



Office of the
Deputy Prime Minister

Creating sustainable communities

Lessons from the
past, challenges
for the future for
housing policy

housing



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Lessons from the past, challenges for the future for housing policy

An evaluation of English housing policy 1975-2000

January 2005

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The findings and recommendations in this report are those of the consultant authors and do not necessarily represent the views or proposed policies of the Office of the Deputy Prime Minister.

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ISBN 1 85112 753 4

Printed in Great Britain on material containing 75% post-consumer waste and 25% ECF pulp.

January 2005

Reference no. 04HC02678

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EVALUATION OF ENGLISH HOUSING POLICY 1975-2000

The Evaluation of English Housing Policy 1975-2000 was conducted by a consortium of universities between January 2003 and November 2004. The project was managed by Mark Stephens, who was then based at the Department of Urban Studies, University of Glasgow in conjunction with Christine Whitehead of the Cambridge Centre for Housing and Planning Research and Moira Munro of Heriot-Watt University. Alison More is on secondment at South Lanarkshire Council and Suzie Scott now works at the Glasgow Housing Association.

This report is informed by two contextual reports and five theme reports, which are published on the web site of the Office of the Deputy Prime Minister.

Housing and Housing Policy in England 1975-2002: Chronology and Commentary
*Alan Holmans*¹

The Context for Housing Policy Since 1975: Statistical Time Series With Commentary and Selected Statistical Times Series
*Alan Holmans*¹

Theme 1. Supply, Need and Access
*Glen Bramley*², *Suzanne Fitzpatrick*⁴, *Noah Kofi Karley*², *Sarah Monk*¹ and *Nicholas Pleace*⁴

Theme 2. Finance and Affordability
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Theme 3. Housing and Neighbourhood Quality
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Theme 4. Widening Choice
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Theme 5. Management Effectiveness
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ACKNOWLEDGEMENTS

The project team would like to thank members of the Project Board, chaired by Lord Richard Best for their advice and comments, and Keith Kirby, the research manager responsible for the project at the Office of the Deputy Prime Minister.

The authors of this report would like to acknowledge the help of Nicholas Pleace of the Centre for Housing Policy on whose briefing the section on Supporting People is based.

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Summary

INTRODUCTION

The report provides an evaluation of housing policy over the period 1975-2000. It also draws on the lessons from this period in order to assess present and future housing policies, which cannot yet be subjected to a results-based evaluation.

HOUSING POLICY 1975-2000

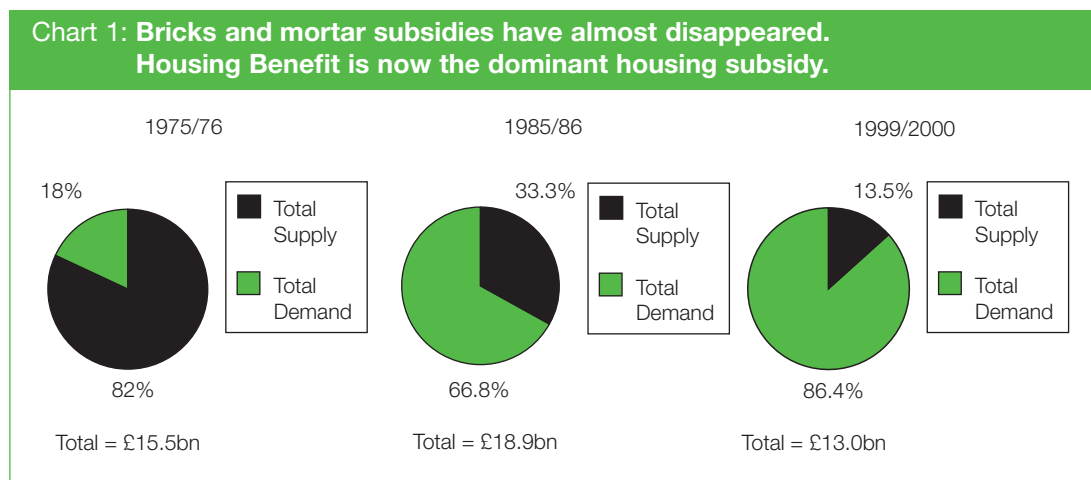
The research team conducted an evaluation of five high-level housing policy themes over the period 1975-2000. The themes were derived from an analysis of policy statements over the period. The team selected the following themes: Supply, Need and Access; Finance and Affordability; Housing & Neighbourhood Quality; Widening Choice; and Management Effectiveness. These evaluations demonstrated that:

- Individual policy instruments are most successful when judged in their own terms. For example, Right to Buy raised the level of home-ownership, the homelessness legislation provided a safety net for eligible families, and the planning system helped to protect the countryside. A series of policies reduced government funding and improved its targeting.
- Policies often had unintended consequences. Frequently these were undesirable ones. Along with economic change and wider housing market restructuring, Right to Buy and the homelessness legislation contributed to the residualisation of social rented housing which in turn created concentrations of poverty and exclusion. Targeting subsidies on the poorest tenants reduced incentives to work.
- Policies often also presented trade-offs. For example, the greater choice for borrowers that arose from the liberalisation of the mortgage market also resulted in greater risks for certain households, as did changes in the safety nets. The planning system may have protected the countryside, but it has also contributed to housing shortages and higher prices. Transferring social rented housing to the housing association sector has fragmented management and increased the costs of funding. It has also fragmented ownership and therefore made regeneration and renewal more complex.
- Policies are most successful when they follow the grain of economic and social change, and least successful when they do not. On the positive side the staged removal of mortgage interest relief occurred during a period of falling interest rates that tended to outweigh the loss of subsidy. On the negative side policies aimed at neighbourhood regeneration have often produced disappointing results because they have been overwhelmed by unfavourable economic circumstances.

- Overall, there is considerable evidence of good governance with few instances of direct wastage of government funding and little large-scale dead-weight loss. Few policies have been almost entirely unsuccessful.
- Housing policies are clearly only one factor in shaping wider housing systems. Institutional, economic and social contexts are fundamental to shaping both policies and outcomes.

Three **policy clusters** were identified as being of particular importance during the evaluation period:

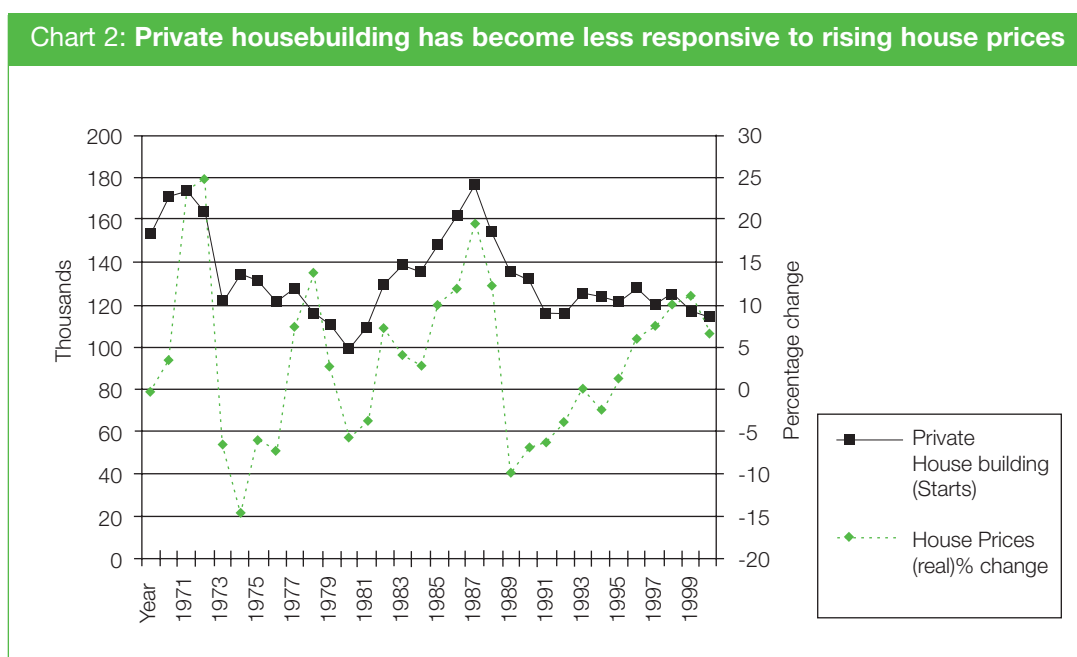
- *Deregulation and liberalisation.* The deregulation of the financial system combined with housing privatisation mainly through the Right to Buy, were key to promoting the growth of owner-occupation from about 58 to 70 per cent of households. The deregulation of private sector rents laid the foundations for the successful growth and reorientation of the private rented sector towards the end of the period. However, despite the emphasis on the independence of social landlords, policies in the social rented sector became more centralised and detailed, as governments attempted to improve management performance.
- *Restructuring housing subsidies.* Housing subsidies were radically restructured. In 1975 more than 80 per cent of housing subsidies were supply-side subsidies intended to promote the provision of affordable homes.. By 2000 more than 85 per cent of housing subsidies were on the demand-side reducing housing costs for those on low incomes, with Housing Benefit emerging at the main subsidy instrument. Public spending on housing rose by 35 per cent in real terms between 1975 and 1992, but has since fallen to 16 percentage points below the 1975 level because supply-side subsidies were cut and Mortgage Interest Relief (MIR) for home-owners was finally removed. The phasing out of MIR was progressive because it was on average worth more to better off households. Changes in the balance between demand and supply-side subsidies in the rented sectors redistributed resources progressively between relatively poor households, but because tenants in the social rented sector are relatively poor as a group this change can be seen as regressive.



- *Asset restructuring.* Both of the above strands of policy changes were associated with a massive asset restructuring as ownership of much local authority housing was shifted to the housing association sector, which also became the main provider of new social rented housing. This occurred while public funding commitments were in decline and helped to maintain affordability. The creation of a more business-orientated social rented sector together with the expansion of both private equity and private finance has fundamentally changed governance and incentive systems across tenures although the process is by no means complete.

Seven key housing specific legacies emerged from the evaluation period:

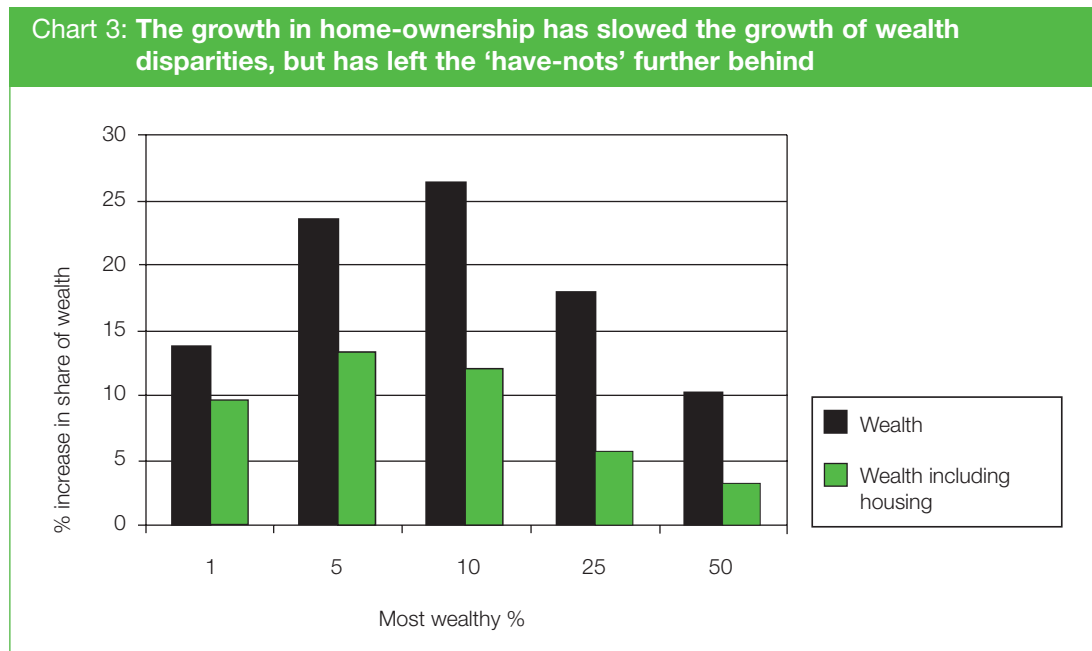
- The supply-side failed to provide adequately for expanding demands and needs in both the social and private sectors. The failure arose from changes in both subsidy and regulation, as well as the spatial restructuring of demand.



Source: Council of Mortgage Lenders

- Patterns of affordability shifted over the period. These have left most households better off but tended to worsen the position of those currently trying to find secure accommodation in both the rented and owner-occupied sectors, particularly in high-demand regions. Affordability at the bottom end of the private rented sector remains a major problem.
- Tenure and to a lesser extent locational polarisation grew throughout the period, reflecting both housing policies (notably the Right to Buy and the homelessness legislation) and economic change.
- Choice increased for the majority of households, although sometimes, as in the case of mortgage market deregulation, with associated increases in risk. At the bottom end of the system safety nets in the form of Housing Benefit and homelessness legislation provided protection for substantial numbers of people, both for those affected by economic downturns and those in longer-term need.

- Widening home-ownership and rising house prices helped to slow the general growth in wealth inequality during the evaluation period – but at the cost of the exclusion of those further down the system and of new entrants to housing.



Percentage changes in share of wealth 1976-2001. Figures refer to marketable wealth, which excludes pension rights.

Source: Inland Revenue

- Housing quality on average improved significantly, but funding and regulatory constraints particularly on local authorities as well as economic pressures in the private sector have contributed to problems of disrepair and unacceptability of housing across tenures.
- The interaction of housing policies with economic restructuring became more complicated and produced markedly different fortunes for neighbourhoods both between and within regions.

Most fundamentally, the housing system as a whole has not become more robust, responsive and self-sustaining. This has left a legacy of massively different outcomes between those who are already reasonably housed and those trying to gain access to the system. It has also generated increasingly obvious uncertainties for both individuals and the economy (through the impact of housing on macroeconomic variables). At the beginning of the period the Housing Policy Review aimed to develop a coherent set of strategies that would enable choice between tenures and access to affordable housing for all across these tenures. At the end of the period the objective remains unchanged, but instead of coherence there are clearly two separate sectors operating to different rules, and generating a wealth of different policies responding to particular problems.

HOUSING POLICY TODAY

Although the evidence does not yet exist to evaluate current housing policies, the following assessment is based on the lessons derived from the evaluation of policy during the 1975-2000 period.

