increase in social house building, there was something of a “boom” in private house building which saw the total stock rise from 7.45m in 1921 to 11.7m in 1951. Extrapolating from other figures suggests the total built between the two wars was around 2m, largely driven by rising prices as demand was deflected from private rented homes to market homes.

### *1945 to 1965*

The devastation of the Second World War saw two themes emerge for social housing in the years afterwards. Inner city areas, (often less affected by bombing than popularly believed<sup>1</sup>), were cleared and the redevelopment of many town centres was planned with uses segregated and major roads proposed to provide access between areas where people worked and where they lived, usually in the suburbs, which expanded enormously. The ease of building on green field sites in suburban expansion areas saw these types of development predominate in the years immediately after the war. Even as cities geared themselves up for major reconstruction and the balance moved towards slum clearance and urban redevelopment from the late 40s onwards, the trend continued with New Towns offering re-housing to those moving out from areas to be cleared.

Something of a bidding war amongst politicians from Labour and Conservative parties saw ever greater emphasis placed on numbers of units and much less focus on the quality of building and the environment in which developments took place. Keith Joseph set the most ambitious target of 400,000 units a year, after he became Minister for Housing and Local Government in the 1962 reshuffle, but this was only met after the Conservatives left office. With the lengthy programmes for development, it is impossible to say which Government's target was being met at any one time<sup>2</sup>.

However, in urban centres there was a definite shift to larger scale, flatted development using system building and high rise development<sup>3</sup>. Sadly, this had the effect of exacerbating the problems caused by trying to meet numerical targets within nationally set cost constraints, leading to poor workmanship and urban design which cared little for historic communities and neighbourhoods, which were often obliterated by extensive new estates where residents struggled to identify with their surroundings and had very little sense of belonging to or having pride in a "place".

<sup>1</sup> Coventry was the most intact Mediaeval city centre in the UK in 1948. It was largely Coventry Council who destroyed the old city, not the Luftwaffe.

<sup>2</sup> DCLG Table 241 House building: permanent dwellings completed, by tenure

<sup>3</sup> Two things which came together with disastrous consequences at Ronan Point in Newham in 1968, where a recently completed 23 storey tower block was partially destroyed after gas pipes cracked due to poor construction, resulting in an explosion which cost four people their lives

That this form of development became the norm, through a period when nearly 3 million social homes were built can be seen across the urban areas of the UK where “estates” dominate the skylines and sit strangely askance to the urban grain on every planners’ “figure ground” diagrams. It is of course their occupants who struggle to fit their lives into the machines for living into which they are forced and the consequences wrought by this and the atomisation of extended families were sufficiently articulated by Willmott and Young in their 1957 work, *Family and Kinship in East London* to not need reiterating here.

In parallel with the drive for new building, the Conservative Government of 1957 had passed a further Housing Act, which sought to rejuvenate the private rented sector by de-regulating rents for the first time since 1919. However, this was slow to have an impact as many tenants remained as “Protected” tenants under previous rules. It is often said that the drive to de-regulate led to the rise of bad Landlords, most infamous of which was Peter Rachman. However, an objective assessment of Rachman’s incentives show that far from seeking to regain possession of let property to increase the rent, his motive was to secure vacant possession of whole streets so the properties could be sold to Councils for demolition and rebuilding.

The focus on slum clearance and urban redevelopment continued, with a greater emphasis on providing low rent homes for the least well off. 400,000 new Local Authority flats were built in urban areas between 1955 and 1970, but demand continued to outstrip supply, not least due to the continued reduction in private renting, particularly after the introduction of much stricter rent controls in the Labour Government’s 1965 Rent Act.

As was the case with the Boundary Estate in 1900, new residents of the urban estates were mainly drawn from low or no income households, often from immigrant communities, who were in the most pressing need. This process resulted in, “the increasing

stigmatisation and marginalisation of great swathes of public housing”<sup>4</sup>.

### *1965 to 1979*

2.9 million social housing units had been built between 1945 and 1965, taking the total to almost 4 million homes, in the years up to 1979 a further 1.5 million units were added and social housing reached its peak at around 5.5m units in 1980, making up 32% of housing stock.

One feature of the 1970s in particular was the growth of housing associations, which benefitted from the ability to secure capital grants from the early 70s, though by the end of the decade, they still only accounted for a small percentage of the total stock of social homes.

### *1979 to 2008*

During this period, owner-occupation of homes increased from 56% to 68% of all homes and half of this growth is attributable to Council tenants, buying the homes they were living in. In total, 1.8m homes, around one third of the total stock of social homes, were sold up to the present day. The policy was a great success in many suburban areas and in smaller towns, where residents bought their houses and whole areas ceased to be “Council estates” and simply became part of the regular housing stock. However, it was less successful amongst the urban, flatted developments, with one or two exceptions<sup>5</sup>.

In many areas where Right to Buy was exercised on the flatted estates in urban centres, the buyers have long since left and have in many cases let their properties to Housing Benefit claimants or directly to Councils and Housing Associations. With the advent of the Decent Homes programme, many leaseholders have found themselves facing huge bills for extensive repairs to the basic building fabric which is in many cases well past its designed life and likely to require regular large expenditure on a long term basis.

4 Michael E Stone: *Social Housing in the UK and US: Evolution, Issues and Prospects*, 2003.

5 Wandsworth sold approximately 50% of its stock through Right to Buy, achieving high levels of sales in both street houses and flatted estates.

Receipts were used to repay capital debts to central Government and over the period, subsidies transferred largely away from the building of homes to the support of households through housing benefit. The number of new social homes being built fell from an average of 100,000 a year in the 1970s to 30,000 a year through the 1990s, though the rate of new building has increased steadily since 2003 and was 44,000 in 2006–07. New social home building has been almost exclusively carried out by housing associations, (who make up the majority of Registered Social Landlords), who have also been encouraged by Government to take over large swathes of the Local Authority housing estate.

Right to Buy was not the only innovation in this period. The 1980 Housing Act allowed Housing Associations in receipt of grant aid to offer shared ownership deals and the 1988 Housing Act Housing Associations were allowed to mix public and private debt, though not co-investment, which presaged the rapid expansion of the RSL sector.

### ***A brief history of allocations policy***

#### *The way it was*

The initial concept of tenancy allocation in public housing revolved around contribution to the community. Private landlords applied the ‘sons and daughters’ principle which gave a collective right to tenants’ families and allowed established tenants to secure new tenancies for family members (and pass on their own). It offered families who behaved well and were good neighbours the means to remain part of that neighbourhood. Another traditional practice, which was also adopted by municipal housing managers as local government took over from private landlords, was the ‘ladder’ principle whereby the more desirable housing would be reserved for those loyal tenants of long standing, pillars of local society, who had waited patiently for them and thrown themselves into neighbourhood affairs.

The introduction of the 1957 Housing Act required councils to consider specific needs factors when allocating accommodation (for example, overcrowding, insanitary conditions), but there was little guidance on how to do so and councils exercised considerable discretion. The most common way to allocate was by date-order, with the flexibility to advance cases on social and medical grounds through special committee or officer panel decision making. Although housing was generally allocated by housing departments, there was often significant involvement from Social Services in assessing cases and deciding which property should be made available, especially where applicants were judged to be vulnerable. This was especially so in the case of homelessness, which was widely regarded as a social rather than a housing issue before the passage of the 1977 legislation. A common factor in many allocation systems was “local connection” – applicants had to live or work in the council’s area to obtain a new let.

### *How it changed*

The 1977 Housing (Homeless Persons) Act gave councils a duty to find housing (not necessarily their own) for homeless households in priority need. This led many councils to prioritise “homeless” households over waiting list and “special” cases when offering housing.

Reductions in development programmes and losses through Right to Buy purchases led to shortages of social housing in many areas and moves to ration council housing on a strict needs basis. Many councils changed from a waiting list to a “points” or banding system in the mid-1980’s as a result.

More stringent allocations rules were laid down by the 1985 Housing Act, and flexibility was further limited by s.167 of the 1996 Housing Act which forced councils to publish allocations plans explicitly stating how they would meet the needs of “reasonable preference groups” in allocating their own property and nominating to housing associations.

The practice of insisting on a local connection when deciding who should get housed was challenged in court, and such conditions weakened as a result. Further groups to which councils must give priority were introduced by the Priority Needs Order of the 2002 Homelessness Act.

*The way it is now*

Councils are unable to depart significantly from the reasonable preference groups regime laid down under the 1985 Housing Act and reinforced by subsequent legislation and case law. The groups to which councils must give priority are currently:

- people who are homeless
- people occupying insanitary, overcrowded, or otherwise unsatisfactory housing
- people who need to move for medical or welfare reasons, and
- People who need to move to a particular location - for example, to be nearer to special training opportunities, or special medical facilities - and who would suffer hardship if they were unable to do so.

Other factors can be considered, but cases must also fall within these categories, but must not dominate the key reasons. Councils can exercise some flexibility and use options like Sustainable Communities quotas to seek to let to people in part time or full time employment. Another example is the prioritisation of key workers – for example social workers, planners, police and fire personnel. This limited flexibility can be incorporated into local lettings plans where councils endeavour to influence tenure mix and reduce worklessness concentrations.

However, the impact is likely to be limited and figures from Hammersmith & Fulham Council's 2008–09 Allocations Plan suggest that they will “aim to” house 145 households through these

methods out of a total of lettings from all sources of just under 900. Even this limited goal is open to legal challenge.