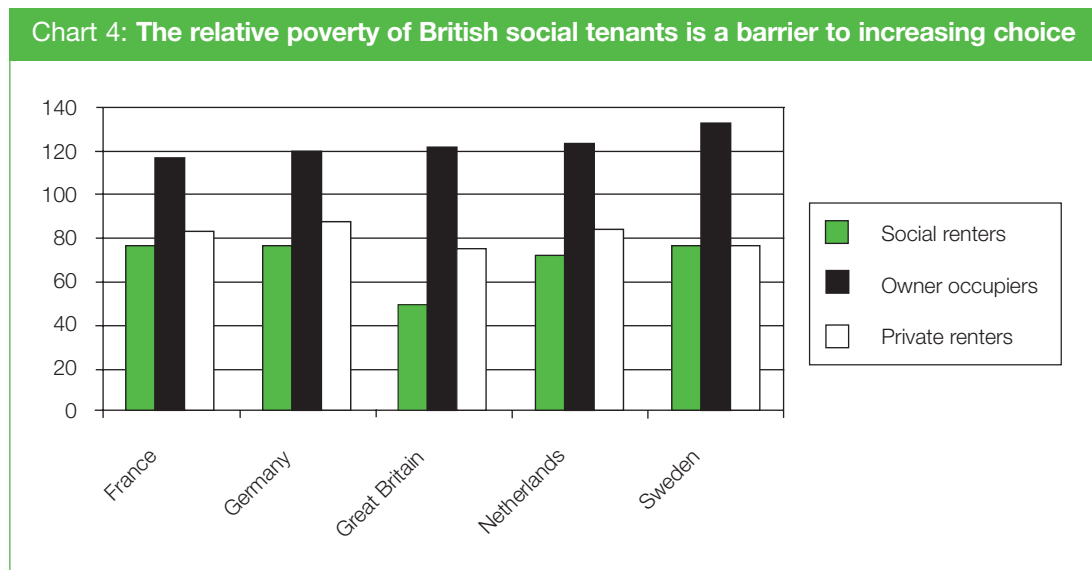
The Government is faced with seven broad areas where the housing system is not working properly:

- Supply mechanisms are not providing sufficient amounts of new housing, for the market, intermediate ('affordable') or social rented sectors. In particular the private sector has not filled the gap left by the limitation on supply subsidies to support the provision of social rented housing.
- The deregulated finance market combines with a highly regulated land market to produce housing market instability. In turn the unstable housing market can exacerbate macro-economic instability and affect competitiveness. On the other hand a flexible housing sector can make macro-economic policies more effective, for example by facilitating mobility.
- Social sector tenants in high demand areas can usually only obtain accommodation or move when presenting with specific and serious housing needs and are generally unable to exert consumer preferences.
- The management of the social rented sector is increasingly complex as it becomes more closely linked with wider neighbourhood management objectives, such as tackling crime and anti-social behaviour. It is also open to greater risks as it takes on different responsibilities and is more dependent on private finance while at the same time facing greater regulation.
- There are growing concerns about the viability of deprived neighbourhoods across the country but particularly in low demand areas, as well as about the acceptability of traditional social rented housing to those who have other housing options.
- The housing needs of some groups, including particularly larger Black and Minority Ethnic (BME) households and those in need of residentially-based support, are not being met by general housing policies.
- Disrepair persists in parts of all sectors, together with inadequate renovation programmes to maintain properties in effective use. The capacity to modify existing stock particularly with respect to insulation to meet broader environmental requirements is an important element in this context.

The research team's **assessment of current policies at the end of the period** concluded that:

- Mechanisms to secure an adequate supply of new housing in high demand areas are inadequate. The root of the problem lies in the difficulties in bringing appropriate land forward for development, but also in the costs of provision that inhibits demand as well as the lack of funding for affordable housing. These factors reduce the private sector's ability to fill the gaps left by reduced social sector investment.

- The housing market remains unstable and inadequately robust with marginal owner-occupiers especially at risk if the economy turns down. Equally, fluctuating housing wealth continues to affect demand in the economy through equity withdrawal. This demand has so far been managed successfully, although it does mean that general interest rates are higher than would otherwise be the case. It would be more difficult to prevent an inflationary housing market spilling over into higher general inflation should the UK join the Euro.
- Some longer-term financial questions, notably the development of a framework to facilitate broader-based institutional investment in both private renting and owner-occupation, and the improvement of conditions under which equity release can smooth lifetime payments and income, have yet to be addressed fully.
- The housing and social security systems inhibit employment by promoting spatial polarisation and weakening financial incentives to find work. Regional variations in housing costs and in house price inflation inhibit both labour mobility and the capacity to build a coherent demand-side housing subsidy.
- The poverty of tenants combined with the design of the social security safety net makes it difficult for tenants in the social rented sector to exercise choice through market-like mechanisms, while administrative mechanisms also fail to empower tenants. This is a fundamental barrier to the integration of tenures and wider opportunity.



The chart shows household incomes as a percentage of the average. France (1996); Germany (1999); Great Britain (1997/98); Netherlands (1998); Sweden (1997).

- Policies to encourage inclusive communities are battling against the tide, especially in low demand areas, in part reflecting polarisation in the housing system, but more fundamentally uneven regional patterns of economic growth.
- Some household groups continue to face differentially poor housing access and conditions. These groups include some Black and Minority Ethnic communities, refugees and asylum seekers, as well as key workers where housing policy is treated as a substitute for labour market adjustment. The need for broader based supported housing, especially in the form of floating support to keep people comfortably in their own homes, is clearly growing.

- Policies to support environmental sustainability and increase housing density similarly battle against the tide as a result of current pricing structures and underlying demand pressures, as well as the lack of appropriate instruments to address improvement in the existing stock.
- Improvements in the management of social rented housing have been limited by the pursuit of managerial objectives, continued shifts in policy and requirements; and by the regulatory framework. There are, however, more fundamental concerns that there is an inherent tendency for management costs to rise.
- The Decent Homes standard is achievable in the bulk of the social rented sector, although probably not to timetable in areas where management is relatively poor. Financial rules regarding rent setting may endanger longer-term maintenance. Maintenance problems in the owner-occupied sector are likely to worsen as the population of elderly homeowners, with fewer resources and less interest in maintenance, grows. Regulatory mechanisms in the private rented sector cannot bring about acceptable standards particularly because quality and therefore the additional costs of raising these standards are not reflected in higher rents either in low or high demand areas.

HOUSING FUTURES

The evaluation has shown that many policies pursued over the past 25 years have been successful in their own terms, yet many of the problems identified at the beginning of the period have not been addressed effectively because:

- Emerging challenges remain unanticipated because policies are formulated as *reactions* to particular problems.
- Policies are often *narrowly conceived* because they deal with the symptoms of particular problems and ignore wider contextual influences.
- Consequent unanticipated behavioural responses to policy instruments sometimes spawn an array of follow-up policies leading to *excessive micro-management*.
- There is little vision of what a coherent and robust system would look like, and therefore little attempt to test policies against achievement of this system.

There are four key requirements for the housing system to function well over the coming decades:

- It must exhibit *robustness* to changing economic conditions and shocks.
- It must be *flexible* in response to economic needs.
- It must be able to respond to *demographic changes*.
- It must adapt to *rising aspirations* in terms of both demand and the capacity to adjust existing stock and sustain neighbourhoods.

Although a decent home for everyone at a price within their means should remain the key housing objective, the way in which housing policy is conceived must change if these problems are to be overcome:

- The first challenge is to achieve policy coherence. Housing policy has become increasingly fragmented, with the department responsible for housing losing influence both to what is now the Department of Work and Pensions and to the Treasury. The development of regional level policy making risks further fragmentation of the system. A mechanism for coherent cross-governmental policy development for housing, with a pre-evaluation element, is missing.

This is emphatically not a call for policy to be based on rigid planning mechanisms, whether they are conceived at a national, regional or local level, although of course high quality information systems are a part of any well-functioning system.

- The second challenge is to consider demand and supply sides together *and* within the context of uneven regional economic development. This challenge arises from the recognition that the relatively efficient financial market combines with an inefficient supply side resulting in access and affordability problems, market instability and labour market immobility. Better pricing of the costs and benefits to society would help to achieve a more efficient level of land release within the current planning gain framework and would support the sustainability agenda.
- The third challenge is to renew the emphasis placed on subsidised building. Demand-side subsidies alone have clearly failed in this context. The costs to government over time can be limited by the development of better financial instruments including greater use of equity finance. More fundamentally there is a strong case for more balanced regional economic growth which needs to be addressed in the broader policy arena.
- The fourth challenge is to recognise that the nature of housing system and of housing policy is constrained by the social and economic context. Macroeconomic instability has disproportionate impacts on the housing system because of the importance of wealth and debt within it. This in turn feeds back on the achievement of macro objectives. Housing contributes to flexibility in macro-management, but similarly takes the blame for macro-mismanagement. This symbiosis needs to be recognised directly in policy development.
- The fifth challenge is to create greater choice in the social rented sector. This will be hard to achieve partly because of the poverty of tenants, partly because of over-regulation and partly because of under-supply. Yet the safety net role of the social rented sector is needed to respond to labour market polarisation, inequality and the nature of social security system. Crucially there is a need to reform the Housing Benefit system, in parallel with the new welfare state, particularly with respect to the tax credit system. This is a necessary first step for providing the basis of a viable social rented sector, as well as work incentives.
- The sixth challenge is to create a viable social rented sector, that is a tenure of choice. This challenge can be tackled only once the fifth challenge has been met. Only then would the social rented sector stand some chance of becoming viable, i.e. not trapped as a low-aspiration tenure subjected to excessive micro-

management. The key is to promote its simultaneous disassociation from direct state ownership and management, to allow flexible response while promoting solidarity within the sector. Some redistribution of financial surpluses between social landlords is needed, but the incentive to create them too must be retained to allow reinvestment to meet long-term sustainability objectives. A degree of risk for social landlords is probably necessary to provide incentives to anticipate future demands and aspirations.

- The seventh challenge is to reduce the barriers between the social rented sector and the market sector. Once again the achievement of this objective is dependent on the achievement of the previous one. So far only the Right to Buy and to a far lesser extent low-cost homeownership schemes do this. Opening up subsidies to competition from private sector landlords would be one possible way in which barriers could be reduced. Equally, the potential for introducing equity into both social and private housing institutions should be addressed.
- The eighth challenge is to devise mechanisms for collective repairs within buildings in multiple ownership and for renewal in neighbourhoods where ownership structures are fragmented.
- The final challenge is to reconsider the distributive impact of housing subsidies alongside their wider social consequences. Inconsistencies in the distribution of subsidies are well recognised, especially the lack of support for low-income homeowners and the failure of Housing Benefit to provide adequate assistance for many of those at the bottom of the private rented sector. But the growing importance of housing wealth also needs consideration. Housing will increasingly provide a key link to wider social policy, including smoothing income over the life cycle (e.g. reverse mortgages in retirement and paying for long-term care); and intergenerational life chances (paying for children's education and inheritance). Housing raises new questions of equality of opportunity and outcome, as well as public spending.

SECTION 1

Housing policy 1975–2000

INTRODUCTION

- 1.1 During the period of this evaluation (1975-2000) housing policies were developed to meet fundamental housing objectives. The basic objectives of housing policies are reflected in the phrase: a decent home for every family at a price within their means. But governments also attached greater importance to extending housing choice and improving the effectiveness of housing management during this period. These high-level housing objectives have been examined in detail in the five theme reports.
- 1.2 This section examines whether housing policies during the evaluation period were successful in their own terms. In doing this it builds on the individual theme reports that examined different aspects of housing policy, to provide a synthesis. It clarifies how the situation at the end of the period differed from that at the beginning. It asks whether policies were successful in their own right, but goes beyond this to examine how policies interacted with one another and with wider social and economic changes. This is intended to unravel some of the dynamics that determine how today's housing system works. It sets the scene for the rest of this report. In Section 2 we examine the extent to which selected current policies are likely to address some of the failings of the housing system inherited from the evaluation period. The concluding section looks forward to the challenges facing housing policy in the decades ahead.
- 1.3 This section begins by identifying the major policy shifts that occurred in the evaluation period and examines what drove these changes. These have been brought together into three 'policy clusters'. We then examine summary evidence of the outcomes in terms of basic housing objectives. Finally we identify the main legacies that have been left by the interface of policy and environment over the evaluation period. The three key policy clusters and seven key legacies are summarised in Table 1.1.

Table 1.1: Key policy clusters and legacies 1975-2000

Key policy clusters	
Deregulation, privatisation and performance-based controls	One of the key themes of the evaluation period was Government deregulation of the private sector. The financial system was deregulated in the 1980s, leading to an increase in the availability of mortgage finance, which in turn helped more people to become homeowners. Rents in the private rented sector were also decontrolled, a policy that happened only gradually but laid the foundations for the recent success of 'buy to let' and even limited institutional investment. Meanwhile Governments increased controls over local authorities and other social landlords. Subsidy systems were used to shape the activities of social landlords, while a regulatory and supervisory system was also developed.
Restructuring housing subsidies	At the start of the evaluation period supply-side subsidies made up more than 80% of the total. By the end of the period the situation had been reversed, with around 85% of housing subsidies now being demand-sided. The total level of subsidies also fell by 16% in real terms. The largest falls in subsidies were in capital and revenue subsidies, and eventually the phasing out of mortgage interest relief. Housing Benefit emerged as by far the biggest housing subsidy.
Asset restructuring	As the debts of the era of rapid housebuilding were repaid or eroded by inflation and rents rose, more and more local authorities found that they were generating surpluses. One of the biggest choices faced by Government was what to do, as the social rented sector became 'mature'. The Government could have established an 'independent' social rented sector, able to recycle surpluses to generate new investment under a looser regulatory framework. Instead the Government undertook a huge asset restructuring exercise involving the Right to Buy and Large Scale Voluntary Transfers.
Key legacies	
Failure of supply	Although crude housing shortages disappeared in the 1970s, new shortages emerged in the south of the country towards the end of the evaluation period. These were attributable, in part, to the failure of the planning system to release sufficient land for new building within the context of regional economic balances, as well as the general reductions in the supply of new social rented housing.
Tenure polarisation	As home-ownership rose throughout the evaluation period, so tenure patterns became more polarised. Policies, such as the Right to Buy and the Homeless Persons Act certainly contributed to tenure polarisation, but the period was also one of social and economic restructuring and these contextual changes also help to explain why the poorest households are now so heavily concentrated in the social rented sector.
Choice and risk	As Government expanded choice, so many risks were shifted on to households. Mortgage market deregulation provides a good example of this change, as households could borrow more, but also carried greater risks of arrears or possession when interest rates or unemployment rose. Safety nets at the bottom of the system were, however, strengthened, notably through the homelessness legislation and the development of the Housing Benefit system.
Wealth and redistribution	Homeownership grew at a time when income and wealth inequalities were also growing rapidly. The growth in home-ownership helped to broaden the wealth base of the country and seems to have slowed down the growth in wealth inequality. However, its growth also marked the widening in the gap between households at the 'bottom' of the system and those in the middle.
Housing quality and acceptability	Housing quality improved during the evaluation period, although expectations are always moving upwards. Proportionately the worst housing is still found in the private rented sector, although poor standards are also found in parts of the owner-occupied sector. The quality of local authority housing improved but this should be expected given the sums of money spent on it. Ownership fragmentation will make future area regeneration more problematic.
Regions and neighbourhoods	Regional variations tend to widen when the economy is expanding rapidly and diminish during recessions. More intractable differences between locations occur at a neighbourhood level, and it is this that has greater social consequences than tenure polarisation, although the two are closely associated. Governments have found repeatedly that it is easier to improve the housing quality within neighbourhoods, whether they be in the public or private sectors, than it is to remove wider social and economic disadvantage.