So, at precisely the same time as the Right to Buy was allowing families to buy their homes for the first time and injecting private ownership into social housing, a “counter-revolution” in how social housing was allocated was taking place. The good intentions of the 1977 Housing Act had the unintended consequence of taking control of citizenship benefits away from the local community and underlined the power of state bureaucrats to define the rules and objectives. No longer was it possible to work your way up by patience and good behaviour to the head of the queue. A set of central and invariable rules, dominated by the absolute requirement to house the homeless, overrode the claim of local people and family members. From this point forwards, the culture of entitlement to welfare housing, epitomised by teenage girls getting pregnant in order to secure a home from the Council, thrived.

“ The good intentions of the 1977 Housing Act had the unintended consequence of taking control of citizenship benefits away from the local community and underlined the power of state bureaucrats to define the rules and objectives ”

## 2.2 Where we are today – finances

In very broad terms, the annual “budget” for housing is approximately £20 billion, made up of housing benefit, which had an annual budget of £13 billion in 2006–07<sup>6</sup>, (more recent estimates are £15 billion), and capital grants from Government of around £7 billion, made up from the budget of the Homes and Communities Agency at £5.8 billion per annum<sup>7</sup> and the various budgets which support housing development in the Regional Development Agencies and in Local Authorities through Local Area Agreements. In addition to this, cash and in-kind contributions through S106 agreements – effectively a “tax” on private sector development –

6 DCLG: Table 718 Rents, lettings and tenancies: household units receiving housing benefit

7 <http://www.homesandcommunities.co.uk/faq#whatisthebudget>

provide further support to social housing. In 2004 this was estimated to be around £600m<sup>8</sup>.

Rental Income is just over £6 billion pa to Local Authorities<sup>9</sup> and around £6.6 billion to RSLs<sup>10</sup>, approximately £8.4 billion of which is from housing benefit paid on behalf of tenants<sup>11</sup>.

Despite this, Councils make very little, if any return on their housing portfolios. The 2008–09 Housing Revenue Account subsidy determination governs Councils' financial management of their estate and against a near £200 billion asset value<sup>12</sup>, shows a net return, after costs, or just under £2 billion.

### HRA Subsidy Determination 2008-09

Number of LA dwellings	1,978,036
Average rent per dwelling	£3,082.01
Average cost per dwelling	£2,082.61
<b>Net Income from rents</b>	<b>£1,976,853,621</b>

Even this surplus is clawed back to Central Government, who justify this by citing the significant element of rent paid which comes from housing benefit.

There is an argument that the costs allowed for in the HRA settlement are only this high because of poor management by Local Authorities who rely on their monopoly position to avoid challenge. It is the case that most private sector service charges are not as high and include sinking fund payments to cover large future repairs. However, the age and construction of much social housing stock, particularly in the Local Authority sector is inherently costly to repair and maintain. This does suggest that lower costs of maintenance and repair ought to flow from the redevelopment of stock over time.

8 Ends and means: The future roles of social housing in England: John Hills; February 2007

9 Calculated from HRA Subsidy Determination 2008–09 DCLG

10 Estimated from DCLG table 703 Rents, lettings and tenancies: RSL rents, by region,

11 Estimated from DCLG table 718 Rents, lettings and tenancies: household units receiving housing benefit, England

12 1.978m homes at an average value of £100,000, (60% of UK average house price).

### 2.3 Where we are today – socio-economics

The current “stock” of social homes stands at almost 4 million homes, split roughly equally between Councils and RSLs<sup>13</sup>. Unfortunately, the concentration of this stock in urban areas and the strict application of “Allocation” policies, requiring Local Authorities to first house those with a “reasonable preference” including homeless households with a priority need, has led to the “residualisation” of most areas where social housing dominates. The figures are stark with 50% of social housing situated in the most deprived 20% of areas as defined by the Government’s Index of Multiple Deprivation<sup>14</sup>.

The majority of households with a “reasonable preference” will be very vulnerable and/or homeless, many are likely to be workless. It is not surprising that the outcome of this is that a third of people living in social housing have incomes in the lowest quintile of household income, (and 70% are in the two lowest quintiles), and that the proportion of social tenants in employment has also fallen since 1981 from 47% to 32% and those in full-time employment from 43% to 22%<sup>15</sup>. This is a trend which is likely to have been exacerbated by Right to Buy purchasers later moving out of their homes and letting them back to Housing Benefit claimants or Councils/RSLs.

The mix of occupants in social housing differs significantly from that of other tenures. Just 15% of residents are families with children compared to 22% overall and 25% of Owner Occupiers; only 17% of residents are couples, compared to 35% overall and 42% of Owner Occupiers; 43% are single person households – of which more than half are retired – compared with 29% overall and 25% of Owner Occupiers; but the greatest difference is in the prevalence of single parent families at 17% in social rented homes, compared with 7% overall and just 4% of Owner Occupiers<sup>16</sup>.

Concentration in social housing also compounds worklessness: of those with no qualifications, only 43% outside of social housing

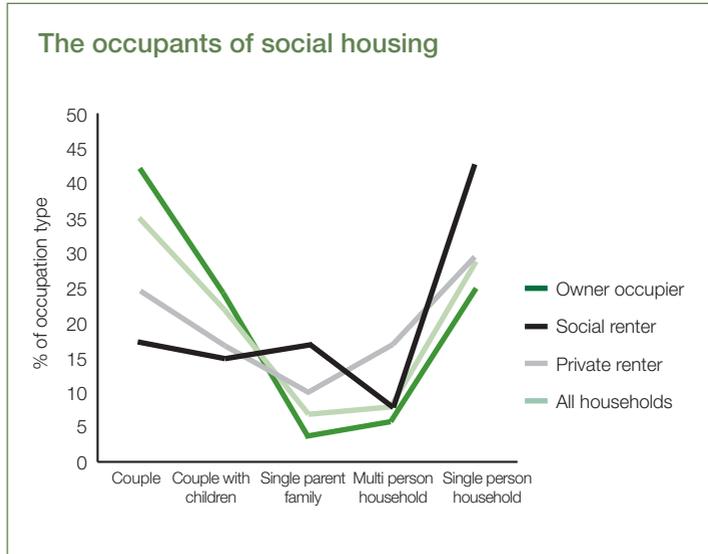
13 Office for National Statistics. Figures for England

14 Hills Report, *ibid*

15 Hills Report *ibid*.

16 DCLG Survey of English Housing November 2008

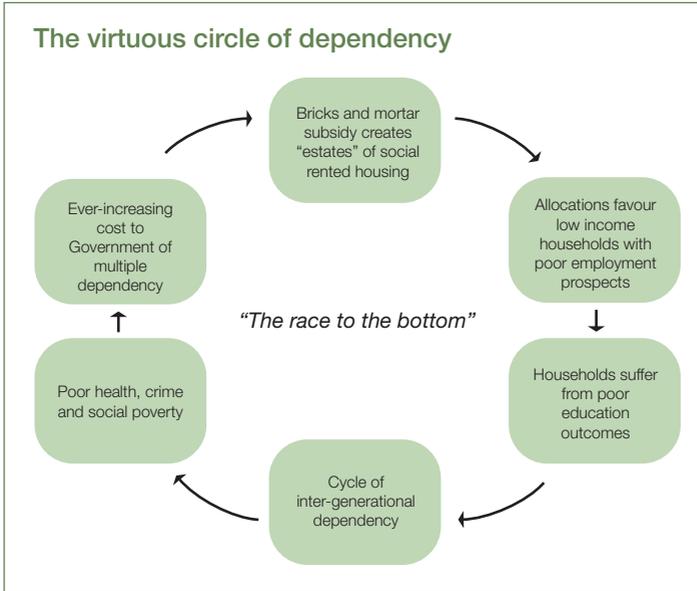
are workless, yet the figure is 70% for those who live in social housing. With 82% of households currently living in social homes having been in social housing ten years before, this is simply compounding the problem.



The most recent and widely regarded research into social housing, *Ends and means: The future roles of social housing in England*, by John Hills, provides a suitable summary:

*“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”*

We believe that what has been created and what is perpetuated by the current policy framework is a vicious circle of dependency, described by Sir Robin Wales, the Labour Mayor of the London Borough of Newham as a *“race to the bottom”*.



## 2.4 Conclusions

From the very earliest interventions, the focus of social housing in Britain has been on subsidising bricks and mortar to provide homes for people in economic difficulty. That this has led to concentrations of economic and social disadvantage in the areas where those homes predominate, is hardly surprising.

Many subsequent interventions have tried to make this system work better, from the earliest restrictions on rents, through security of tenure to the regulation and micro-management of RSLs and Councils. They have not improved the situation and our conclusion is that we cannot continue with a system where the route into social housing perversely incentivises households to present to Councils as effectively destitute in order to get to the front of an ever-lengthening waiting list. Additionally, to continue with centrally determined allocation policies will only lead to an ever increasing concentration of deprivation on social housing estates and is likely

to drive up the deprivation statistics and exacerbate the very poor outcomes in relation to health, education and crime found in neighbourhoods dominated by social housing.

What has been lost in the rush to meet numerical targets is the individual, the family and the community. Social rented housing which was intended to provide low cost housing for working households has become a destination for life for many who are or become dependent on the welfare state. For those who do secure employment and get on in life, the only choice is to get out, furthering the cycle of decline.

“ The challenge for Councils and RSLs is to develop communities that have a mixture of people with varying incomes and a mix of property types and tenures ”

To continue building and publicly investing in the “social rent” template which provides tenancies for life with no incentive or require-

ment to seek work or move on and which locks investment and people into properties, makes no sense. It makes no sense for the individual who can all too easily fall into a dependency culture. It makes no sense for the family as such dependency can all too easily become intergenerational. It makes no sense from a community cohesion viewpoint as social rented accommodation is almost wholly built separately from other forms of tenure and therefore is marked out from the off as “the council estate”.