What drove changes in the housing system?

- 1.4 The housing system that exists today reflects four main influences: demographic trends, social change, macro economic variables, notably income growth, inflation and economic restructuring, and housing policy itself. Housing policy was, in turn, affected by two further influences: wider government objectives and their associated non-housing specific policies which impacted on housing and the opportunities that arose from the growing maturity of the local authority sector.
- 1.5 During the evaluation period (1975-2000) England's population grew and generated larger than proportional increases in the number of households. Social changes, such as the rise in divorce and greater sexual freedom, created more single and lone parent households. The population aged and became more diverse ethnically especially in London. Generally, these trends resulted in more pressure being placed on the housing system than had been anticipated. Pressures on the housing system varied regionally, with the South and particularly London and the South East experiencing the greatest increased demand.
- 1.6 The country became much more prosperous as real incomes doubled, increasing demand for housing as well as for a broader range of housing related aspirational goods. However, this prosperity was distributed unevenly in part as a result of housing market outcomes. Large-scale increases in income inequality occurred in the 1980s as higher incomes increased more rapidly and the tax system was restructured. This trend continued in the 1990s albeit at a slower rate. Moreover, beneath the huge rise in unemployment in the first half of the 1980s, and ultimately its return to levels similar to those that existed in the mid-1970s, the labour market became more polarised. England experienced the simultaneous growth of 'dual earner' households, reflecting the expansion of female employment, and 'no earner' households, reflecting the loss of mainly semi and un-skilled jobs, particularly among men. Polarisation in the labour market altered the pattern of demand for housing as well as the need for assistance in securing a decent home. Once again there was a pronounced regional pattern to these changes.
- 1.7 Throughout the evaluation period housing policy was shaped by wider Government imperatives. The housing system in the 1970s was determined as much by the Government's need to respond to inflationary pressures and poor economic performance as by housing pressures. External borrowing and the impact of International Monetary Fund (IMF) intervention affected housing directly and indirectly. This adverse macroeconomic environment led to a high level of regulation throughout the economy as well as a massive redistribution of wealth between borrowers and lenders. It also provided the opportunity for restructuring local authority housing as capital values increased and the real cost of borrowing fell.
- 1.8 In the 1980s, the emphasis shifted to the control of government spending, the withdrawal of government from traditional areas of provision as well as financial and economic deregulation. These priorities strongly influenced housing policy and were reflected most clearly in the shifting patterns of housing subsidy; in increasing opportunities for owner-occupation, which took place within the wider context of financial market liberalisation; and in increased regulation and the reduction in opportunity in the local authority sector.

- 1.9 Meanwhile two housing restructuring policies, the Right to Buy and Stock Transfers, were made possible by the growing maturity of the local authority sector. The sector grew up in the decades following the First World War and was given an enormous boost after the Second World War through both slum clearance and large-scale additional provision, financed by local authority borrowing but supported by central government revenue subsidies. The slowdown in the 1970s, and the eventual virtual halt, in new building combined with inflation and rising rents to bring much of the sector into surplus. In the sector as a whole, rental income exceeded loan costs, and marketable value exceeded outstanding debt. It was this 'maturation' of the sector that underpinned both the Right to Buy and the transfer of local authority housing to housing associations. Together these marked a huge asset restructuring as well as significant changes in governance structures and risk allocation.
- 1.10 Some of these pressures continued into the 1990s as the deregulated private rented sector started to respond to new opportunities and the role of private finance in social housing increased. An adverse economic environment in the early part of the decade once again impeded progress. Thereafter, however, a far more benign environment enabled further subsidy restructuring and greater private involvement in housing with little outward sign of tension although underlying risks remained.
- 1.11 The overall impact of these policies was severely to weaken the supply responsiveness of the housing system with respect to both new supply and investment in the existing stock. These were: the restructuring of housing subsidies; the use of publicly owned land and the growing maturity of the local authority sector to finance asset restructuring instead of new housing; and the increasingly severe restrictions on the supply of land through the planning system in the South of the country. This in turn had direct and indirect impacts on affordability and access to housing across the income and tenure spectrum. Combined with other key policies, this has left a legacy which has modified the role of the social rented sector; produced new trade-offs between choice and risk; changed the distribution of wealth; restructured housing opportunity; and produced marked regional and neighbourhood patterns.

Key policy clusters

- 1.12 The five theme reports provide a detailed examination of housing policies during the evaluation period. The main individual policies are listed in Appendix I. Here we have identified three key policy clusters that drove fundamental changes in the housing system during the evaluation period.

DEREGULATION, PRIVATISATION AND PERFORMANCE-BASED CONTROLS

- 1.13 Housing policy followed the grain of wider government policy in concentrating on deregulation and privatisation, shifting patterns of governance of housing and enabling the private sector to increase provision. Housing specific finance policies concentrated on enabling banks to provide finance and building societies to respond to this increased competition. They also provided the framework that enabled private finance to help fund the social sector.

- 1.14 The results here are mainly reflected in the increased proportions of owner-occupiers and the growth in the numbers of mortgagors. Owner-occupation grew from around 55 per cent in 1975 to almost 70 per cent, increasing the number of owner-occupiers by more than 50 per cent. Equally, the numbers of loans issued to first time buyers rose from 305,000 in 1975 to 568,000 in 2001. Private financing only became possible in the social sector from the mid-1980s. It helped to fund 14 per cent of new dwellings during the evaluation period and enabled the realisation of public sector assets through large-scale voluntary transfer.
- 1.15 In its own terms this policy has proved extremely successful. It enabled other policies such as the Right to Buy to operate effectively as well as funding a similar number of households directly into owner-occupation by removing funding shortages and liberalising eligibility. The associated costs have been in terms of greater openness to volatility in the broader finance market and to the risks of variation in income and employment.
- 1.16 In the social sector introducing private finance and deregulating rents opened up the sector to market pressures. Consequently, housing associations had to operate more as businesses, at the cost of increases in rents to pay for the funding and to build up reserves to support borrowing capacity.
- 1.17 A second major area of deregulation has liberalised rent setting and reformed security of tenure in the private rented sector. The decline of this sector was reversed, although significant expansion did not occur until the last few years of the period. More importantly the sector has been completely restructured from one where perhaps only about 3 per cent of the housing stock was generally available to new entrants to one where the vast majority of new lettings are let on the free market. Private finance has become available for individual investors in the sector, although there remains little demand from institutions. Inevitably, the cost has been higher rents and lesser security mediated by the availability of Housing Benefit at the bottom end of the market. More fundamentally rents still appear to have little relationship to quality and there is evidence of a growing problem of poor quality private renting in deprived areas.
- 1.18 The policies in the social and particularly in the local authority sectors have been very different. They have involved greater central direction and constraints in order to increase the incentives to transfer ownership to independent owners. These policies have included in particular the introduction of Housing Investment Plans (HIPs) (controlling the capacity to raise funds); allocations of funding based on needs indices; prioritising those in the greatest housing need; and a subsidy system which constrained output and particularly investment within the existing stock. Over the last decade the emphasis has moved to individual performance monitoring and inspection generating a system where in principle those who are proved efficient can free themselves from the complex regulatory framework. Evidence on efficiency and cost control is difficult to assess not least because of the changing population of organisations included in the assessment. Those with the worst problems, and possibly the least efficient, have inherently been left under the greatest control. To the extent that evidence can be adduced it suggests that costs have not declined, although the quality of management may have increased.

THE RESTRUCTURING OF HOUSING SUBSIDIES

- 1.19 Total identifiable public spending on housing was lower by the end of the period than at the beginning by some 16 per cent in real terms. Meanwhile in the two decades following 1980, public spending on education rose two and a half times, while public spending on social security and health more than trebled. The extent of this reduction is clearer when one considers that, over the period, real GDP rose by almost 80 per cent, real house prices almost doubled and real local authority rents more than doubled.

Table 1.2a: Estimated public spending on housing in England, selected years 1975-2000 (£)

£bn 1999/2000 prices					
	1975/76	1980/81	1985/86	1992/93	1999/2000
Capital	9.73	5.67	4.66	5.33	2.71
LA revenue	2.97	3.9	1.65	0.50	-0.95
Total Supply	12.7	9.57	6.31	5.83	1.76
Rent rebate	0.49	0.56	3.99	4.55	4.24
Rent Allowance	0.09	0.14	1.45	3.64	4.82
MIR	2.18	4.19	7.12	5.50	1.67
ISMI				1.35	0.48
Total Demand	2.76	4.89	12.56	15.04	11.21
Total	15.46	14.46	18.94	20.86	12.97

Table 1.2b: Estimated public spending on housing in England, selected years 1975-2000 (%)

% of total					
	1975/76	1980/81	1985/86	1992/93	1999/2000
Capital	62.9	39.2	24.6	25.5	20.9
LA revenue	19.2	27.0	8.7	2.4	-7.4
Total Supply	82.1	66.2	33.3	27.9	13.5
Rent rebate	3.2	3.9	21.1	21.8	32.7
Rent Allowance	0.5	0.96	7.7	17.4	37.1
MIR	14.1	29.0	38.0	26.4	12.9
ISMI				6.5	3.7
Total Demand	17.8	33.8	66.8	72.1	86.4
Total	99.9	100	100.1	100	99.4

MIR = Mortgage Interest Relief
ISMI = Income Support for Mortgage Interest

These estimates are based on total identifiable public expenditure. Expenditure on housing that appears under non-explicitly housing budget heads has been excluded. Note that for 1975/76 and 1980/81, Rent Rebate and Rent Allowance figures do not include additions to Supplementary Benefit for housing costs.

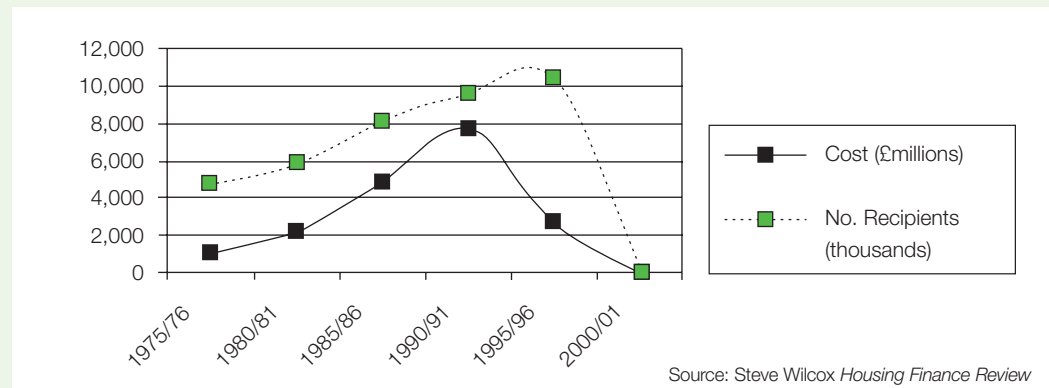
Sources: Steve Wilcox, Housing Finance Review, various issues; Public Expenditure White Papers.

- 1.20 Comparing public spending at the end of the evaluation period with that at the start disguises the large rise in total spending that occurred in the 1980s and early 1990s in response to the changing economic environment.
- 1.21 Table 1.2a shows clearly that public spending on supply-side subsidies was effectively curtailed from the mid 1970s, reflecting in large part the ability of central government to use the Housing Investment Programme (HIP) system. Originally, the HIP system was established to assist planning but overtaken by the implementation of IMF sponsored controls, to contain local government spending. Capital spending fell very quickly over the period between the mid-1970s and the early 1980s. It then stabilised for a time before falling again in the closing years of the evaluation period.
- 1.22 The dramatic rise in public expenditure on housing in the 1980s occurred in all demand-side subsidies. To some extent the rise in Rent Rebate and Allowance expenditure between the mid 1970s and the mid 1980s is a reflection of the shifting Supplementary Benefit payments for housing costs (mainly but not exclusively for tenants) to the Housing Benefit system in 1983. But the rapid rise in payments continued after this date as a result first of rising council house rents (as local authority revenue subsidies were cut), then through deregulation of housing association and private sector rents and finally through rising unemployment and non-participation in the labour market. The demand-led nature of subsidies is also illustrated by the rising costs of mortgage interest tax relief as the numbers of owner-occupiers increased and, for much of the period to the early 1990s, interest rates rose.
- 1.23 So there are two stories. First, the cut in supply-side subsidies coinciding with (and to some extent causing) the rapid expansion in the cost of demand-side subsidies. This was followed by the second involving measures to curtail the cost of demand-side subsidies, most notably the phasing out of Mortgage Interest Relief (MIR). While these subsidies acted as effective counter-cyclical automatic stabilisers over the economic cycle Housing Benefit and Income Support for Mortgage Interest (ISMI) also became subject to much tougher eligibility controls. The current position thus reflects lower interest rates and moderating rent increases, higher employment as well as tighter eligibility requirements and the complete phasing out of MIR.
- 1.24 Plainly a large shift in the type of subsidy available occurred: at the start of the period more than 80 per cent of housing subsidies were supply-sided. By the end of the period more than 85 per cent of housing subsidies were demand-sided (Table 1.2b). While it would be naïve to assume that demand-side subsidies have no supply impact, such a shift in the composition of subsidies inevitably helped curtail the supply of new housing.

Box 1: The abolition of mortgage interest relief

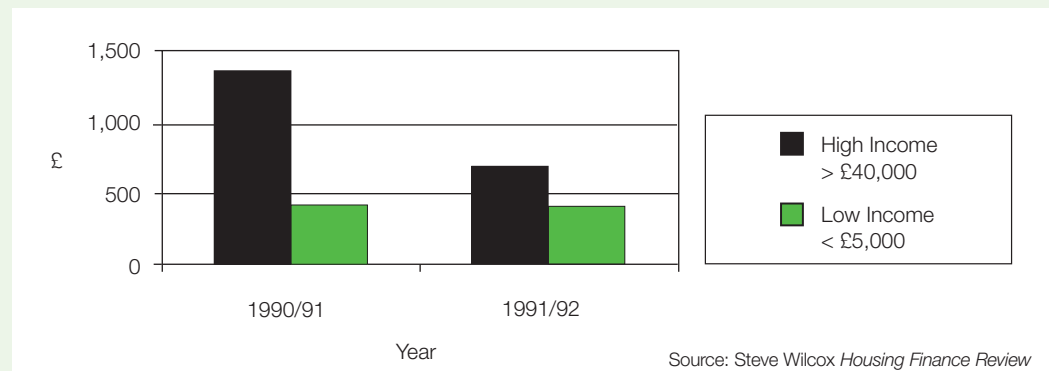
One of the biggest and most successfully implemented policies was the gradual withdrawal of mortgage interest relief (MIR) for owner-occupiers. This subsidy was initially unlimited. The introduction of a £25,000 ceiling on eligible loans in 1974 did not make much difference because the average house price was then £10,000. The ceiling was raised to £30,000 in 1982 when fewer than four per cent of mortgages advanced exceeded the limit. House price inflation began to erode the value of the limit in the 1980s, but this didn't stop the cost of mortgage interest relief from rising rapidly.