The apartheid that has developed between private and social housing as a consequence further entrenches social segregation and mitigates against the use of empty private homes, of which some 700,000 are estimated to be vacant at any one time<sup>17</sup>, as an additional resource to provide homes to those in need.

The challenge for public authorities is how to recognise that the a very large majority of individuals and families have differing needs but only need some financial support to allow them to meet those needs, acting in their own right. Empowering them to make choices leads to greater individual responsibility and ultimately,

<sup>17</sup> Estimates vary but this figure is regularly quoted by the Empty Homes Agency for the number of private vacant homes. Around 100-150,000 social homes are estimated to be vacant at any one time as they go through the process of re-letting, though for a relatively short time.

less reliance on the state. Those households with more complex needs can then receive more personalised and targeted support.

The challenge for Councils and RSLs is to develop communities that have a mixture of people with varying incomes and a mix of property types and tenures. In the process this should end the blight that affects so many areas, particularly in the inner cities and larger towns that are characterised by poor quality living environments and often appalling social outcomes.

The challenge for national and local government is to do this within the context of the current budgetary constraints and to achieve that, they must look to the huge “sunk” investment in the social housing estate which is underutilised and – in the current policy framework – inaccessible. They will need the courage to open up the system and set free the innovation and enthusiasm for change which is clearly there in the professional community who currently have to deal with the consequences of the failed policies of the last hundred years.

Julia Cowans sums this up best.

*“There is a clear acknowledgement that what is required is not, yet more tinkering around the edges!”<sup>18</sup>”*

18 Visions for Social housing, International Perspectives. Cowans & MacLennan. Smith Institute 2008.

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# 3

## International perspectives

The UK is not alone in having substantial problems in social housing. Most other countries have adopted some form of welfare structure to help those in need and in a recent paper for the Smith Institute<sup>19</sup>, Julie Cowans and Professor Duncan MacLennan CBE investigated evidence from Australia, the United States, New Zealand, Canada, Ireland and the Netherlands.

The striking thing which stands out from the commentaries from each country is that the focus of the last 100+ years on building homes and controlling rents, usually through municipal or quasi-municipal ownership, has failed in almost all cases and led to concentrations of low or no income households in areas dominated by “social” tenures and that this in itself has been a major driver of further impoverishment and ever poorer social outcomes for residents. There is near universal recognition for social housing policy to be over-ridden by the goal of creating better mixed and better balanced neighbourhoods.

The main driver of these programmes, capital grant, is still seen by many as playing an important role in furthering desired outcomes, particularly in increasing the supply of homes, to rent or buy, below prevailing market rates. However, most also recognise that support to household income which is based on individual need and is regularly assessed is also crucial to expanding the choices available to tenants and to achieving the goal of better mixed and better balanced neighbourhoods as this can help achieve a neutral position between households irrespective of whether they rent or buy, or who they rent or buy from.

One country which has achieved the most in moving to this structure is the Netherlands and whilst they have not eradicated all

problems, they do appear to have achieved far better outcomes than most and have done so without increasing the cost to their taxpayers. These highlights stand out<sup>20</sup>:

- Social rented housing is a relatively large part of the housing stock, (35%), covering a wide diversity of dwellings and tenants;
- There is a diverse range of providers, who receive little capital subsidy, operating largely independently of Government, and are more active in the provision of homes for owner occupation and higher value renting,;
- Providers are very active in the provision of other services to support their residents such as care, employment and education;
- The broad role of providers has prevented stigmatisation and deterioration of social housing and the spatial concentrations of disadvantaged households;
- Rents have been moderated by competition;
- Social housing provision in the Netherlands has become relatively cheap for the taxpayer.
- Around 10% of the social stock was rebuilt in the ten years after reform was introduced, concentrated in the most deprived areas.

The key feature of the Dutch system is an almost complete absence of capital subsidy to providers of social homes. Instead, revenue support is given to households, based on household need, income and rent levels. Where concentrations of deprivation remain, there is a central Government programme to support their redevelopment and/or remodelling in partnership with Local Authorities and housing associations, though this is a very small proportion of total spend on housing. Housing associations use their asset base as a source of capital and use cross subsidies from market products to support below market rentals and sales.

We understand that Denmark and the Scandinavian countries have also largely abandoned capital funding for building social homes and moved to a largely income subsidy based system.

One further example worthy of note is the situation in Ireland, where a similar move to revenue subsidies, coupled with a drive to support low-cost and partial ownership, has secured a broad range of options for households in the market. The remaining “social housing” is in large part restricted to specialised provision for those households in need of health and social care.

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# 4

## Principles of reform

The principles which underpin our reform proposals seek to end the vicious circle we have identified of accumulated bureaucratic policy direction, forcing councils to perpetuate and create areas of concentrated dependency, leading to increased deprivation and worsening social outcomes, which are both expensive for the taxpayer and a tragic waste of potential for residents.

Instead, we seek to establish a virtuous circle: encouraging people to take responsibility for themselves where they can, with proper help for those who cannot; a hand up not a hand out for the majority and greater freedom for providers, balanced with more power and choice for residents.

The current system creates social housing for life with the subsidy and the property inextricably linked and once obtained, a valuable asset is out of the landlord's control, irrespective of a tenant's changed circumstances. We see a clear need to end this and separate rights as an occupier from the eligibility for subsidy and this can only be achieved by moving to near market rents and personal income subsidies.

We believe more homes will be built as a consequence, but there will also be greater mix of home types and tenure and mix of people in them. In short, the system will be designed to break down the concentrations of multiple social deprivation which have been the outcome of the policies of the last century and not to allow them to return.

“ We seek to establish a virtuous circle: encouraging people to take responsibility for themselves where they can, with proper help for those who cannot ”

Our principles are to:

- **Establish a duty to fix broken neighbourhoods alongside the freedom to manage social housing with the explicit goal of reducing concentrations of deprivation**
- **Separate a duty to house that small minority of households who cannot house themselves, from a duty to help the majority of those who can house themselves**
- **Empower social housing tenants with a strongly incentivised right to buy part of their home**
- **Introduce a common and consistent tenure to improve management**

We will now examine each in turn in more detail and look at the financial implications in moving to this new structure.

#### 4.1 A duty to fix broken neighbourhoods and the freedom to manage social housing

50% of all social housing stock is in the bottom 20% of Super Output Areas on the Government's index of multiple deprivation<sup>21</sup>. As stated above, we believe that this deprivation is a result of the vicious circle of the concentration of social housing in those areas and as a consequence of the policy directing allocations to households in the poorest circumstances. We believe Councils are best placed to reverse this if they are given the necessary freedoms to manage their financial assets and their allocation policies.

#### *A duty to fix broken neighbourhoods*

We would propose that these freedoms, set out in more detail below, be offset by the duty to fix broken neighbourhoods, measured against "Decent Neighbourhood" standards which would look at the following factors in deciding where change was required.

- Housing mix by type and tenure
- Mixture of households by income and socio-economic group
- Employment and education/skill levels
- Access to employment opportunities
- Educational attainment
- Health outcomes
- Crime levels

The aim being to assess the extent to which the area deviates from neighbourhoods which are not broken and to propose routes to correct this. We are specifically not seeking to homogenise neighbourhoods and a range of outcomes is appropriate, but the predominance of failure in neighbourhoods dominated by social housing has to be challenged and measuring what does not work against what does has to be the right place to start.

Once the assessment of the task has been done against these headings, Councils would simply be required to agree their proposals to address them with the Government in the form of a binding “Business Plan”, covering borrowing and/or any co-investment from external investors.

A retrospective checking mechanism could be then be established which would monitor progress against these broad targets without being burdensome or prescriptive. This could be undertaken as part of the regular Audit Commission review of Councils’ overall performance. Adding a right for tenants to demand a review, perhaps using a local petition with more than 10% of residents’ signatures as a trigger, might be the only additional requirement to spur Councils to better performance.

### *The freedom to manage social housing*

The key to successfully delivering change is to achieve far greater flexibility and freedom to innovate and for Councils in particular the ability to “place make”. Councils and RSLs should to a very

large degree be allowed to manage their stock to suit their needs, treating their housing portfolios as “balance sheet” assets to be worked to achieve the overriding duty to fix broken neighbourhoods. Commercial borrowing and co-investment with developers and investing institutions would be encouraged and relaxation of “prudential borrowing” requirements could be considered as part of the “business plan” approach. In turn RSLs would need to align their allocation plans to meet local lettings requirements set out by Councils. Additionally, local planning powers would be used in a commensurate and enabling way and Councils’ strategic housing role and asset base could help define a “tenure rich” housing environment to meet local needs and demands.

Allocations policies have restricted the ability of Councils to house people from their general waiting lists, which have grown enormously as a consequence and which has incentivised people to present themselves as homeless in order to gain priority. By way of illustration of the restraining impact this has had, Hammersmith and Fulham housed just 27 households from its general register in 2006/07 from 473 allocations to new households.

Dutch reforms<sup>22</sup> showed that providers of social housing can be trusted to manage their activities in a way which secures the key goals of welfare in housing. They have provided a wide range of homes to a wide range of clients, they have provided advice services, training and care and they have utilised their assets efficiently to do this at a declining cost to the taxpayer. This was achieved rapidly after the deregulation process was implemented from 1990 and around ten percent of the stock, mainly that in the most deprived areas, was redeveloped in the first ten years after reforms were implemented.

We believe that the key element of reform is to immediately strip away all restrictions on Councils and RSLs which constrain their choice of who to house in their homes when they become vacant and to allow them to promote sale, development, re-building and

<sup>22</sup> Visions for Social Housing,  
*ibid*

remodelling, leading to more effective resource and asset management at a local level and in turn creating the mixed communities which do not currently exist.

This would mean that there would be full Local Authority discretion to determine allocation policy at a local level and the removal of any nationally set rules or targets that are prone to distort even further already unbalanced allocation plans<sup>23</sup>.

This would give Councils the ability to allocate homes to a higher percentage of economically active households or those in/willing to go into employment irrespective of housing need considerations. The ability to set allocation policies which require commitments to enter work through training and to define allocations quotas limiting the number of homeless/economically inactive households in a given area, will help Councils to prevent concentrations of deprivation. Councils should also be allowed to let accommodation on market terms on a short term basis, with a view either to reusing the unit when the occupying household is ready to move on, or to offer them the option of purchase, and they should be more willing to sell housing assets outright to secure funds for redevelopment and re-investment in more appropriate stock.

Investment in stock does not end with the conclusion of the Decent Homes programme. The current HRA subsidy system cannot deliver the improvements in social housing stock and in estates beyond 2010. The Decent Homes programme has arguably been a short term and highly expensive exercise in delivering basic improvements which has ignored resident demands for far wider environmental improvements. It has also led to Councils chasing funding rather than determining viable and stand alone asset plans.

We estimate the current vacant possession value of the Local Authority estate at almost £200 billion<sup>24</sup>, with Councils owing approximately £18 billion to Central Government from the original loans given to build these homes. Currently, this is managed

<sup>23</sup> A good example of this is the "Temporary Accommodation Reduction Target"

<sup>24</sup> 1.978m homes at an average value of £100,000, (60% of UK average house price).

through the Housing Revenue Account Subsidy Determination, a complicated and artificial system which creates no incentives to “work” the substantial asset which Local Authorities are sitting on. It is unclear what the HRA system is designed to achieve. It does perpetuate a system where Councils who have poorly managed their assets are “supported” through increased debts, while penalising those who have managed effectively.

The RSL sector is estimated to be worth around £75 billion by the National Housing Federation, but this is based on the cost of the assets when they were built and lowered by the “debt” owed to Government which reflects grants given to build homes. In addition, RSLs carry commercial debt. It is difficult to accurately say what the true value might be, but the following commentary was provided by David Cowans, Chief Executive of Places for People<sup>25</sup>

*The Group has £2.9 billion gross in assets which is reduced by £1.2 billion in grant leaving equity of £1.7 billion.*

*The Group currently has debts of £1.5 billion, Thus the Group is currently left with equity of £0.2 billion.*

*By writing off the grant from the balance sheet, the equity in the Group would increase from £0.2 billion to £1.4 billion.*

*On the back of this, we anticipate that the Group would be able to access unsecured funding of about £300m.*

*We estimate that our assets would be in the region of £6 billion if they were valued at a discount to market value as a commercial property company would do.*

This suggests that the true value of the RSL sector’s assets could well be double that used currently, potentially giving a true net value of

the RSL sector of somewhere around £150 billion. It further suggests that there is substantial equity in the sector against which increased debt finance could be raised to fund development.

We believe that if Councils are freed to manage their assets, this entire system can be replaced with simple agreements between Councils and Government governing the use of assets and repayment, over time, of the debt owed to central Government. Such an agreement would be based on the reality of values, rents, repairs and debt, rather than the artificial figures in the current system, something made much easier as rents move closer to market rents and income subsidies rise. In areas where severe deprivation problems exist, these debts to Government could be written off in whole or in part or deferred, to speed up effective renewal.

It would also be possible for some of this “sunk” investment to be transformed into equity shares in homes, (retained by Councils and RSLs), to provide permanent, below-market, homes using structures like Community Land Trusts. These structures are particularly suitable in areas where values are high, but wages for some, very low, for example in London<sup>26</sup>, but also in rural areas where local workers may be priced out of the market. By retaining equity in the property without seeking a return on it, the cost of renting or buying is reduced. Tenants may not sublet and only share in any uplift in value to the extent they have purchased equity, but in return, they secure a cheaper home. Councils and RSLs may also choose to use some of the additional income arising from a move to market rents to cross subsidise from higher value homes to keep some rents low, something which has become a feature of the Dutch system since deregulation in the 1990s.

#### 4.2 A duty to house those who cannot house themselves

In only a very small number of cases will individuals or households not be able to make suitable arrangements for their housing, acting for themselves with adequate financial support. This category of

<sup>36</sup> Boris Johnson is looking to implement a “First Steps” programme along these lines injecting publicly owned land at nil value to lower the cost of buying a first home in London.

people include people who are young and at risk, elderly, severely disabled, mentally and physically ill, as well as those suffering from drug and alcohol dependency problems. Even then, these people will often have the support and assistance of family members in making housing and care choices. Additionally, the need for assistance may only be temporary.

“ We believe that housing benefit needs to be individually assessed based on the needs and income of the individual or household ”

In the current system, many such people are invisible, stuck on waiting lists and not receiving the support they really need. This is partly because so much focus is on building homes for large numbers of people – of which this group is a very small proportion – and meeting targets which tend to favour the re-housing of “homeless” households who are in

fact already adequately housed in the private sector. This is a form of rationing, much as waiting lists are used to ration access to healthcare in the NHS. If we wish to widen access, we must allow rents to rise to near market levels across both the Local Authority and RSL sector by shifting the focus of support to income subsidy, rather than bricks and mortar. This would require housing benefit spend to increase, with a concomitant fall in capital budgets, but it would allow the majority of individuals and households to resolve their needs without additional help.

In order to achieve this, we believe that housing benefit needs to be individually assessed based on the needs and income of the individual or household, allowing a “budget” to be established for them to use to secure suitable housing in the market, which under our proposals would include deregulated Local Authority and RSL landlords.

Those households with needs beyond simply housing will then become much more “visible” and able to be helped on a more personalised and targeted basis. The Local Authorities’ role will still be to assess a budget, but this budget will cover their care and

support needs in addition to their housing need. While these assessments may be complicated, given the relatively small size of the population requiring this, it ought not to be too onerous a responsibility for Local Authorities and would attune to work already being undertaken in the social care sector to introduce self directed care arrangements. It is still likely that the majority of this need will be met by existing housing and care providers, so Local Authorities' main role will be to advise and guide, but they and RSLs will also have a role to play in the provision accommodation and care, for those who have nowhere else to turn.

#### 4.3 A duty to help those who can house themselves

For the remaining, majority of households, the role of Local Authorities will be to manage the process of assessing their personal budget and advising the claimants on how to go about securing accommodation in the market, a market expanded five-fold to include 4 million social homes in the LA and RSL sectors.

The process of assessing the level of housing benefit we propose would first assess individual housing need based on household type, as in the current system. It would then establish the level of take home income, after benefits and taxes and assume 40%<sup>27</sup> of this income being used to meet housing costs, including Council Tax. The local rent for the type of housing needed would be established and this could be as simple as a weekly check on the rents being advertised locally with less frequent checks with letting agents across the area. (Actual lettings evidence would also be built up through the process, see below). The level of housing benefit would then be set initially at 85% of any shortfall<sup>28</sup>. (This would mean that the separate Council Tax Benefit scheme could be abolished as it would be covered within this system).

In order to prevent “cross-border benefit shopping”, with claimants being assessed in a Local Authority area with high rents, then actually renting in a cheaper area, new claimants would then

<sup>27</sup> This figure could vary for different household types to reflect higher cost of other essentials for larger households as a percentage of their take home pay.

<sup>28</sup> The intention being to adjust this figure over time as the move to market rents progresses.

have to confirm that they had entered into a tenancy before payments commenced<sup>29</sup>. The level of benefit actually paid would be re-assessed against the actual rent secured, but only downward, with any “saving” being shared with the claimant to incentivise them to shop around to secure lower rents. This would provide a natural “damper” to increases in rents allowing the transition to market rents and higher housing benefit to progress quickly. Actual rents would then help inform the assessment of benefit levels on which future claims are based and help further dampen increases in benefit bills.

We would not wish to restrict extended families or groups of claimants from “pooling” their entitlements, though this would remain subject to the “saving sharing” proposal above, thus capturing some of the benefit for the taxpayer of any “economies of scale” secured by the claimants.

One advantage of a system which empowers tenants to act in the market is that it would result in greater demand for private lettings which in turn ought to assuage some of the reluctance of private landlords to let to Housing Benefit claimants. This might encourage more owners of empty properties to let in the market, providing an increase in the supply of available homes.

Housing benefit payments are currently recorded by reference to National Insurance numbers of claimants and this does allow changes in circumstances to be tracked and benefits reassessed. However, this has not prevented abuse and fraud. We prefer a system with shorter periods of entitlement and regular re-assessment, which is also more likely to weed out fraud. As the majority of tenants will be securing six month, Assured Shorthold tenancies, this would seem to be a logical period after which payment would cease unless a reassessment had been carried out.

There is a further change we believe is necessary to tackle the problem of the so-called “poverty trap”. We specifically believe that the level of housing benefit should be assessed only after other taxes

29 Though potential claimants might obtain assessments from more than one Authority, extending their choice.

and benefits have been taken into account, so the level of housing benefit is not tied to gross pay and will adjust to any reduction in take home pay as a claimant starts to pay taxes and potentially loses other benefits. This results in improved incentives to move from welfare to work and because residents would be operating in an environment where they were being assessed individually and receiving an individual subsidy to meet their needs, there would be no need to introduce complicated and bureaucratic measures to assist mobility.