The Rise and Fall of Mortgage Interest Relief



MIR was criticised for pushing up house prices, so favouring existing homeowners at the expense of new purchasers, the very people it was meant to help. It was also a highly regressive subsidy, being worth far more to better off homeowners. This was mainly because high-income homeowners received tax relief at the top rate of tax, which was still 40 per cent after the 1988 budget. Everyone else received it at the basic rate of tax, which was then 25 per cent.

Distributional Impacts of Mortgage Interest Relief



In 1990-91 MIR was worth more than 2.5 times as much to a high-income family compared to a low income household. When MIR was restricted to the basic rate of tax for everyone the gap narrowed to 1.4. The gap didn't disappear because low income homeowners were still far more likely to have mortgages below the £30,000 ceiling.

This marked the beginning of the end for MIR. Successive governments phased out MIR by progressively reducing the rate at which interest payments were deducted: to 20 per cent in 1994, 15 per cent in 1995 and 10 per cent in 1998. What had been the largest housing subsidy was finally abolished in 2000.

There are two main reasons why it was possible to phase out this subsidy without causing adverse consequences:

- The house price boom had already eroded the ceiling in the 1980s.
- Interest rates generally fell through the 1990s and a consequent reduction in mortgage interest rates more than compensated for losses in MIR.

Nevertheless, when it was abolished MIR made the biggest proportionate difference to low income homeowners, and has left all households with mortgages exposed to the full impact of mortgage rate changes.

ASSET RESTRUCTURING

- 1.25 At the start of the evaluation period, around one in three households lived in council housing. The pressures to expand the sector declined in the mid 1970s and consequently its expansion came to an end. At the same time in part because of inflation, which reduced the real value of outstanding debt, local authority housing began to reach maturity. This took two forms. First the value of the stock exceeded the outstanding debt associated with it. Second, the revenues generated by rents began to exceed expenditure on the sector.
- 1.26 The Government had choices about how these could be distributed. Three possibilities existed:
- The tenants themselves could benefit (as was much under discussion at the time of the Housing Policy Review in the 1970s).
 - The Government could attempt to recoup the surpluses to finance other priorities; or the surpluses could be used to subsidise the provision of new social rented housing – the so-called ‘revolving door’ principle.
 - Assets could be restructured through measures such as the Right to Buy and Large Scale Voluntary Transfers.
- 1.27 The Right to Buy, under which tenants could purchase their council house with a discount based on the length of their tenancy, was made possible by the current open market value of the stock greatly exceeding the outstanding debt for most properties. This equity, rather than directly measured public spending, paid for the discounts.
- 1.28 In its own terms the Right to Buy was a great success, both in political terms and in widening access to owner occupation. Indeed Right to Buy accounted for approximately one-third of the increase in the level of owner-occupation during the evaluation period (although some of this would have happened by other means if the policy had not been in place). Generally, its impacts on the supply of social housing were felt only gradually, as most tenants would have remained as tenants in the same house anyway. Indeed relets continued to increase until the very end of the century even in London and the South East. However it had a large impact on the profile of the council sector, on those who lived in it (better off tenants were more likely to buy) and the type of houses themselves (more houses were sold relative to flats).
- 1.29 The Large Scale Voluntary Transfers became attractive to local authorities and tenants as a means of accessing new private finance in order to renovate the sector and because of the constraints placed on local authorities through the subsidy framework. The scheme worked initially in the low debt shire counties but later more broadly, once again because the value of the stock, for these purposes measured as the current value of future rental income, exceeded outstanding debt. The price of housing sold to new housing associations was sufficient to repay the debt and the housing associations, unlike the local authorities, were free to borrow from the private sector to improve the stock. An additional incentive arose from the way in which, after 1988, Rent Rebate subsidy was reduced in authorities with revenue surpluses, a kind of negative subsidy and a way for the government to recoup surpluses on Housing Revenue Accounts.

- 1.30 In both cases these policies succeeded because the underlying economic conditions were highly favourable. A second factor was the power of central government over local authorities. This was vital in the case of Right to Buy because without compulsion many authorities would not have been willing to sell housing, at least not on the terms that were imposed. But in each case central government's ability to constrain local authorities' borrowing in order to finance new housing or other major investment was central to success. Equally it only worked in areas where price rises did mean that there was positive value. This left particular types of dwelling, notably flats and unpopular dwellings in poor condition outside the policies. Their exclusion has in turn led to the development of incremental transfer and other policies to enable the ownership restructuring with the assistance of debt write-offs. It is also one of the major reasons for the introduction of the decent homes standard. Thus the policies were successful in their own terms, but left large rumps of stock where problems could not be addressed without further subsidy.
- 1.31 One policy noticeably not pursued by central government was the establishment of a 'revolving door' system of housing finance. Such a system could have contributed to the supply of new social rented housing without recourse to the per unit levels of additional measured public spending required under the system of capital grants used to promote housing association new developments. Equally no mechanism was put in place to reallocate such funding to areas and property types that required additional assistance. This was reflected in the funding arrangements that had to be put in place to meet the Labour government's manifesto commitment to recycle certain of the receipts from Right to Buy.

Key legacies

- 1.32 These and other policies have interacted with social and economic change to create seven key legacies that form the background to current housing policy objectives. These legacies relate to the fundamentals of quantity, cost to consumers, choice, with respect to tenure, dwelling and location, security, quality, the effect on wealth and income distribution and the spatial impact of policy in terms of both neighbourhood and regional sustainability. At the same time changes in policy have had major implications for the governance of housing and thus the nature of the levers that can be effectively employed in meeting these objectives in the future.

LEGACY 1: FAILURE OF SUPPLY

- 1.33 One of the clear failures of the housing system during the evaluation period concerned its inability to supply sufficient new houses in relation to need. By the start of the period crude shortages had been removed and between 1975 and 1980 the number of new dwellings greatly exceeded the growth in households. Between 1980 and 1985 performance declined markedly in the south of the country, steadied for the next decade before once again deteriorating towards the end of the evaluation period.

Figure 1.1(a): Absolute surpluses of dwellings over households, England and regions (thousands)

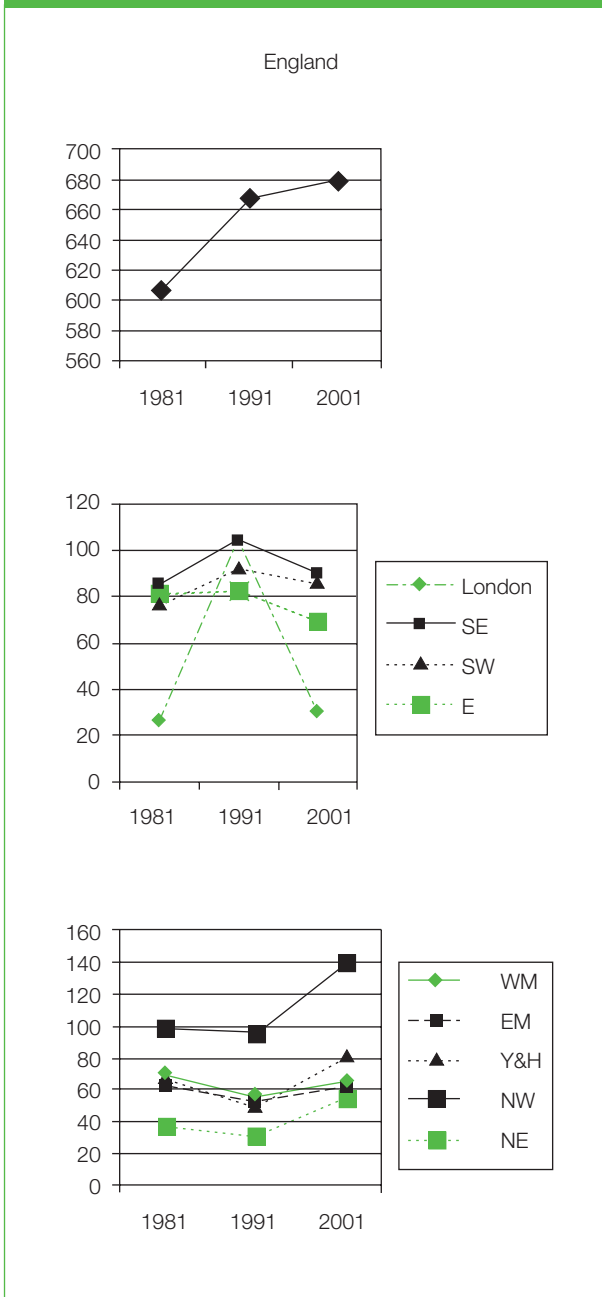
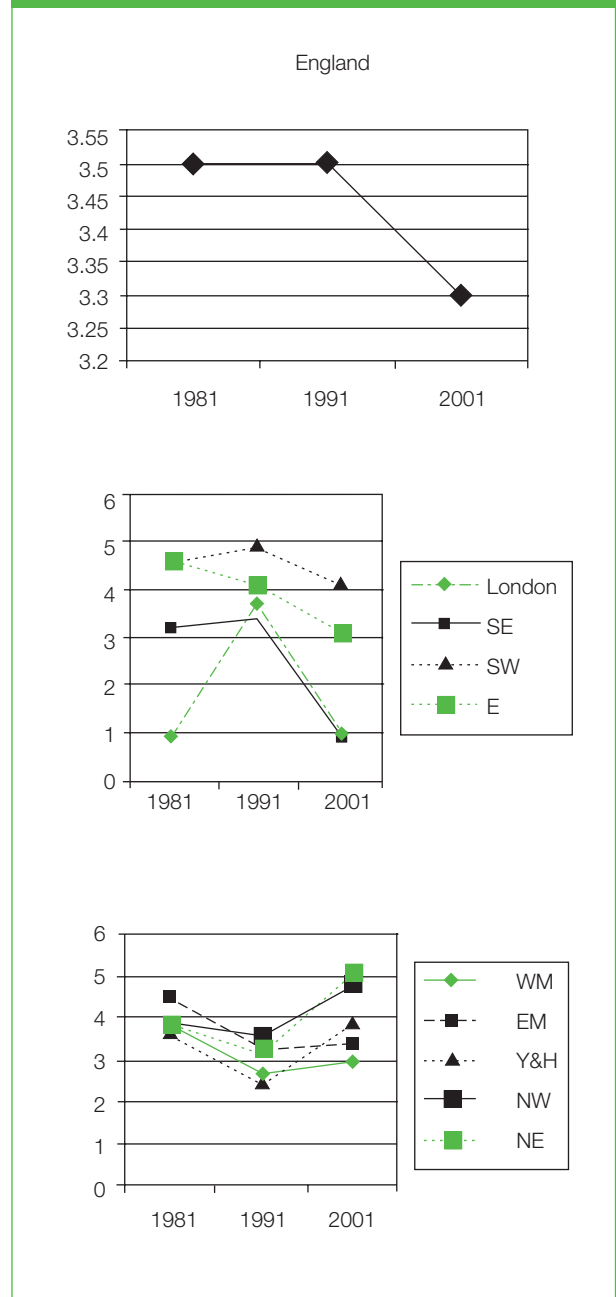
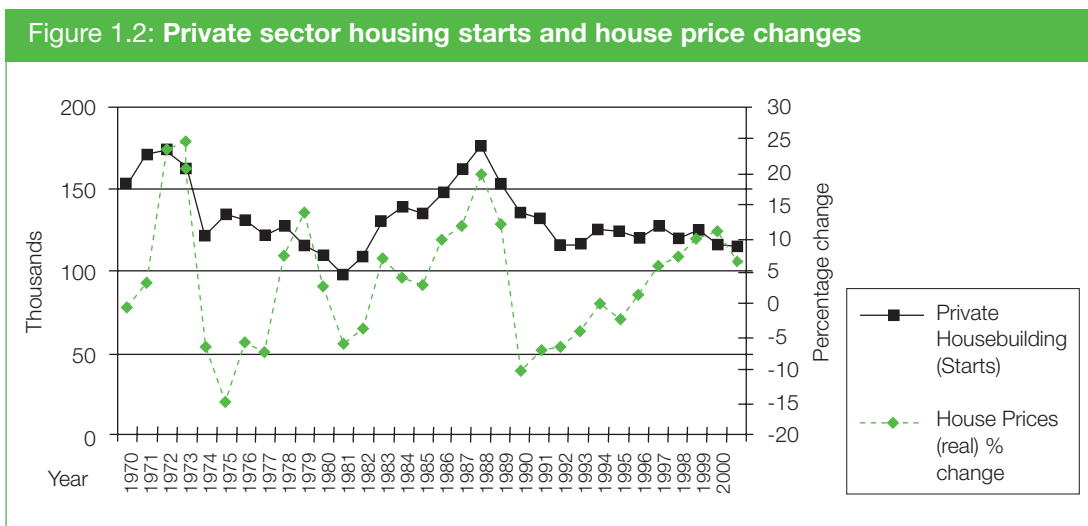


Figure 1.1(b): Surpluses of dwellings over households as a proportion of households, England and regions



Source: Households and dwellings in England in 1991 and 2001, Table 21

- 1.34 Figure 1.1 shows that the national trend was of a growth in the excess of dwellings over households in numerical terms between 1981 and 1991, but of stagnation proportionately. Thereafter the surplus grew very slightly numerically, but began to fall proportionately.
- 1.35 However, these figures for England disguise marked regional variations. In London and the South East the surplus grew both numerically and proportionately in the decade up to 1991, but then collapsed to around one per cent of households. But in the Midlands and the three northern regions both numerically and proportionately the surplus fell between 1981 and 1991, but grew thereafter. So we get a ‘^’ shaped pattern in the south and a ‘V’ shaped pattern in the north, translating into a flat line for the country as a whole.
- 1.36 How do we explain the marked tightening of the housing market in the south? We have seen how the reduction in supply-side subsidies and restrictions on local authority spending diminished the supply of new social housing. Indeed, housing starts in the social sector fell from 145,000 in 1975 to 13,000 in 2000. As Theme Report 1 showed, the allocation of capital grants to fund housing association developments also suggests that subsidies were directed disproportionately to areas of low demand, due to the weight given to poverty-related indicators in allocation criteria.
- 1.37 Over the evaluation period the ability of the private sector to plug the gap left by the social sector fell. This is illustrated by the diminishing supply response to each of the three house price booms that occurred during the evaluation period (Figure 1.2) At the start of the period new house building indicated a low response to higher prices; by the end of the period it indicated virtually no response at all.