Alternately, housing benefit could, in a wider reform of welfare, be combined with other benefits to create a single combined support payment system, localised for housing costs. This could operate on a “Tax Credit” type system with benefits reducing as earnings rose, but in a measured way so as not to create negative incentives to take work and could include penalties for those who refuse to take work.

Initiatives such as “Choice Based Lettings” and homelessness prevention initiatives, have had beneficial impacts on the experience of residents who have been treated in a more adult way and given more responsibility for resolving their housing needs including help in securing accommodation in the private rented sector through Rent Deposit Guarantee schemes. The valuable lessons learnt by Councils in developing housing options services and links with the private rented sector means that many are already in a position to deliver a more flexible approach to meeting local housing needs enabling access to housing for those in need into a range of tenure options. We would envisage such housing options services being devised and implemented locally as part of the freedom to manage that we propose, rather than being centrally directed.

We believe that the move to market rents and higher personal subsidies is key to attracting institutional investment back to the rental market. Major pension funds and other institutions have been absent from this market for a century, largely, we contend,

because of the rent controls imposed and maintained from the end of the Great War. Latterly, with the emergence of a large, deregulated private rented market, interest has returned, but this market remains dominated by amateur or even accidental landlords with a small portfolio of personally managed properties. Very few professional groups or businesses have ventured in to the market and certainly not in to the social sector where the prospect of steady and secure, if unexciting, yields over time would be ideally suited to the institutional market.

The Government green paper which led to the 2008 Housing and Regeneration Act did set out an aspiration to explore this option, but technical clauses regarding the nature of owners and managers in the final Act effectively ruled out co-investment by Institutions and RSLs or the separation of management and ownership between them in investor/manager partnerships.

Not only do we believe that this should be reversed, we see great benefits in bringing the professional approach to management of investing institutions into the social housing sector.

#### 4.4 A right to buy part of your home

One final key change to create the environment where “social housing” is no longer seen as bricks and mortar structures which can never change, is the grant of new rights and meaningful incentives for tenants to acquire their homes, or shares in them.

The incentive packages offered to tenants need not be prescriptive and we would want Councils to innovate and manage this process to suit local needs, but a social home with a sitting tenant is not available for others and either the tenant has to move out, or the money invested in that home, extracted, in order for anything additional to be achieved. We therefore propose that a standard package ought to be set out as a minimum “right” to which all tenants of Councils and RSLs will be eligible, subject to a “good behaviour” test. We believe it should be as follows:

- The right to an “equity gift” to all tenants with a record of good behaviour for three years, earned at 2% after three years plus 2% per annum for up to four further years, giving tenants up to 10% of “Equity” after seven years, with their rent reducing to reflect their level of equity in the home. This could be backdated for existing tenants to kick-start the scheme and would be “portable” to another social tenancy;
- The right to buy a part share in their home on a “buy one get one free” basis, up to 25% of the value of the home. Their rent would be reduced and their responsibility for repair costs would accrue at twice the rate of equity acquisition, so when 25% of the equity had been bought and 25% matched under this offer, the tenant would become responsible for all repair costs, but pay no further rent. (Landlords’ remaining equity would be protected by legal charge);
- The right to buy the remaining equity at open market value;
- The right to a cash equivalent to the above incentives on vacating a social home, subject to the cost of any repairs needed to re-let their existing home.

We would specifically want to make it possible for the children of tenants to exercise these rights in conjunction with the tenant. The possibility of building up a stake in your home for the benefit of your children, or your children helping to build that stake in the prospect of living there themselves later in life or gaining financial security, is a strong incentive to encourage thrift and an interest in the management of the property and the neighbourhood.

Each of these offers would be subject to “clawback” provisions to prevent abuse. In the case of residents buying out their rents, but not the entire equity, a strict ban on sub-letting would be imposed to prevent them buying just 25% of the property by value and then sub-letting at full value<sup>30</sup>. Homes which had been part-purchased under this scheme, could be cross-referenced with housing benefit

30 This would require legislation to change the Forfeiture rules under S146 of the Law of Property Act 1925.

claims to prevent sub-letting to benefit claimants at full rent. Where somebody took a cash payment to vacate a social home, they would be ineligible for Housing Benefit for a period of years.

All tenants would have the right to the incentive based package listed above unless their home was due to be rebuilt, but this would be subject to strict tests to prevent Councils from imposing blanket bans on sales and the rights would transfer with the tenants to any new home.

We also see a great opportunity for residents to move between tenures without moving home. At various stages of their lives, they could acquire equity and at other stages they could sell it back, returning to a rental model. Current structures are too rigid to allow this and we see the opening up of equity to residents as a first step to allowing landlords to innovate and experiment with options which are better suited to their tenants' needs. Overall, there could well be a reduction in outright owner-occupation and an increase in renting, with the advantages of mobility and flexibility which come with this.

#### 4.5 A common and consistent tenure

To facilitate the changes proposed above and to promote ease of understanding and improved management, we lastly propose that all existing and new social housing be held on a common and consistent form of ownership and occupying tenure, based on established and successful practice in the private sector.

For occupying tenants, there is considerable tenure-inflexibility within the social housing system which tends to prevent mobility, choice and area regeneration.

The problems inherent in trying to move households from one property to another when they cease to fulfil a "need" condition would be solved by having just one form of tenancy, modelled on an Assured Shorthold Tenancy (AST), which any landlord could offer. The AST could be of any length, dependent on whether it was being offered to sustain work-related employment in the short to medium

term, being used for temporary accommodation pending another solution, as a bridge to home ownership, or as a permanent form of tenure. This would also remove some of the unjustifiable and historically-determined differences between private sector (mainly Assured and AST) and public sector (mainly Secure) type tenancies, which have given rise to accusations of unfairness and incomprehensibility over the years, and which have prevented mobility to more appropriately sized and located housing. Overcrowding and under-occupation would be lessened if the disincentives which currently exist on moving were removed which would follow from the introduction of a single form of tenancy.

“Overcrowding and under-occupation would be lessened if the disincentives which currently exist on moving were removed which would follow from the introduction of a single form of tenancy”

In almost all cases we would expect the initial term of the AST would be 6 months as is standard in the private rental market, but there would be no restriction or compulsion on Councils and RSLs offering longer terms in support of other goals.

The key to this approach again is deregulation, the aim of which is to stimulate Councils, RSLs and the private sector to develop a “tenure-rich” range of products, from market rent and housing for sale, through to intermediate rent and shared ownership/equity share homes which enable those on low incomes to purchase – particularly rent to mortgage (slivers of equity), rent and save, rent and reward schemes.

For landlords, particularly Councils and RSLs, we would see a move to a simple structure of freehold land, with a succession of leases for estates, blocks and individual units, irrespective of whether the individual unit was owned by a Council or RSL letting to a tenant on an AST as set out above, or part or fully owned by the resident. This would allow for management and maintenance to be carried out and monitored on a block-by-block, estate-by-estate basis, with each unit paying its fair share of costs, including the provision for sinking funds to cover the costs of large items over time. This sort of consistency and

transparency is one of the key things behind the satisfaction ratings achieved by Wandsworth Councils across its estate<sup>31</sup> and mirrors standard practice in the private sector. We also believe it would be necessary to make this sort of change in order to give comfort to investing institutions that the legal structure for ownership and occupation provided adequate management control alongside sufficient liquidity.

As every unit would be held on a standard lease, the Council or RLS, as leaseholder, would have a duty to pay any “service charges” due on their units at the same rate as others in the block who were purchasing or, as tenants staircased up through shared ownership, the block could pass into “private” control, when more than 50% of tenants had taken responsibility for paying service charge themselves.

We believe this would lead to more “contestability” of management from a wide range of tenants and leaseholders who would have a much greater incentive to care about the management and maintenance of their home, estate and neighbourhood. The current poor management record of Councils and RSLs, as identified in the Cave Review, stems in part from the lack of such an incentive for residents to be concerned and from the monopoly position of most social landlords, which allows them to get away with poor service and high charges as tenants and leaseholders have no choice or power over who manages their home.

Whether the Tenant Services Authority would still be required in this environment is not something we have considered, but it could be abolished, or may have a reduced role overseeing regulation applied to all landlords, social or private through the existing statutory framework governing private sector landlords. In addition, leaseholders would benefit from the right to “enfranchise” which would allow tenants to purchase the head leases and take outright ownership and responsibility for management, if they so wished. Councils and RSLs themselves might wish to innovate and appoint different managers for different estates or even different blocks on estates.

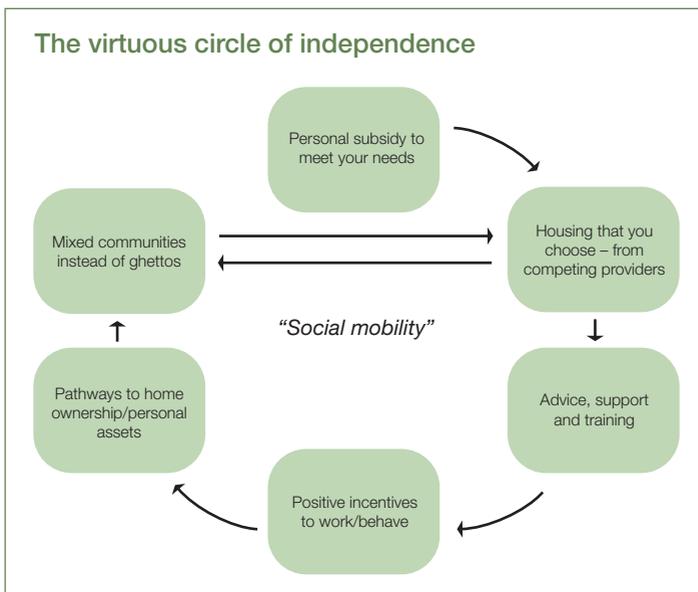
We would suggest that one-off funding be made available to help Councils and RSLs to develop standard from leases and that all existing

31 Cllr Edward Lister: 30 years of home ownership in Wandsworth: Big Ideas: Localis 2008.

occupying tenancies would be transferred to the new tenure. During the period of transition to near-market rents, there would continue to be security of tenure for those in receipt of housing benefit. This requirement would fall away once rents had risen. Similarly, all newly built or re-built estates would immediately adopt this structure.