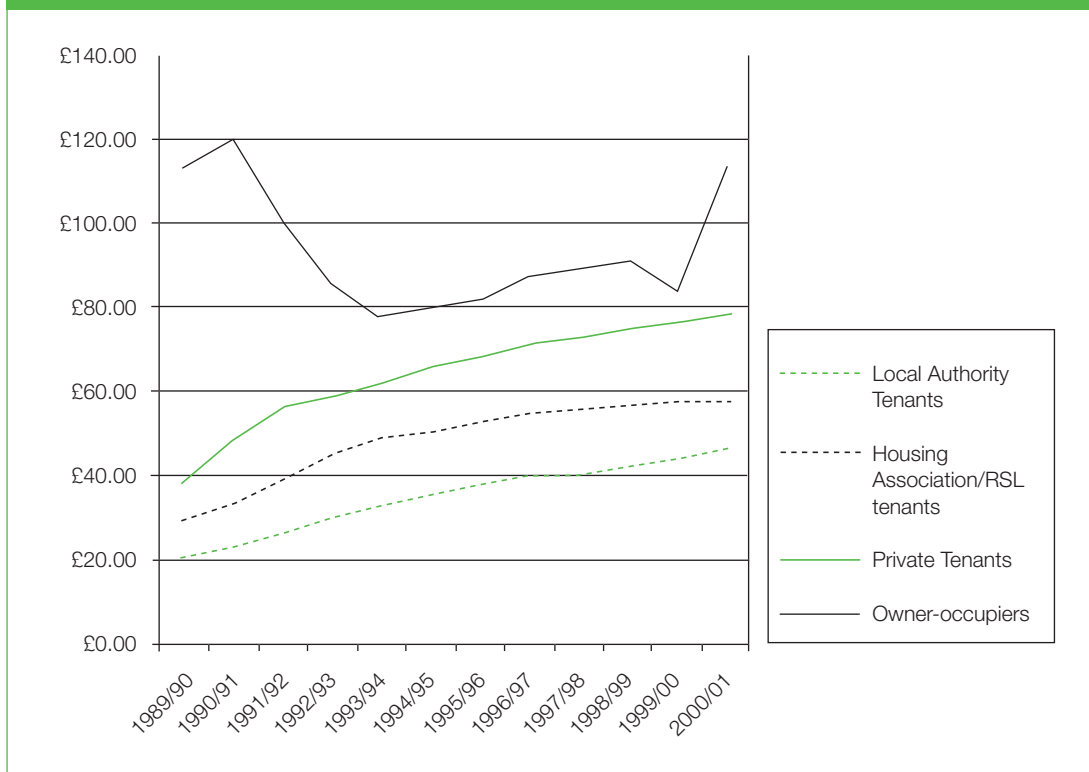
Source: Council Mortgage Lenders, *Housing Finance*, various issues

- 1.38 While delays in the planning system have received official criticism, Theme Report 1 shows that a fundamental reason for the lack of new housing in growth areas has been the mechanisms by which regional planning guidance, structure plans and local plans have restricted the capacity to provide additional land in the south of the country, especially since 1991. Within this system the degree of local discretion in the implementation of higher level objectives is unsurprising given the lack of incentives for new development. The influence of the preferences of existing households over local authorities, is always likely to be stronger than the influence of hypothetical households, who will often be or be perceived as being outsiders.
- 1.39 The consequences of the failure to provide sufficient new housing are clear. House prices have risen, favouring existing owners above new households. Housing affordability has worsened for new households and this has wider social and economic consequences, notably the difficulty of both public and private sectors in recruiting 'key' workers.

LEGACY 2: CHANGES IN AFFORDABILITY

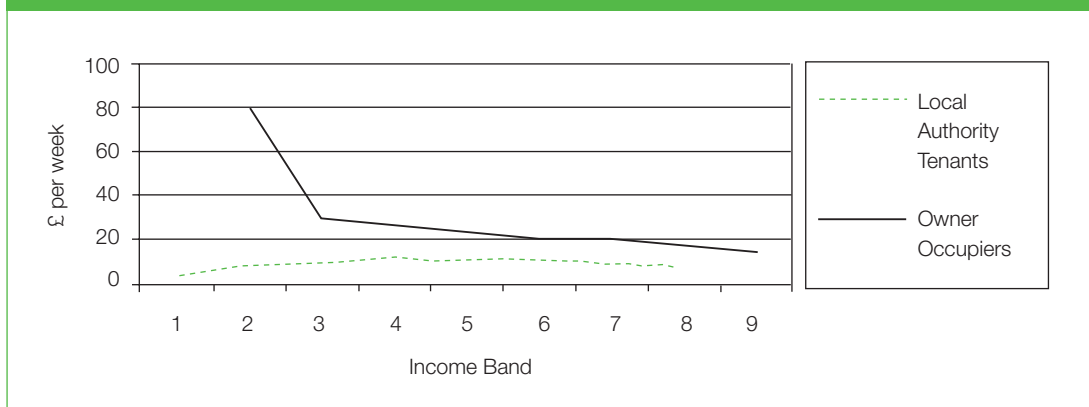
- 1.40 The impact of changes in housing policy on affordability presents a complex picture. First, house prices undoubtedly rose significantly in real terms over the period, especially in the South. Equally the costs of owner-occupation were subject to considerable variation as a result of changes in inflation and interest rates. As a result, the impact of interest rates for mortgagors were at their height at the beginning of the period and in the late 1980s. In real terms however they were relatively low in the mid-1970s because of the very rapid inflation. Then the problem was 'front-end loading', the tendency for real housing costs to be very high when a house is first purchased, but to decline rapidly as the real value of payments is eroded by inflation. At the beginning of the 1990s the position was very different as inflation fell, although real interest rates if anything rose. However the costs of mortgages fell significantly in the 1990s as a result of nominal interest rate reductions (Figure 1.3a). Even so, it should be remembered that the change in the pattern of tenure means that there are far more people who have chosen owner-occupation and are therefore subject to market pressures on costs, and many of these households are more subject to job market and other risks.
- 1.41 Much of the reduction in mortgage interest relief and its final removal occurred during the period of declining interest rates, while the value of the subsidy declined as the impact of the cap on total value increased with house price increases. As a result there was little adverse impact on affordability over the 1975-2000 evaluation period from this policy change.

Figure 1.3(a): Average weekly housing costs 1989/90-2002/03



Source: Dataspring

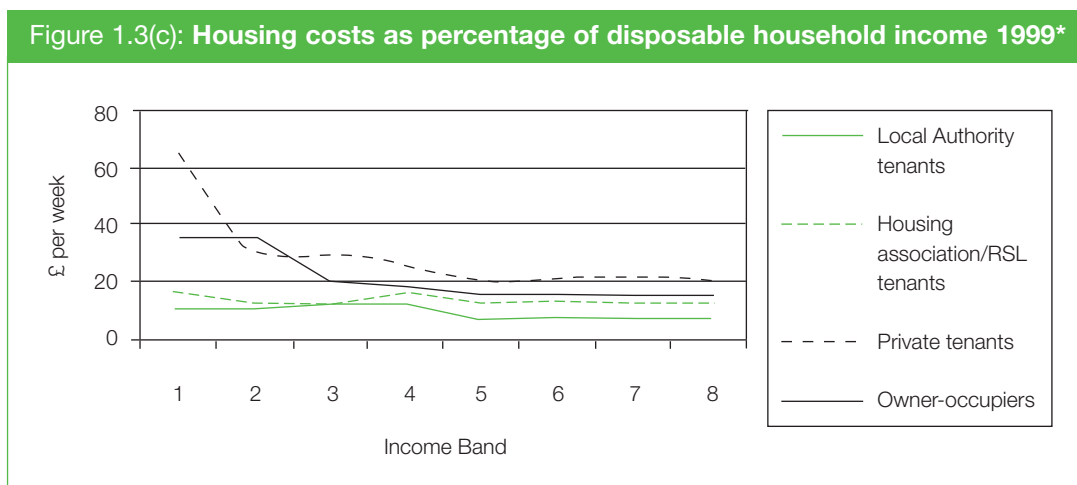
Figure 1.3(b): Housing costs as percentage of disposable household income 1989*



Income Bands: 1 = under £3,000; 2 = £3,000-£3,999; 3 = £4,000-5,999;
 4 = £6,000-£7,999; 5 = £8,000-£9,999; 6 = £10,000-£11,999;
 7 = £12,000-£14,999; 8 = £15,000-£19,000; 9 = £20,000 and above

* Mean net rent or mortgage payment as percentage of mean disposable income of head of households and spouse, Great Britain, 1989.

Source: Housing and Construction Statistics 1980-1990, Tables 12.9 and 12.10. (Original Source: Family Expenditure Survey.)



* Mean net rent or mortgage payment as percentage of mean disposable income of head of household and partner, England, 1999/2000.

Source: Housing Statistics 2001, Tables 7.13 and 7.14; original source: Family Resources Survey

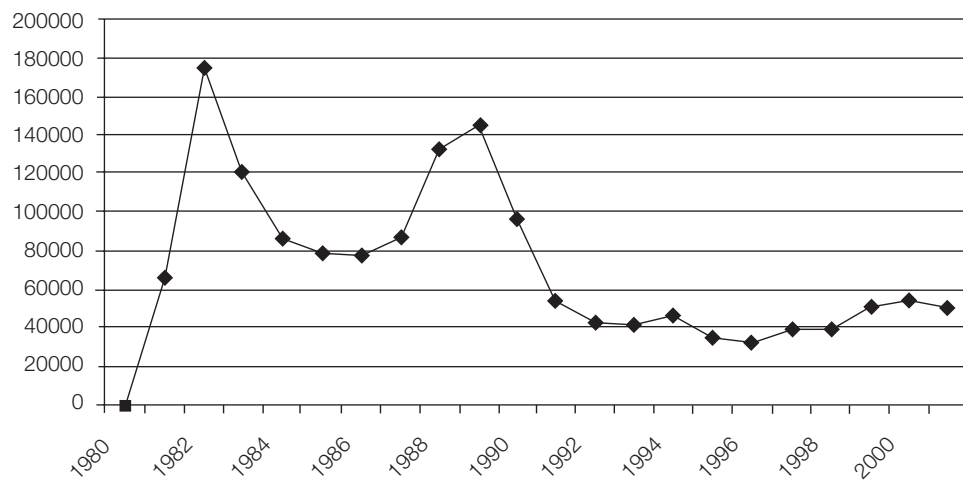
- 1.42 Most importantly real incomes rose over the period increasing the capacity to buy housing, so that the direct impact of housing costs on affordability declined. Overall therefore average affordability in the owner-occupied sector has improved since the late 1980s (Figure 1.3a). Affordability of homeownership at the bottom end of the income scale remains poor, but has also improved over the decade Figures 1.3b and 1.3c).
- 1.43 In the private rented sector rent deregulation clearly allowed landlords to raise rents in the face of demand. The data on rents on properties where Housing Benefit was being claimed suggests that rents at the bottom end of the market have risen over the period in money terms (Figure 1.3a). However Housing Benefit has provided a safety net for those eligible and claiming it and the average proportion of income actually spent on rents has increased by only a small proportion, from 25 to 26 per cent. However it is clear that for those on lower incomes and not in receipt of Housing Benefit the costs of private renting continue to be unaffordable, and this possibly has worsened over the last decade. Again it should be remembered that the numbers involved have increased in this period.
- 1.44 Finally rents in the social sector have been subject to almost continual changing pressures and regulation. Rents were held down during the inflationary period in the 1970s, but then rose more rapidly than incomes in the 1980s and much of the 1990s as a result of constraints on supply subsidies and the introduction of private finance. Clearly the average proportion of income spent on housing has increased over the period and certainly in the 1990s – from nine to 11 per cent in the local authority sector and from 11 to 14 per cent in the housing association/RSL sector. However these proportions are still relatively low and there is also little variation between income groups and the proportions vary much less between income groups within the social rented sector, compared to owner-occupiers (Figures 1.3b and 1.3c). Much of this flattening of the burden of rent between income groups within the social rented sector is attributable to Housing Benefit, which has helped to control the affordability problems that would otherwise have arisen from rent rises. The proportions of households living in this sector have, of course, declined over the period, by some 40 per cent.
- 1.45 Housing costs rose during the evaluation period as a result of policy changes affecting rented housing and market pressures in the owner-occupied sector. But the impact has been very significantly mitigated by Housing Benefit in the rented

sectors and by falling nominal interest rates in the owner-occupied sector. The problems remaining at the end of the evaluation period are therefore those of access to owner-occupied housing, for example where households face the full impact of rising house prices especially in the south and those who suffer a decline in income after they have made mortgage commitments. These households receive far less help than they would have done earlier in the period. Households in the rented sector whose incomes are limited, yet are too high to qualify for Housing Benefit also face problems. They include households in low-paid work who may also be subject to a very high marginal tax rate as a result of the withdrawal of Working (Families) Tax Credit. Others are single income households, particularly single person households for whom the limits are tighter; and those who for one reason or another do not claim the Housing Benefit for which they are eligible, or whose eligible rent has been restricted. These groups are concentrated in the private rented sector and are among those either just but riskily able or unable to enter owner-occupation. Both housing market and job market risks are concentrated among the same groups.

Box 2: The right to buy

The Right to Buy was one of the most successful housing policies during the evaluation period. It helped to open up homeownership to some 1.5 million households in England during the evaluation period.

Right to Buy Sales, England, 1980-2001



Source: Steve Wilcox, *Housing Finance Review*, various issues

The policy was so successful in its own terms in part because the policy meshed with the aspiration of many thousands of tenants to become homeowners. On its own this aspiration would not have been enough to make the policy succeed. The erosion of the real value of local authority housing debt by inflation, combined with restrictions on further capital expenditure, allowed generous discounts to be offered to tenants.

While the policy was highly successful in its own terms, it has also been criticised for contributing to the residualisation of the social rented sector, the tendency for poorer households to be concentrated in the sector. Moreover, it tended to be the more popular properties in the more popular areas that were purchased.

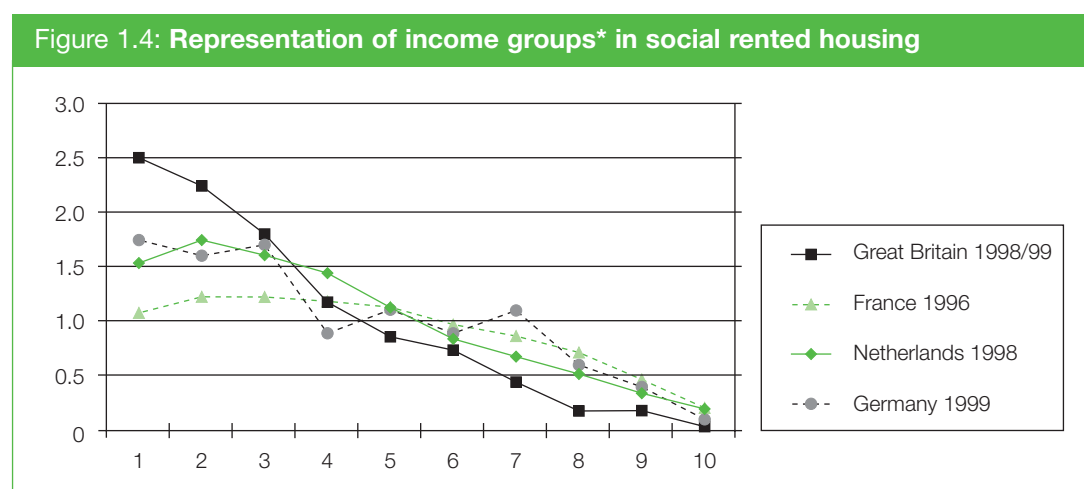
But more recent analyses of Right to Buy paint a more complex picture. Right to Buy certainly enabled many households to become owner-occupiers who would not otherwise been able to do so. It enabled others to become homeowners sooner than would have been the case otherwise. But it also enabled many households, which would have become homeowners in any case to do so without leaving the area in which they lived. As properties are re-sold the purchasers tend to attract moderate-income families. In these ways Right to Buy has contributed to maintaining some communities as 'mixed'.

LEGACY 3: TENURE POLARISATION

- 1.46 One of the key legacies of the evaluation period is the so-called 'residualisation' of the social rented sector. 'Residualisation' describes the tendency for the sector to house greater concentrations of the poorest and most disadvantaged households.
- 1.47 Residualisation has at least four contributory factors:
- A wider assessment of Right to Buy is explored in Box 2, but the exit from the sector of better off households who purchased their houses under the Right to Buy after 1980 was clearly a cause of residualisation.
 - The Homeless Persons Act, which required local authorities to house certain groups of homeless household from 1978, formed part of a process whereby local authorities' allocation policies became increasingly professionalised, reducing or removing elected members' direct involvement and placing greater emphasis on need above desert.
 - Income and employment inequality grew. Those who were housed in the social rented sector also became relatively poorer and less likely to be employed.
 - Changes in the wider housing market, such as the decline in the private rented sector, have squeezed out alternatives so that people with acute housing needs have been increasingly housed by local authorities and housing associations.

Residualisation is clearly demonstrated in the following graphs and tables.

- 1.48 Having adjusted for size, the British social rented sector houses much greater concentrations of households from the lowest income deciles compared to other European countries. Figure 1.4 confirms that the British social rented sector places a much greater emphasis on its safety net role than the wider affordability role that it still plays in other countries.



* 1 = lowest

Note: the % of households in each income decile is divided by the size of the social rented sector. So that if 10% of people in the lowest income decile, and 10% of the housing stock is socially rented, the figure is 1, the groups is neither over nor under-represented. Numbers > 1 represent over-representation and those <1 underrepresentation.

Source: Mark Stephens, Nicky Burns and Lisa MacKay (2002) *Social Market or Safety Net? British Social Rented Housing in a European Context*, Policy Press: Bristol

- 1.49 The relative poverty of tenants in the British social rented sector can be demonstrated in two ways: by contrasting their incomes with households in other tenures and by comparing their position with their counterparts in other countries (Table 1.3).

Table 1.3: Incomes as percentage of average^a

	Social renters	Owner occupiers	Private renters	All households	Owner occupiers: social renters
France (1996)	76.2	116.8	82.4	100	1.5
Germany (1999)	76.7	120.6	88.1	100	1.6
Great Britain (1997/98)	49.6	120.7	74.9	100	2.4
Netherlands (1998)	72.2	123.0	84.1	100	1.7
Sweden (1997)	76.5	132.7 ^b	76.5	100	1.7

Notes:

a. After tax, except for France

b. The relatively high incomes for Swedish owner occupiers is misleading as 'owner occupation' is legally possible only for those living in houses. De facto ownership of flats is possible for 'co-operative owners' whose incomes are around the average.

Source: Stephens et al (2002), *ibid*.

- 1.50 On each of these indicators the relatively low incomes of British social tenants is striking. Whereas social renters in France, Germany, the Netherlands and Sweden have incomes at least 70 per cent of the average, British social renters have less than half. For every pound that a tenant in these other countries has, an owner-occupier has between £1.50 and £1.70. In Britain for every £1 that a tenant has, an owner-occupier has £2.40.
- 1.51 This situation reflects two underlying differences: first, greater levels of income inequality in Britain and, second, greater concentrations of households from the lowest income deciles live in the British social rented sector. It is important to recognise, therefore, that residualisation in part reflects a greater commitment in Britain to house the most disadvantaged groups in the social rented sector. The exclusion of such households from the tenure would have severe social consequences, and this provides a crucial dilemma for policy makers (see 2.59-2.64 below).
- 1.52 It is unsurprising that the British social rented sector also contains much greater concentrations of workless households, and the higher proportions of retired households in the sector alone cannot explain this (Table 1.4). Whereas more than 60 per cent of owner occupied households are headed by someone in full-time work, more than 60 per cent of local authority households have no one in work.

Table 1.4a: Employment status of households heads by tenure

% 2000/01	Full-time employment	Part-time employment	Unemployed	Retired	Other economically inactive
Owner occupiers	61.9	5.2	1.0	27.4	4.5
Social Renters	23.2	8.5	6.1	36.3	26.0
All households (including private renters)	53.5	6.2	2.4	27.7	10.2

Source: Housing in England 2000/01, Table 1.8

Table 1.4b: Number of earning members in households by tenure

% 2000/01	None	One	Two	Three or more
Owner occupiers	27	28	36	9
Local authority tenants	62	24	10	3
All households	35	28	30	7

Source: Housing in England 2000/01, Table 1.8

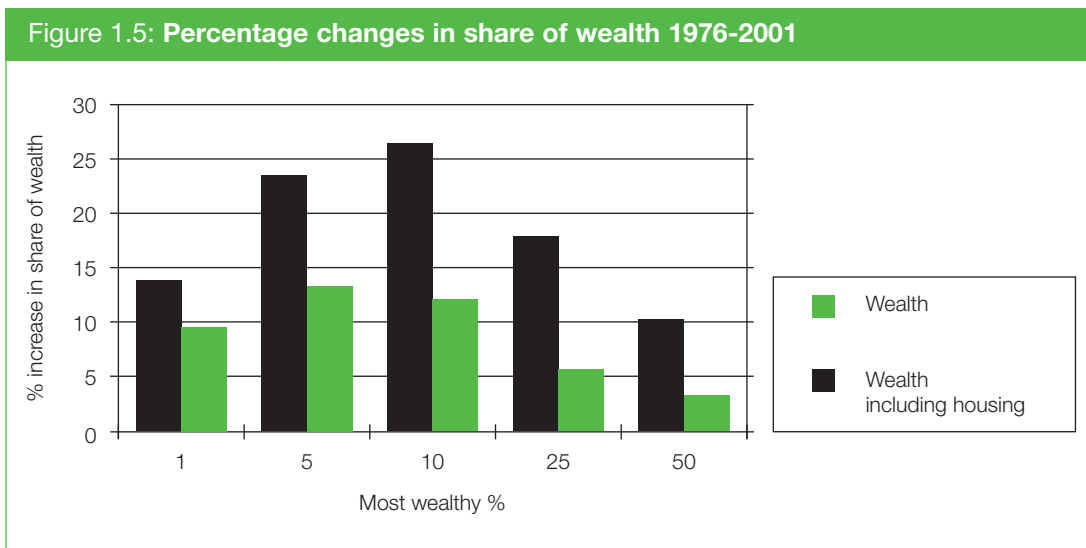
LEGACY 4: CHOICE AND RISK

- 1.53 Another legacy arising from the interaction of policies with wider social and economic changes has been the expansion of choice and risk.
- 1.54 The deregulation of the financial sector undoubtedly did result in an expansion of choice at the expense of greater risk. In the 1970s the building societies enjoyed a near monopoly in the mortgage market and were able to set interest rates using a state-favoured cartel. The system was used to contain costs to home-owners, both through low interest rates and generous mortgage interest tax relief. Periodically, the Government made large loans to the building societies to enable them to avoid interest rate rises. Access to mortgages was rationed through the use of queues and highly conservative lending criteria, sometimes with direct and indirect discriminatory overtones.
- 1.55 Deregulation occurred progressively throughout the 1980s, a crucial event being the removal of regulatory barriers that had kept banks out of the market. The erosion of tax advantages that had given the building societies a competitive advantage in the savings market followed this. In turn the building societies were allowed to broaden their activities and funding base as well as being able to convert into banks.
- 1.56 Competition in the mortgage market widened access to mortgage finance and to owner occupation. Applicants could borrow more in relation to their earnings, the second earner's income was fully taken into account, and maximum loan to value ratios rose to 100 per cent or more. Formal 'red lining', the practice of refusing to lend on properties in areas that were perceived as being in decline, usually in the urban inner cities, came to an end.

- 1.57 But deregulation also increased the risks facing owner-occupiers. By the early 1990s, borrowers were much more exposed to interest rate fluctuations, first because mortgage rates became more responsive to changes in market rates, and second due to the gradual erosion of the insulation provided by mortgage interest tax relief, as house prices soared above the £30,000 limit. New borrowers were also more highly geared, leaving them exposed to negative equity when nominal prices fell. The level of arrears and possessions in the early 1990s prompted a relatively limited and short-term Government response. The Housing Market Package helped to reduce the levels of possessions, although long-term the Government sought to encourage owner-occupiers to take out private insurance policies.
- 1.58 In one important respect today's owner-occupiers are better protected than their counterparts in the early 1990s: they have more equity. But they are still more exposed to interest rate fluctuations. In the early 1990s, mortgage interest tax relief would still absorb 15 per cent of any interest rate rise on the first £30,000 of the loan. That protection has now been removed. This affects the poorest home-owners the most relatively, as they are more likely to have smaller mortgages and mortgage interest tax relief represented a greater contribution to their housing costs and to their household income. Moreover, the coverage of the state safety net, Income Support for Mortgage Interest, has been reduced since the mid-1990s, although take-up of private insurance has widened. The new system of state protection has not been tested during a recession, only in the benign environment of falling or relatively low interest rates, falling or low unemployment and generally rising house prices. Although possessions have fallen to the lowest levels since the early 1980s homeowners face both more actual and latent risk than in the mid-1970s.
- 1.59 Financial deregulation is the clearest example of the choice-risk trade-off. Other distributions of choice and risk are more complex due to the role of the state. The Right to Buy represented a unique blend of expanding choice for a particular group at relatively low risk, thanks to the dowry in the form of the discount. The Right to Buy combined with much reduced provision of new social rented housing indicated that the Government had very much reduced its direct responsibility for meeting the housing needs of 'intermediate' households.
- 1.60 However, during the evaluation period, the Government's role as provider of safety nets actually increased. The Homeless Persons Act introduced at the start of the period undoubtedly increased the safety net, at least for some groups, and was further though moderately strengthened towards the end of the period. To some extent the formal state safety net has replaced the informal safety net previously provided by the bottom end of the private rented sector. But it is notable that the Homeless Persons Act provided a safety net for many former home-owning households who had their homes taken into possession in the 1990s recession. Indeed they accounted for some 10 per cent of acceptances at its worst.
- 1.61 The development of Housing Benefit also represented the strengthening of a bottom-end safety net within the housing system, while providing less assistance to intermediate groups. The particular structure of Housing Benefit adopted after 1988 mirrored a wider reform of social security. Its design was intended to prevent incomes after rent falling below social assistance levels. In principle it also insulates entirely many tenants from changes in their rent. The cost of Housing Benefit increased especially in the private rented sector as rents rose. Measures to contain its cost weakened Housing Benefit's effectiveness as a safety net, especially in the private rented sector.

LEGACY 5: WEALTH AND REDISTRIBUTION

- 1.62 The shifts in public spending have had some important, though complex, impacts on different income groups, and on people in different tenures.
- 1.63 First, for much of the period mortgage interest tax relief was a large, regressive and reputedly ineffective element in the subsidy system. The abolition of top-rate relief and the gradual phasing out of mortgage interest tax relief was undoubtedly progressive in distributional terms. The main caveat is that when it was finally abolished at the end of the period it met a higher proportion of poorer homeowners' interest payments and there has been no compensation for such households.
- 1.64 Second, the growth in owner occupation and the abolition of the main subsidy has left the majority of households outside the subsidy system, with the exception of the partial safety net provided by Income Support for Mortgage Interest. The growth of owner-occupation down the income scale means that many low-income households receive no assistance with their housing costs. This can be seen as a breach of horizontal equity, since similarly poor renters would receive assistance with their housing costs through the Housing Benefit system. However, the inescapable fact that subsidies to home owners would assist them in the acquisition of a partially liquid and marketable asset remains an important consideration if the objective is to create fairness between renters and owners.
- 1.65 Third, the shift from bricks and mortar subsidies to demand-side subsidies was progressive, at least between tenants. But given the lack of income diversity among this group, the best that can be said that it was distributive from poor to very poor. However, since tenants are drawn disproportionately from the lowest income deciles and very few now come from middle income groups, the shift may have been generally regressive.
- 1.66 Fourth, the Right to Buy, although not strictly an expenditure programme, distributed housing wealth from 'society' and future potential tenants to people who, as a group, had below-average incomes. The growth of home-ownership has spread wealth more widely, but this has worsened the relative position of non-owners. However, broader changes in the housing market have produced complex regional, inter-generational as well as income-related patterns of housing wealth. Although class and income affect the size of gains among households who buy houses at the same time, in the long-term the date of purchase is the most important determinant of capital gains.



Note: figures refer to marketable wealth, which excludes pension rights.

Source: Inland Revenue

- 1.67 During the evaluation period the distribution of wealth as well as income became more unequal. However, the spread of home-ownership has slowed the growth in wealth inequality (Figure 1.5). Without housing the wealthiest 1 per cent saw their share of wealth grow by 14 per cent, but once housing is included their share grew by 9.5 per cent. This pattern occurs throughout the wealthiest 50 per cent whose share of wealth without housing grew by 10 per cent, but whose share grew by only 3 per cent once housing is included. This reflects the spread of home-ownership below the wealthiest 50 per cent of the population. Inevitably these patterns also imply that those households excluded from home-ownership have been left further behind.