There has been a number of calls for Landlords to gain more power to require tenants to move to more appropriately sized accommodation to deal with under-occupation. Whilst such powers would assist with this problem, the move to market rents and personal subsidy would, in our view, address this in a more fundamental way as under-occupancy will become more expensive for tenants as their rents, but not their housing benefit, rise. If they were in a position to buy their home, or a share in it, we do not believe this option should be denied them.

We believe that the implementation of these reforms will reverse the current vicious circle of dependency and create a virtuous circle of independence.



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# 5

## Implementation of social housing reform

In this section we look at the costs and benefits of implementing the reforms we have proposed. In summary we believe:

- Moving to income subsidies is affordable within the current total of housing benefit and capital budgets;
- Councils and RSLs will benefit from increased rents of over £5bn per annum with which to implement development of over 400,000 new homes over ten years;
- Councils and RSLs should be able to secure an additional £75 billion from sales to fund renewal of nearly 500,000 existing social homes over a ten year period;
- The process of building, letting, selling and recycling of the invested cash can continue, securing repayment of Government's "sunk" investment and perpetual improvement to the social housing estate at a declining cost to the taxpayer.
- Overall, there ought to be a wider range of options for occupiers, from below-market rental to full outright ownership as a consequence of deregulation.

### 5.1 Move to market rents/income subsidies

In order to estimate the cost of this, we have looked at it as a "big bang" reform, though we would expect it to be implemented over a period of probably five years. Our methodology is as follows:

- 1 We estimated the "market rent" of all social units at an average of £100pw, this compares with average market rents

across England for new Assured Shorthold lettings of £130<sup>32</sup>, reduced to reflect the higher number of smaller units, the higher percentage of single person households and the likely lower value of social housing units.

- 2 We then applied this increase to all lettings by all Councils and RSLs, even those against which no housing benefit claim is currently made.
- 3 We reduced the resulting figure to reflect our proposed “benefit rate reduction”.

This suggests an increase of just over £6.0bn of increased benefits as a “worst case” scenario. However, we would propose a “gross income” cap on entitlement to benefit which would deny claims from households earning above the average local wage, which should limit this further.

	Weekly Rent (£)	Annual Rent (£)	Difference (£)	Number of Homes	Cost (£)
Market AST lettings	100	5,200			
Local Authority <sup>33</sup>	61	3,172	2,028	1,900,000	3,853,200,000
RSL <sup>34</sup>	67	3,484	1,716	1,900,000	3,260,400,000
					7,113,600,000
			Benefit rate reduction		0.85
			Net additional cost in housing benefit		6,046,560,000

There are also additional factors which could further reduce this figure or create beneficial effects elsewhere. These include:

- The move to market rents is likely to have a negative effect overall on market rents as the majority of activity will be in the market with tenants who are being funded at just below

33 DCLG: Table 701 Rents, lettings and tenancies: Local authority rents by region, United Kingdom

34 DCLG: Table 703 Rents, lettings and tenancies: RSL rents, by region

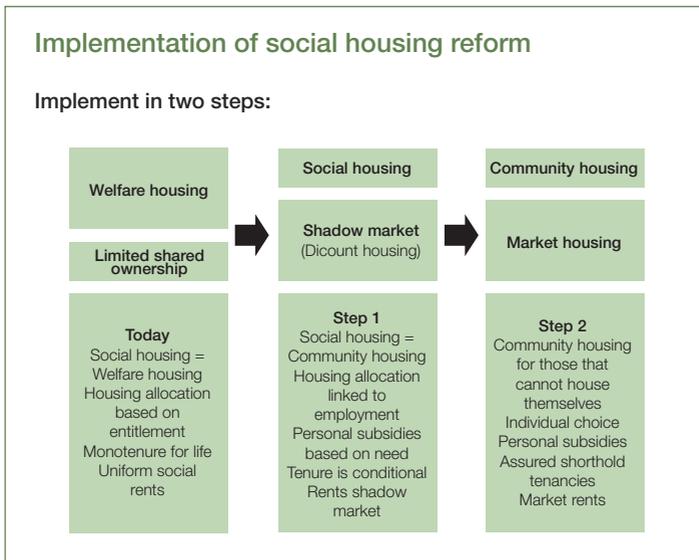
the market rate. This incentivises them to negotiate for lower rents and exerts downward pressure on rents overall.

- The units in question may be of a generally lower value than the private sector stock. Indeed, Hills suggested that the total value of the economic subsidy to rents was just £6.6 billion.
- It has not taken account of other changes that might be implemented to welfare benefit systems that would encourage and require workless households who can work into work and might encourage and incentivise greater mobility to seek out lower cost appropriate rented properties.
- It does not take account of any reduction in costs associated with more people buying their homes under our proposed new incentive structures nor any reduction of fraud or more people moving from welfare to work because of the improved incentive structure.
- It does not take account of the potentially beneficial effects over time of achieving the overall goal of breaking up areas of multiple social deprivation which have such a high cost in terms of health, education and policing outcomes.
- It does not take account of the savings achieved from the dismantling or significant scaling back of a number of local and national bureaucracies including the Homes and Community Agency and the Tenant Services Authority.
- It does not take account of potential savings from claimants pooling their benefit entitlement and benefitting from “economies of scale” which would be captured by the “saving/sharing” scheme proposed.

The estimated cost is broadly equivalent to the total of all the capital budgets currently operating in support of new home building, suggesting that the change is affordable within current spending totals. The capital budgets then transfer to Local Authorities and RSLs as increased rents, giving them a substantial additional revenue stream to exploit to fund renewal and new building.

The change process could be managed over a relatively short period of time, say five years. We believe it is important that this change is made over a relatively short time frame so that there is a clear link between rising rent levels and increasing housing benefit payments and so political considerations do not interfere. Current proposals for “rent restructuring” are opaque at best and poorly understood by tenants who just see higher rents. This sort of “national rent formula” approach is never likely to address real needs as has been shown to be subject to political gerrymandering with the recent announcement by Margaret Beckett that the rate of rent increase will be halved.

At the end of the process of moving from capital to income subsidies, the Homes and Communities Agency would be abolished.



We recognise that this element of our proposals is potentially threatening in the current economic climate and that past experience of similar moves is that anticipated costs are exceeded.

However, we would point out that housing subsidies have already largely moved from capital to income and that rents are currently falling in the market. The Dutch experience is also that the overall cost to taxpayers actually fell when they implemented similar reforms. The system will also be simpler, with fewer public sector bodies involved. It would align incentives with the market to dampen rent increases or even drive rents lower in the market, preserving affordability in the long term.

We are also encouraged by the Hills Report's lower assessment of the value of the difference between market and social rents and would re-iterate the potential gains in other areas of social and welfare policy which we have highlighted, but not included in our figures.

## 5.2 Income from right to buy part

We believe that the incentivised offer to existing and new social tenants set out above will release substantial pent up demand by reducing the price at which home ownership, or shared ownership can be achieved.

Looking at the income profile of existing social tenants we have adopted the following methodology:

- 1 We have assumed the 33% of social housing tenants who are in the lowest quintile of income do not purchase any equity;
- 2 We have assumed that the 37% of tenants who are in the second quintile of income, purchase 15% of equity, (through "slivers of equity" style, rent to mortgage schemes or similar<sup>35</sup>), based on their existing net rent being approximately equivalent to the mortgage cost of servicing a loan sufficient to meet this cost;
- 3 We have assumed that the remaining 30% of tenants, the majority of whom pay full rent and do not claim housing benefit at present will buy a range of equity stakes with 10%

35 For example the "First Steps" scheme recently announced by Boris Johnson.

each buying 25% – fully exploiting the BOGOF incentive – 45% and 65%, the latter achieving full ownership with the Equity Gift and BOGOF incentives;

4 We have assumed that this will be achieved over ten years.

These figures could well be conservative when one looks at them against the figures just for Local Authority tenants claiming housing and other benefits. Of 1.9m households, approximately 950,000 claim housing and other benefits, 336,000 claim housing benefit, but no other benefits and 600,000 claim no benefits at all<sup>36</sup>. Also, a higher proportion of RSL tenants are in work.

Current concerns over “sub-prime” lending might raise concerns about encouraging people on low incomes to take out mortgages they may not be able to afford, or that finance might not be available. It is worth re-iterating that by combining the “equity gift” of 10% with the BOGOF offer would mean that somebody buying a 10% equity stake with a mortgage would have a loan to value ratio of just 33%. Even buying out 100% of the equity in the home requires just 65% of the value to be paid for in the scheme we propose.

This produces an income of just under £75 billion.