LEGACY 6: HOUSING QUALITY AND ACCEPTABILITY

- 1.68 Rising aspirations is a key reason why, as Theme Report 3 concluded acceptable housing quality represents a relative and upward moving standard. Objectives of securing basic amenities such as inside toilets were followed by greater attention paid to securing central heating, and have been supplemented by the need to meet insulation standards to achieve environmental objectives.
- 1.69 Over the evaluation period, there has been a growing interest in developing regulations and other incentives to improve the standards of new housing – particularly with respect to energy conservation and lifetime homes. Equally, land use planning has latterly shifted towards increasing densities and the re-use of brownfield sites. Sir John Egan’s report sought to improve quality and productivity in the construction industry and has been instrumental in changing public sector procurement. The impacts have again been fairly successful in their own terms although there is thought to have been some negative impact on levels of output and in regulatory costs.
- 1.70 However the proportion of the total stock that can be directly affected by changing regulation of new housing is tiny as compared to the problems of maintaining and upgrading the existing stock.

- 1.71 Improvement grants played a major role in upgrading older private sector housing in the earlier part of the evaluation period, although their impact was weakened in the private rented sector by rent controls. Proportionately, the private rented sector represents the poorest quality and governments are now wary of attempting to improve this stock by imposing higher regulatory standards for fear of choking off supply. While generally highest standards are found in the owner-occupied sector, its growth to such a dominant position within the housing system mean that the largest *numbers* of sub-standard housing units are to be found in this sector.
- 1.72 The theme report found that while standards in local authority housing had improved, the performance of the sector should probably have been better given the relatively high levels of expenditure. However, poor and non-traditional construction methods have also contributed to a legacy of unacceptability in the local authority sector.
- 1.73 Until the late 1990s large scale voluntary transfers were concentrated on the south and on social sector stock that was anyway in general in reasonable repair. Constraints on local authority subsidy and the concentration of new social supply in housing associations left a legacy of increased concentrations of housing quality problems in the declining local authority sector, particularly in London and the north.

LEGACY 7: REGIONS AND NEIGHBOURHOODS

- 1.74 Over the evaluation period, there was a growth in both inter and intra-regional differences, reflecting the diversity of economic experience, as some regions have outperformed others, and across the country some groups have fared better than others.
- 1.75 At a regional level, the main manifestation in the housing market is the relative scarcity of housing which is reflected in differing rates of house price inflation. Regional differences between house prices and their trend have a marked cyclical pattern, widening during periods of economic growth (such as the late 1980s and in recent years) and narrowing during recessions (notably the early 1990s). The underlying cause is the differing economic performance of different regions that in turn impacts on population location and dynamics. The inadequate housing supply in high growth areas has brought concerns that this might inhibit economic growth as private sector firms are unable to recruit workers, although official concern has tended to centre on 'key' public sector workers.
- 1.76 Meanwhile other regions have experienced apparent housing surpluses. Not only do such regional imbalances imply a need for different priorities, they mean that the impact of some nation-wide policies, notably as the homelessness legislation, varies according to the relative shortage of housing.
- 1.77 Growing tenure polarisation has been a much-emphasised phenomenon over the evaluation period, but it is its manifestation as spatial polarisation that appears to have the greatest social consequences. Hence the way in which the emphasis of neighbourhood renewal has shifted from improving the physical quality of houses to improving the neighbourhood and the social and economic opportunities within it. While tenure is a good predictor of these spatial inequalities, it is not exclusively so, the emergence of hard-to-sell owner-occupied properties in some urban areas being the prime indicator of this. Equally, housing associations have been seen as major partners in developing improvement and regeneration programmes.

- 1.78 One of the key lessons of the evaluation period arises from the inability of neighbourhood policies in the social or private sectors to 'swim against the tide'. Faced with unfavourable socio-economic trends former Housing Action Areas where the physical standard of private housing was improved in the expectation that the areas would in turn become sustainable are now often the same areas that now face low demand. Similarly, attempts to revive areas dominated by social rented housing have also left a legacy of policies that were better able to tackle the physical manifestations of deprivation than its underlying causes. Consequently a key legacy of the evaluation period is the much greater importance attached the neighbourhood when assessing housing quality than was the case 25 years ago.

Conclusions

- 1.79 Many housing policies have been successful when judged in their own terms. Over the evaluation period as a whole access to owner-occupation and to private renting has increased and in many parts of the country and social renting is reasonably available. Affordability has been maintained for the vast majority of households despite the reduction in and restructuring of subsidies. All of this has been against a background of ownership restructuring and increasing partnership in development and regeneration.
- 1.80 Some emerging housing problems arise from privatisation as risks have been shifted from government to households. Others arise from the limited availability of social rented housing in high demand areas. But the most fundamental failures arise from regulation, particularly concerning the land use planning system, as well as the constraints placed on local government.
- 1.81 An important implication of this evidence is that, while many housing specific problems were effectively addressed, the wider role of housing both in terms of neighbourhood change and sustainability and in terms of the interaction of housing and the wider economy have been slow to be recognised. This helps to provide a clear rationale for the shifts in policy that have been observed over the last few years. These issues are discussed in the next section.

SECTION 2

Housing policy today

Introduction

- 2.1 The Government is faced with seven broad areas where the housing system is not meeting key objectives:
- Supply mechanisms are not providing sufficient amounts of new housing, for the market, intermediate ('affordable') or social rented sectors. In particular the private sector has not filled the gap left by the limitation on supply subsidies to support the provision of social rented housing.
 - The deregulated finance market combines with a highly regulated land market to produce housing market instability. In turn the unstable housing market can exacerbate macro-economic instability and affect competitiveness. On the other hand a flexible housing sector can make macro-economic policies more effective, for example by facilitating mobility.
 - Social sector tenants in high demand areas can usually only obtain accommodation or move when presenting with specific and serious housing needs and are generally unable to exert consumer preferences.
 - The management of the social rented sector is increasingly complex as it becomes more closely linked with wider neighbourhood management objectives, such as tackling crime and anti-social behaviour. It is also open to greater risks as it takes on different responsibilities and is more dependent on private finance while at the same time facing greater regulation.
 - There are growing concerns about the viability of deprived neighbourhoods across the country but particularly in low demand areas, as well as about the acceptability of traditional social rented housing to those who have other housing options.
 - The housing needs of some groups, including particularly larger Black and Minority Ethnic (BME) households and those in need of residentially-based support, are not being met by general housing policies.
 - Disrepair persists in parts of all sectors, together with inadequate renovation programmes to maintain properties in effective use. The capacity to modify existing stock particularly with respect to insulation to meet broader environmental requirements is an important element in this context.
- 2.2 These deficiencies are widely recognised and much of current housing policy is directed at tackling them. A comprehensive review of current housing policy is not attempted here. Instead, current policies aimed at meeting the following five broad objectives are examined:

- To ensure that there is an adequate supply of new housing.
- To ensure that the housing system contributes to achieving economic objectives.
- To create greater choice within the social rented sector.
- To create sustainable communities and support people.
- To ensure decent homes and neighbourhoods across all sectors and housing acceptable to the next generation.

Adequate supply

THE GOVERNMENT'S OBJECTIVES

- 2.3 The fundamental objective of housing policy is to provide enough homes for every household through the general market, the intermediate market (that includes 'affordable' housing, shared ownership and key worker housing), as well as the social rented sector. This objective is intimately linked to the objective of ensuring that housing is affordable and that house prices do not adversely affect the wider economy.
- 2.4 Since the removal of general housing shortages in the 1970s, the supply question has become more complex. Variations between regions mean that any additional dwelling is no longer necessarily desirable. Within the south of the country there are severe access and affordability problems. Despite national policy, planning policies are not providing sufficient numbers of new houses. But in parts of some other areas there is a clear excess of housing, although this is often linked to poor quality. Every year some stock becomes obsolete due to deterioration or changing needs and standards. Demolition, renovation and adaptation are also features of supply policy.
- 2.5 Nevertheless, most importance has been attached to increasing supply responsiveness because this is absolutely necessary if economic competitiveness is to be maintained. It is also widely recognised that this must occur in the areas where the demand is strongest and constraints greatest. To this end Kate Barker's Review of Housing Supply has reported recently.

POLICY INSTRUMENTS

- 2.6 The main policy instruments are embedded in the land use planning system, which aims to ensure adequate provision of land for identified housing requirements. Problems of inflexibility in the planning system are being addressed through a range of different policy approaches, particularly through the restructuring of regional governance and the relationship between regional and local government. Recent initiatives include: changes in the Government's guidance to local authorities (Planning Policy Guidance 3: Housing) to increase transparency and reduce delays in planning applications; new planning legislation; and more fundamental reviews of regulatory and supply issues.

- 2.7 The current policy on provision of affordable housing through the planning system operates through Section 106 of the Planning and Compensation Act 1991. It has three distinct objectives, that of providing the land for affordable housing; providing mixed communities and a mix of affordable housing appropriate to the area; and increasing financial contributions, implicit and explicit, from developers and other stakeholders. Again this is an area where changes in the planning guidance are currently out for consultation.
- 2.8 Other policies include the requirement, initially made as a statement by the Deputy Prime Minister, for 60 per cent of new development to take place on 'brownfield' land. This affects local authorities' capacity to provide additional housing on identified land.
- 2.9 Fundamental to the provision of affordable housing is the grant regime. This is now mainly concentrated in the Housing Corporation's Approved Development Plan and aims to ensure that a range of affordable housing is provided through housing associations. In recent years total output has been around 20-22,000 units, about 80 per cent of which are for rent. Changes in the procedures for grant allocation are supporting broader based planning at sub-regional and regional level. Specific initiatives, such as the Housing Corporation's Challenge Fund, provide mechanisms to allocate resources in line with government priorities, including the stimulation of off-site production.

Growth Areas

- 2.10 The vision of expanding production through the regeneration of lower demand areas within the South East (notably the Thames Gateway), and ensuring sustainable communities is clearly enunciated. The capacity to implement the policy within a reasonable timeframe is still to be demonstrated. These areas require large-scale infrastructure provision and community amenities before the vision can be achieved, and these have yet to be put in place. Land assembly is also a problem even where much of the land is in public ownership. Moreover the commitment to rapid expansion puts pressure on the types of dwelling that can be provided and has resulted in sudden shifts in implementation requirements particularly to Registered Social Landlords, which are themselves costly. More generally, although the objective is greater certainty, the process of achieving this generates its own uncertainties, which in turn reduce supply.

Environmental vs. supply trade-offs

- 2.11 There are important trade-offs between the objectives of maintaining existing assets in use and reusing urban land at the same time as making sure that the full range of housing is available to meet the requirements of increasing incomes and aspirations even in low demand areas. Whether this will be achieved within the current framework depends heavily on ensuring that the urban agenda goes with the grain of housing demand. If not, there could be increasing polarisation even within these newly developed areas.
- 2.12 A more general issue relates to the incentives and constraints associated with sustainability and particularly energy use and the relationship between housing and transport. This is an area where the UK has much to learn from other countries, not least in making regulation more outcome-oriented.

Affordable housing through the planning system

- 2.13 The most recent evidence on the provision of affordable housing through the planning system suggests that the proportion of affordable housing being achieved in this way is now increasing with new building. It also indicates that the vast majority of the housing provided also requires subsidy through the Approved Development Programme. It is clear therefore that this is not a pot of gold that will provide the necessary resources to meet the shortfall in public subsidy – especially where large-scale infrastructure is also required to make the development sustainable. Moreover in many areas, including the Midlands and the North, there is little or no scope for extracting contributions from developers towards affordable housing, once other requirements, such as infrastructure, are taken into account. The pressures to maximise affordable proportions may also reduce supply especially in areas where there is an alternative land use. Further it generates some perverse incentives to produce smaller units and flats which may not address the requirements of those in the greatest need. Higher quality planning and design are fundamental to achieving the Government's vision.
- 2.14 Thus while the objectives of policy change are clear – and do address the legacies of the evaluation period, there is as yet no evidence that the policy changes currently being implemented will enable them to be met. This applies to total output, the mix of dwellings provided, their location and their sustainability. Indeed at the present time the supply response seems to be continuing to decline. The incentives that the Barker Review identified as discouraging local planning authorities from releasing sufficient land remain in place, while levels of subsidised building remain low by historic standards. Structural changes in construction and infrastructure provision (widely defined) and regulatory changes are prerequisites for achieving a more flexible supply of housing of all types. However, it is equally the macro economy and in particular the allocation of public funding for affordable housing and for infrastructure which will determine the success of current policy with respect to new build.

Housing and economic objectives

- 2.15 The functioning of the housing system has become a key concern of the Treasury because of its links with the labour market and its importance to economic management. High levels of worklessness among tenants in the social rented sector, and low levels of inter-regional mobility, have been identified as arising in part from the operation of the housing system. The housing system has become part of the Government's 'employment opportunity for all' agenda and policies formulated to improve mobility in the social rented sector, and to reduce the work disincentives arising from Housing Benefit. The Treasury is also concerned that volatility in the housing market feeds through into instability in the wider economy. This concern promoted the Treasury to establish two reviews, one to examine the mortgage market and the other the supply of housing.

(a) Employment opportunity for all

THE GOVERNMENT'S OBJECTIVES

- 2.16 The 2003 Budget Report identified worklessness as 'a constraint on the economy's growth potential and a major cause of poverty'. The Government aims to increase employment levels to the highest levels ever experienced by 2010.
- 2.17 In recent years, the UK has experienced the lowest unemployment for a quarter of a century and now compares favourably with other large economies. But we have seen that one of the key legacies of the last 25 years has been the polarisation between dual earner households and no earner households. The UK compares much less favourably internationally in this regard, especially when set alongside relatively low levels of unemployment and relatively high levels of employment. Moreover, labour market polarisation has combined with changes in the housing system so that there is now a large overlap between labour market and tenure polarisation.
- 2.18 Although the relationship between tenure and employment is very striking, it is very difficult to establish a 'tenure effect' in operation – in other words whether characteristics of any tenure make people more or less inclined or able to find employment. Evidence suggests that the prime driver has been general labour market trends, combined with the impact that Right to Buy had by removing economically active households from the social sector. Employment rates among local authority sitting tenant purchasers in 1991 were much higher than among remaining local authority tenants. The people now housed in the social rented sector possess disproportionately the characteristics (such as low skill levels and poor health) that make them vulnerable to worklessness. However, labour market economists remain divided as to the extent to which solutions should focus on particular areas with high unemployment or on groups with poor employment records.
- 2.19 However, the Government has identified two elements in the housing system that it believes act as a barrier to work:
- work disincentives that may arise from the Housing Benefit system;
 - barriers to geographical mobility.

POLICY INSTRUMENTS

- 2.20 In order to achieve this objective, the Government has put into place a series of measures. These include a series of active labour market policies, such as the New Deals, as well as the improvement of financial incentives to work ('making work pay'): the minimum wage, the reform of National Insurance, and the Working Families Tax Credit (1999-2003)/Working Tax Credit (from April 2003).
- 2.21 The Government is planning to reform aspects of the housing system to help to achieve its employment objectives.