36 Table 718 Rents, lettings and tenancies: household units receiving housing benefit, average benefit England DCLG

<b>Potential Sales</b>	<b>Of 3.9m units at an average value of £100,000</b>		<b>buy % of equity</b>	<b>Sales (£)</b>
Tenants in lowest income decile	33.00%		0%	-
Tenants in 2nd lowest income deciles	37.00%		15%	21,645,000,000
Other tenants	30.00%	10.00%	25%	9,750,000,000
		10.00%	45%	17,550,000,000
		10.00%	65%	25,350,000,000
			Potential Sale Revenues	74,295,000,000

### 5.3 New homes built – Neighbourhoods fixed

Existing budgets are not directly comparable to what could be achieved under new arrangements. However, assuming an average cost to provide a new social home of £120,000 per unit<sup>37</sup>, the additional revenue to Councils and RSLs through increased rents could deliver just over 50,000 new homes per annum, substantially exceeding to current delivery of social homes. This figure would reduce over time as sales progressed and rents were bought out but over ten years, we estimate that 415,000 homes would be built, though this figure excludes the effect of new units coming through the system and further rents and sale receipts being generated from them.

However, given that we propose deregulating Councils and RSLs to make better use of the asset value of their estates, we would expect them to be able to leverage this increased income to provide additional funds for development of further new homes. A debt/equity ratio of 50% would provide sufficient additional funds to double the number of new homes which could be built.

In addition to this, allowing RSLs to write off the grants they have already received would open up a further additional source of finance. David Cowans from Places for People estimated that his RSL could secure up to 10% of the existing gross asset value of his estate. If this were replicated across the RSL sector, this would mean an additional £7.5 billion of funding for new homes.

The additional income from sales of equity shares would generate £75 billion, which we believe could be achieved over ten years. This is enough to fund the rebuilding of 495,000 homes, around 12% of the current social stock. This mirrors achievements in the Netherlands where around 10% of stock, mainly in the most deprived areas, was rebuilt in the ten years following deregulation in the early 1990s.

And of course, the tenants of the new homes built will have the same rights and incentives to buy as existing tenants and the

<sup>37</sup> This is based on evidence from a recently completed social housing development in Dovecot, Liverpool where build costs for 1 bed flats was £80,000, 2 bed flats £110,000. Costs for 3 bed terraced homes are estimated at £120,000. At 540 habitable rooms per hectare, (achievable with 60 units of each), this gives an average of £120,000 per unit allowing for a land cost of £3,000,000.

process can continue forward, recycling the funds over and over again. Ultimately, Council and RSLs should be able to repay any Government debt and move to a situation where they operate their housing portfolios at a reasonable profit. Future capital receipts from continuing sales of equity stakes could then be used to fund wider regeneration projects and surplus revenues used to fund further renewal, regeneration projects, reduce Council's tax rates and/or repair Pension Fund deficits.

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# 6

## Peer review

We asked a number of professionals working in social housing to review the proposals set out above and we are pleased to say that we received a broadly supportive response from everybody and there was a general consensus that matters could not be left as they are.

Some specific comments are highlighted below against the key themes of our paper.

We also invited a range of political leaders, Council and RSL housing professionals and others to a “round table” discussion on the theme of creating mixed communities.

The context for social housing reform

Philip Callan of Savills challenged our assertion that the Council house building of the 50s and 60s created concentrations of deprivation and in fact provided a tenure of choice for many families moving from poor quality private rented homes. Charmaine Young CBE pointed out that the initial tenants were often working families, but that many workless households were rehoused from slum clearance areas or from the housing lost during the war, which together with the system building of large, flatted estates saw the residualisation begin as many able to secure a mortgage fled to home ownership in the private sector. However, she welcomed the overall proposals as *“grounded in common sense, founded on sound economic principles and built on an increasingly popular critique of where things have gone awry in English social housing policy”*.

Cllr Edward Lister of Wandsworth Council pointed out that the drop in the tenants in work in social housing might well have

been exacerbated by Right to Buy purchases taking these homes out of the calculations, which we accept had an impact on this. However, the Government measure of deprivation by “Super Output Area” and the concentration of social housing in such areas is, we believe, related.

Jim Saunders of Pinnacle Housing Group agreed with our assertion that social housing *“concentrates deprivation, increases dependency and leads to worsening social outcomes”* and that politicians did not pursue solutions out of a *“better the devil you know”* attitude. Charmaine Young agreed, citing political pressure from a number of quarters to water down more radical proposals in previous reports.

Ron Roberts of United House criticised the *“high volume building under stringent “cost yardstick” [which] created poor environments where residents have no pride of place”* and urged us to consider how poor design and construction had impacted on residents who had no choice over where they were re-housed. He also urged us consider the high proportion of former Right to Buy properties on urban estates which are now let to housing benefit claimants. We recognise that Right to Buy was much less of a success on the urban estates and indeed in many cases can be considered to have failed in these areas.

David Ireland of the Empty Homes Agency agreed that *“the concentration on expanding supply has masked structural problems in the housing system”* which *“create unfairness and lead to inefficiencies”*. Not surprisingly, David points to the number of empty homes, around 700,000 at any one time as a symptom of this. This issue was also highlighted by Cllr Edward Lister.

The principles of social housing reform

There was clear support for the principle of Councils and RSLs having a greater role in “place-making” and fixing broken neighbourhoods. There was universal support for extensive

deregulation of allocations policy and the management of housing assets on a proper financial accounting basis including disposal of assets, borrowing and co-investment. Kate Davies did suggest that the “business plan” we propose might be too onerous a restriction and alignment of RSL allocation plans overly bureaucratic.

““ We had near universal support for our desire to clarify the role for welfare in housing around the principle of a duty to house and a duty to help ””

Colin Barrow of Westminster City Council agreed with the need for a fundamental overhaul, stating, *“the HRA subsidy system simply does not work any longer”* and that the homelessness legislation was “too liberal” leading to, *“a real disincentive to getting back to work.”*

We had near universal support for our desire to clarify the role for welfare in housing around the principle of a duty to house and a duty to help. Many people pointed out that a large majority of those seeking a social home were in fact already housed in the private sector and the desire to acquire a social home was driven by the prospect of a tenancy for life at a low rent.

Kate Davies pointed out that the RSL and private sector provided much housing for the most vulnerable who would be covered by the proposed duty to house and we are clear that the intention is that this would continue to be the case. These households are the most needy and we certainly hope that the proposals covering other households would achieve the “visibility” for these vulnerable households that we mention.

Charmaine Young questioned how we might differentiate between those who only needed financial help and more vulnerable households. We contend this is a matter of fact and evidenced by other factors which are increasingly being recognised through individual care planning. Ron Roberts also highlighted this in the context of Care in the Community policies.

David Ireland believed one of the reasons for generally poor quality rental housing in the UK was due to *“lack of competition between tenures”* and that our *“proposals on tenancy and rent reform in social housing are ... two welcome proposals for addressing this”*. Philip Callan suggested we clarify that the intention was to separate personal income subsidy from the actual tenancy, which we are happy to do, though with the caveats in the paper to ensure value for taxpayers’ money, and he also supported the move to market rents and personal subsidies, citing the Dutch system as operating in a similar way. Anu Vedi of Genesis Housing Group stressed the need for Housing Benefit reform to be set in the context of wider welfare reforms supporting people into training and employment.

Kate Davies questioned the accuracy of the figures for increased housing benefit as our proposals would have a shallower “taper” than currently. We believe this may be correct, but by separating housing benefit from other benefits, we believe this provides a simpler but more appropriate cushion from withdrawal of benefits as claimants move from welfare to work, thus creating the opportunity for savings elsewhere. This was welcomed by Cllr Edward Lister.

Charmaine Young questioned how the proposals generally would work in high value areas and it is certainly the case that whilst in a paper of this nature we cannot study all cases, we have worked to averages so costs should balance out across the country. As our benefit changes would be tied to Local Authority administrative boundaries, pilots may be possible to assess this.

Anu Vedi questioned the proposal to move from capital to income subsidies, saying, *“Continued Government funding in the form of bricks and mortar subsidy, is necessary for investment in new homes of all types, especially during an economic downturn when financial institutions are reluctant to lend.”* He also supported a continuation of the current structure of social rent, intermediate rent, market rent and shared ownership. We cannot agree given the evidence of the distortion in the market that capital subsidy

has created and the difficulties of assessing the “correct” rent each household should be allocated. We also feel that the over reliance on mortgage financed owner occupation would be lessened by a larger and more flexible social housing sector and that this would help reduce the likelihood of future housing bubbles.

Many people had their own thoughts on how to energise intermediate/shared ownership across social housing. Whilst we have proposed a structure with a generous incentive, we do believe that Councils and RSLs should be free to innovate, but that balanced against this, there needs to be a “benchmark” offer for all tenants to make sure Councils and RSLs respond positively. Philip Callan suggested the current level of owner occupation might reduce over time as renting became a more attractive proposition. This may well be the case, or it may be that a range of rent/equity options develop. Our core point is that the current system mitigates against such variety of choice.

Colin Barrow questioned whether residents would give up existing secure tenancies and, if pushed through by legislation, how this could be “sold”. This is a point we did not address in the paper, but if the equity gift and incentivised purchase offers were conditional on the move to the new tenure, this would be a way to meet this concern. Colin also felt the incentive offer was too generous. We accept that in high value areas a total incentive equivalent to 35% of market value could equate to a large figure, but the return as rented property is risible and there is little prospect of releasing any value at present. Finally, Colin thought that staircasing to full ownership might not be desirable. We did suggest in the paper that Councils could maintain a supply of below-market stock by using Community Land Trust models, especially in high value areas.

Finally on this point, Owen Inskip who advises Grant Shapps on housing policy, questioned whether the incentive offered was generous enough. We recognise this area is controversial, but we feel the structure proposed does off a “ladder” to home ownership

through first, a “gift” of equity, then an incentive to take greater shares of ownership, but with some restriction, and finally a route to full ownership if desired. We certainly see landlords as being active in re-purchasing and re-letting/re-selling as residents move in and out and their circumstances change. We do want the proposals to be seen as a framework, not a proscriptive system.

Jim Saunders questioned our approach to those with current social homes but no on-going need. We would suggest that the move to market rents and income subsidies would find these people out and they would have the option of purchasing or moving on, releasing cash or a home back to the sector.

There were also questions about whether the income from sales we calculated might be achieved. These queries came from two angles – were the households capable of buying and could they get finance. We believe the households are there based on the evidence from benefit claimant figures and that the incentive factor will also lead to more purchasers coming forward as they take up work opportunities. We also believe the generosity of the incentive is key to this to create low loan to value ratios.

Kate Davies questioned whether the cash from sales would be sufficient to offset lost rent. We believe it would especially as those buying 25% of the equity (at market value) would become responsible for all repair charges.

Richard Parker from PwC questioned how the equity gift and right to buy part proposals would affect the RSLs commercial borrowing. We would hope the uplift in value from social values to market values, alluded to by David Cowans, would give lenders reassurance on this.

The proposal for a consistent tenure was welcomed across the board as an aid to transparent management. Though Anu Vedi questioned whether the proposal to use ASTs for all tenures would be practical, stressing the need for flexibility to move both up and down the equity ladder. To clarify this, we envisage ASTs being

used initially for lettings to new tenants whilst they earned their rights to the equity gift and right to buy part, through good behaviour. Should they move to buy a part share, they would acquire a leasehold interest and the supporting contract could include the provisions for buying further equity or selling back.

Several people argued for longer initial tenancies, though some referenced the existing idea of probationary tenancies for new tenants. We certainly do not wish to prevent landlords offering longer tenancies, but the regular reassessment of housing benefit is essential to prevent fraud and maintain value for taxpayers' money, which was strongly supported by Cllr Edward Lister, who also stressed the potential for social landlords to expand their role beyond that of simple landlord.

The "upstream" proposal for ownership structure was questioned but we feel the two work together to provide a structure which would appeal to institutional investors and work well with a system which provided for movement between tenure without moving home. There was also strong argument for the buy to let market to be better regulated and we feel this is appropriate, especially if institutional investment is to be attracted back to the sector.

Colin Barrow made the point that residents taking over responsibility for repairs could cause difficulties if no "sinking fund" for major repairs was provided for. Whilst some Local Authority landlords have been criticised for not running sinking funds for major repairs and many leaseholders have been hit with very large bills as a consequence, the usual practice in the market is to adjust the purchase price for the lack of an adequate sinking fund. We do think in the case of a large number of tenants taking up the offer to buy part shares and the repairs responsibility that goes with this, the market would adjust for the need to set aside funds for this.

Our figures for new and rebuilt homes were questioned and we accept that these are estimates of what could be achieved, but we believe the scale of potential is vast. We certainly would advocate

that all funds released for the first ten years be ploughed back into new and rebuilt homes and that debt write offs/write downs be considered for the most deprived areas.

What has been fascinating to see is the consensus around the need for fundamental reform and this is perhaps best summed up by Cllr Edward Lister's comment.

*"I find the content something of a breath of fresh air in terms of its clarity and sense of purpose".*

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## Appendix 1

The Housing Deregulation Act,  
(Legislation which would require amendment or repeal)

### Local Government Acts (various)

- *Repeal* all sections limiting the ability of councils to operate commercially.

### 1985 Housing Act

- *Amend (or repeal, due to the scale of the changes)* Part IV Housing Act and sections of the 1988 and 1996 Housing Acts dealing with Secure, Introductory and Probationary Tenancies:
  - *Restrict* the rights and responsibilities clauses to tenancies entered into before the commencement of the Housing Deregulation Act, which will specify a new form of all purpose tenancy (Assured Shorthold Tenancy or to distinguish it The Single Flexible Tenancy or SFT) which will be the only form available to landlords and tenants after that date.
  - *Amend* all sections relating to the Right to Buy and relevant sections in 1988 Housing Act, 1996 Housing Act and 2004 Housing Act, etc. *Abolish* the RTB for all Secure Tenants and SFT tenants, and replace it with discretionary powers for councils to sell land and property of all classes where they deem it appropriate in the light of housing need and other local social, and economic circumstances and in terms of need to maintain and improve stock

### 1988 Housing Act (as amended by the 1996 Housing Act)

- *Amend* all sections dealing with Social Housing Grant, and all associated Guidance, to ensure that if grant is

offered it is conditional on registered housing providers submitting a business plan identifying cross-subsidy finance and the surpluses arising from any scheme which will be used for this purpose, together with projections of revenue which will ensure that developments are affordable over their life.

### **1989 Local Government and Housing Act (as amended)**

- *Amend* sections which govern the operation of Housing Revenue Account and Housing Revenue Account Subsidy. Housing Revenue Account – to be operable as a trading account, accepting profits from commercial housing development activity, and being able to pay said profits to any account which the council deems appropriate, as long as it is directly or indirectly for community purposes.
- *Abolish* the HRA Ring fence to enable free transfer from the HRA to and from the General Fund to enable effective trading.
- *Amend* sections governing the calculation of HRA Subsidy, by enabling councils to opt out of the subsidy system, and enabling the Secretary of State to take account of sums credited from commercial operations in assessing HRA support.
- *Repeal* all sections in the 1989 and subsequent Acts (1996 Act, 2003 Local Government Act, etc) dealing with the treatment of Right to Buy and other Sales receipts. All Guidance will, also fall with this repeal. Replace with clauses in the Housing Deregulation Act enabling councils to apply 100% of the receipts from all sales, including through the RTB to capital and/or revenue purposes as they see fit that will benefit their communities, and to use any sums received and held on deposit as security for loans or to back trading.

- *Abolish* all sections restricting the finances of existing controlled and influenced companies to enable them to operate on a par with private limited companies with equivalent financial freedoms and flexibilities.

1992 Social Security Contributions and Benefits Act  
(as amended)

**Social security Acts (various)**

- *Abolish* the housing benefits scheme
- *Enable* a new means-tested unified benefit, to provide for a single housing and income support benefit with a reduced steepness of taper and payment duration on obtaining work to incentivise steps towards and sustain households in low paid work
- *Modification of the tax system* would also be required to reduce the tax rate radically for new work entrants.

**1996 Housing Act**

- *Repeal* Section 167, 1996 Housing Act as modified by the Homelessness Act 2002 (Reasonable preference categories) and associated Guidance: replace with clauses granting councils full discretion to set their own allocations priorities, but taking account of any Guidance which may be issued, Equalities, Human Rights legislation and other statutes which have a bearing on housing allocations.
- *Amend* the legislation to ensure that local authorities' allocation policies and plans have precedence of those of any other organisation operating in their area of influence.
- *Amend* S.206(1)(b) of the 1996 Housing Act (as amended) to explicitly enable councils to discharge their homelessness duties to those found to be homelessness, in priority need, not intentionally homelessness by using *any* form of private

sector tenancy, and deeming that even short-term private sector accommodation is suitable. (would disable a raft of case law on the PRS and “unsuitability”) Ideally, if legislation is amended to create a single form of tenancy, state that any discharge into the rented sector would be the provision of or referral to any landlord providing a SFT.

### 2003 Local Government Act

- *Abolish* restrictions on local government borrowing powers and limits, to enable the full use of financial instruments, subject to scrutiny by the Financial Services Authority (FSA) and strengthen Prudential Borrowing powers.

### 2008 Housing and Regeneration Act

- *Amend* the powers of the Tenant Services Authority to provide a scrutiny role to ensure that councils pay regard to best practice when formulating their allocations policies.
- *Simplify* all sections relating to Local Housing Companies and similar bodies to enable councils to set up straightforward trading arms with or without partners to directly develop housing for market sale and cross-tenure renting.
- The extent of reform might be so significant, when taken together with other proposed changes to regeneration and housing policy that a complete repeal and replacement might be required.

### Other areas needing examination/amendment

- **Commercial Tax Law:** *to enable tax* breaks for private developers engaging in cross-subsidy affordable housing development.
- **Charity Law:** *remove* anything which limits the powers of housing associations, Trusts, or similar bodies to trade commercially for community benefit, including the creation

of for-market dwellings and any other development where profits will be used to help finance affordable housing.

- ***Company Law:*** Amend any clauses which prohibit housing associations, Trusts or similar bodies from operating for profit, and paying dividends of more than £1 to shareholders (including other companies), subject to prudent scrutiny by the TSA, Department for Business, Enterprise and Regulatory Reform, Companies House, FSA (for Industrial and Provident Societies) etc.

The problems associated with social housing have become entrenched within the current housing system. Council estates have become the very things that they were designed to replace – social ghettos – trapping their residents in a vicious circle of dependency.

Current policymakers divide into either 'incrementalists' or 'reformers'. The incrementalist advocates helping people in social housing to move to more desirable neighbourhoods. The reformer goes much further, looking to fundamentally reform the social housing system – giving tenants a stake in the place where they live and freedom to RSLs and Councils to manage, all within an overarching responsibility to tackle concentrations of welfare dependency and to create mixed income/mixed tenure communities.

In this report for Localis, Stephen Greenhalgh and John Moss lay down some key principles upon which reform should be based in order to address the root causes of the failures of social housing, identified by Hills and others. The report makes a number of far-reaching recommendations for the reforms required to lay the foundations for the creation of a virtuous circle of independence, arguing that only fundamental reform of social housing will allow Councils and Registered Social Landlords to make substantial progress towards fixing Britain's broken neighbourhoods.



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"The report is a breath of fresh air"

Cllr Edward Lister, Leader of Wandsworth Council.

The logo for Localis, featuring a stylized white swoosh above the word "LOCALIS" in a bold, white, sans-serif font.

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