Housing Benefit and work incentives

- 2.22 Housing Benefit was originally introduced in part to *encourage* work incentives – by supplementing low incomes especially in high rent areas. However, the system of Housing Benefit introduced in 1988 had two features that may create disincentives to work. First, it pays the whole of the claimant's eligible rent when their income falls to income support levels. Second it has a high rate of withdrawal – as take-home pay rises, Housing Benefit is withdrawn at 65 pence in the pound. When combined with the loss of other means-tested assistance, withdrawal rates can rise to 85 pence in the pound. This system can be characterised as providing a safety net for very poor households, and limited help with housing affordability for some households in low paid work. However, it can penalise a move into work (the unemployment trap) and discourage people in low paid work from increasing their earnings (the poverty trap). Moreover, as rules restricting eligible rents, especially in the private rented sector, have toughened, the system fails to provide an effective safety net. Hence it can be characterised as falling between two stools – neither providing an effective safety net for many households nor being an effective in-work benefit to 'make work pay'. Yet the balance between the desire to protect the incomes of the poorest while providing incentives to work would be encountered in the design of all but the most extravagant housing allowance system.
- 2.23 Evidence of the impact of Housing Benefit (and other means-tested benefits) on work disincentives is less easy to establish than the 'text book' case outlined above. Factors such as ignorance of the system on the part of claimants, the overriding commitment to the work ethic, or the acceptance of a low paid job as a pathway to a better one may each play a role. Nevertheless, the loss of housing assistance is cited frequently by claimants as a reason for not taking employment. Concerns about sorting out benefits at the point of transition to work and reclaiming benefit should the job be lost are also cited by a minority of claimants as reasons for not taking jobs.
- 2.24 The Housing Benefit Pathfinder pilot projects aim to tackle this problem by allowing people who return to work to have their Housing Benefit claim reassessed as a change in circumstances, rather than having to make a new claim. The importance of such apparently minor administrative measures should not be underestimated, at least for some people.

Flat-rate Housing Benefit

- 2.25 The Government is currently running pilot projects (Pathfinders) whereby claimants in the private rented sector are given a standard housing allowance based on local market rents in the locality. In the 2003 Budget Report the Government announced its intention to extend this system to all private tenants across the country 'as soon as possible' and to the tenants in the social rented sector, once rent restructuring and choice based lettings have been introduced.
- 2.26 The system being piloted effectively standardises the eligible rent in the Housing Benefit system within localities. As such it gives a clearer signal to tenants in advance of their claim as to the maximum rent that Housing Benefit will meet. It may therefore provide a shopping incentive for some prospective tenants to limit their housing costs. However, it does not alter the relationship between Housing Benefit and income: it remains a means-tested benefit that will be withdrawn as income rises. Hence, it is difficult to see how this reform will help to meet the government's objective of 'making work pay'.

- 2.27 Taking the system of in-work benefits in the round it is evident that the relationship between Housing Benefit and the WTC has yet to be resolved. Other than some extension in earnings disregards for some HB claimants in receipt of WTC, the bulk of any gain in WTC is lost in HB. This weakens the intended work incentives arising from WTC as well as its redistributive impact. While allowing HB claims to 'run on' should reduce disincentives arising from the transition to work, the fundamental work disincentives remain in place.
- 2.28 The 2003 Budget Report announced that the Government is 'committed to further structural reform of Housing Benefit in order to ease the transition to work for all working age tenants and to ensure that they see appropriate gains to work as they progress within employment. Such action will address the problem of steep withdrawal rates in order to deliver a more effective system of housing cost support that works with, rather than against, the new tax credits.'
- 2.29 These objectives might be achieved in one of two ways. The first is by introducing a gentler withdrawal rate so that less income is lost as income rises. This reform would have the effect of easing the poverty trap for those claimants already claiming Housing Benefit, but at the cost of bringing more people into the poverty trap by extending its eligibility up the income scale. The other, more radical possibility, is the introduction of a housing tax credit, in the form of a flat rate allowance that is not linked directly to actual rents, nor is withdrawn as income rises. Since the flat-rate housing allowance would not meet all housing costs it could be combined with a means-tested element to protect the post-rent incomes of the poorest tenants.

(b) Housing and labour mobility

THE GOVERNMENT'S OBJECTIVES

- 2.30 The ability of households to move between regions is important in matching workers to jobs. Labour immobility may therefore add to unemployment and constrain economic growth. Labour mobility becomes more important in the context of Euro membership, as the burden of adjustment to economic shocks lies more heavily on internal factors of production.
- 2.31 International mobility data suggest that the UK population is less mobile than the USA and many northern European countries. However, these data do not always distinguish accurately between moving house locally, which often has little to do with employment and inter-regional mobility that often does.
- 2.32 Migration rates between English regions were higher towards the end of the evaluation period than at the beginning, although the pattern is cyclical, mobility rises with job availability. However, there is once again a distinct tenure pattern to migration rates.

Table 2.1: Migration rates per annum in England, by tenure 1973-98

Moves per thousand households between regions	1973-81	1984-91	1993-95	1996-98
Owner	0.78	0.58	0.57	0.75
LA tenant	0.26	0.29	0.67	0.56
RSL tenant	1.19	0.56	1.92	1.07
Private tenant	3.01	2.43	4.66	7.65
All	0.92	0.66	0.98	1.47

Source: Nick Donovan, Tony Pilch & Tracy Rubenstein (2002), *Geographic Mobility*, Cabinet Office Performance & Innovation Unit, p.8

- 2.33 These data, which show the highest levels of inter-regional mobility among private renters and the lowest among local authority tenants, have led to claims that there is a tenure effect. In other words, there are aspects of the housing system that act as a barrier to mobility, and hence to the restriction of employment opportunities.
- 2.34 For example, the locally-based nature of social housing allocations and its allocation primarily on the basis of need seem likely to deter inter-regional mobility. More recently attention has focused on the owner-occupied sector, and one commentator has claimed that rising levels of owner occupation have contributed to higher unemployment by deterring mobility. Evidence in support of this conjecture is weak, as well as being counter-intuitive, owner occupation having grown largely at the expense of social renting over the past two decades. Indeed some evidence suggests that the Right to Buy has in part facilitated rising mobility levels among manual occupational groups. More broadly, transaction costs for British owner-occupiers are lower than in many other European countries, and transaction levels higher.
- 2.35 However, there is evidence that mobility rates are higher out of high price areas than in to them, and high house prices (or indeed rents) act as a barrier to mobility. This will be particularly problematic, as differences in regional house prices are greatest at the very point where jobs are being created in the high-price areas. Further specific rigidities will also be created within pockets of declining and low demand, where people find it hard to sell and move on.
- 2.36 Generally, as with employment it is difficult to detect the *direction* of causation. In other words, people may choose to be private renters *because* they wish to be mobile, or choose to be owner-occupiers *because* mobility is less important to them. Age and household structure are also reflected in association with the importance that a household attaches to its mobility. Moreover, tenure correlates well with occupational class, which in turn is linked to mobility: professional jobs markets and their recruitment tend to be national, whereas unskilled job markets tend to be local and vacancies are often filled by word of mouth.

POLICY INSTRUMENTS

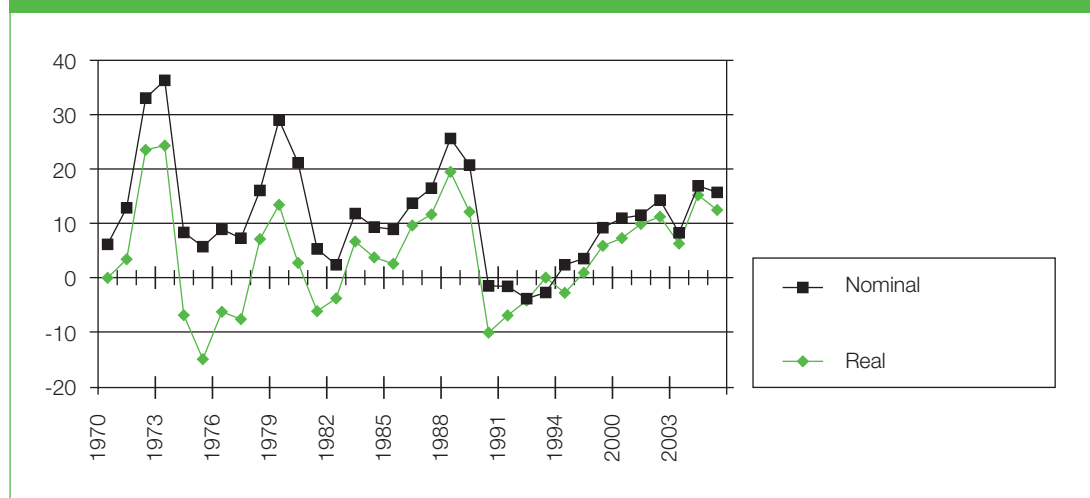
- 2.37 The Government aims to improve long-distance mobility in the social rented sector, in part through the establishment of a national database of social housing vacancies. However, it is difficult to see how this can aid mobility as the problem is not primarily one of lack of information of housing opportunities in areas of job growth. Rather the problem is one of scarcity combined with the primary function of the sector being unrelated to mobility.
- 2.38 Other policies are more indirect, in terms of offering incentives for those who may be under-occupying or no longer needing a social rented tenancy to move. In the former case, typically elderly tenants are offered a cash incentive to move to a smaller house. This frees up a family house for another tenant and in the latter schemes, such as the Tenant Incentive Scheme, provide a cash incentive for tenants to leave and buy on the open market. In neither case is there any necessity that such vacancies will be offered to longer distance migrants.
- 2.39 It is hoped that Choice-Based Lettings (CBLs) might encourage a better use of the housing stock by encouraging inter-area mobility, but it is difficult to see how they can materially assist long-distance mobility. Moreover, it should be remembered that a key objective of CBLs is to foster residential stability, i.e. to *reduce* transactions.
- 2.40 In establishing priority for a letting, moving into an area for work has commonly been awarded some place in allocation schemes. But in the generally reducing and oversubscribed social rented sector, such needs have counted for much less than more acute forms of need, such as homelessness or inadequate or over-crowded accommodation. As the issue of attracting and retaining key workers in high demand areas such as London and the South East has become more prominent, there are signs that authorities are increasingly introducing key worker priority into their allocations. However, the effectiveness of such moves is limited by the overwhelming demands from potential tenants with acute housing needs and a perception that many key workers are better served by low cost home ownership schemes – which give them access to their preferred tenure.
- 2.41 The Starter Home Initiative is largely an equity loans based policy under which loans are used to help to buy the property but are repaid only once the property is sold. It is specifically targeted at helping mainly public sector key workers (teachers, police and health workers) to buy houses in expensive areas. While the Government would maintain that these ‘key workers’ are necessary to the functioning of local economies, it is clear that there is no intention to subsidise private sector workers directly. The initiative can be seen primarily as a means of delivering public service outputs without challenging national pay bargaining in highly unionised sectors. Take-up of the scheme was initially lower than anticipated. Consequently, the rules have more recently been changed to allow a greater equity loan (from £10,000 to £50,000), providing greater help for qualifying households (although fewer will be helped overall if the total scheme costs are kept to the initial limit).

(c) Housing and economic instability

THE GOVERNMENT'S OBJECTIVES

- 2.42 An enduring feature of the evaluation period has been the instability of the housing market. Instability has two main manifestations: volatility in the level of housing transactions and volatility in real and nominal price levels. Since the early 1970s there have been four periods of rapidly rising house prices, three periods of falling real house prices and one period of falling nominal house prices. Transactions rise when house price inflation is high and fall when house price inflation is low or negative.

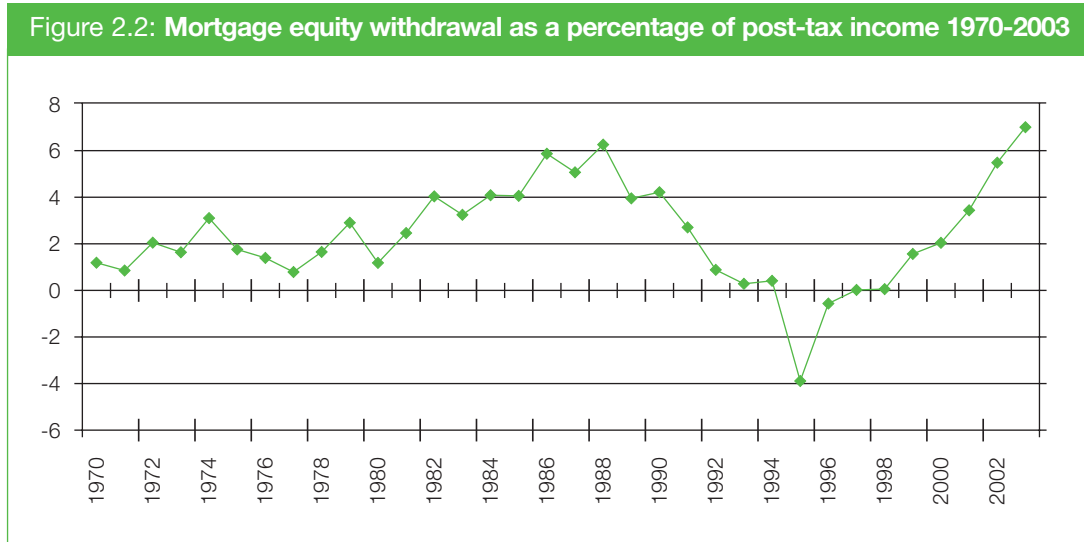
Figure 2.1: Annual percentage changes in nominal and real house prices 1970-2003



Source: DoE/DETR/DTLR mix-adjusted index, all dwellings

- 2.43 The mix of demand and supply pressures that have led to this instability has varied over the period. For example, the first boom in the 1970s was partly caused by an expansion in building societies' lending after a period of restraint. The 1980s boom was facilitated by mortgage market liberalisation that allowed the supply of credit to grow. The view that the boom and bust had been a 'one-off' reaction to deregulation was commonly expressed in the early 1990s. But as real house prices began to rise again in the late 1990s another view was developed that again suggested that house price inflation was a reaction to a one-off event. This time households were adjusting to the one-off but long-term fall in nominal interest rates. Whatever the importance of these one-off factors, on the demand-side, income growth and household formation all clearly all play their part in explaining house price booms. Some of these demand side factors are subject to more short-term volatility than can be met by the relatively inelastic supply response. Explanations of 'busts' of course reflect a reversal of some of these factors, but tend to indicate that the market has a tendency to overshoot during booms, perhaps because of the speculative nature of house purchase manifested in the so-called 'frenzy' effect.
- 2.44 The progressive worsening of the supply response, largely attributable to the land supply and planning system, to strong housing demand over the evaluation period suggests that the failure of the supply side is a growing element in the explanation for house price volatility.

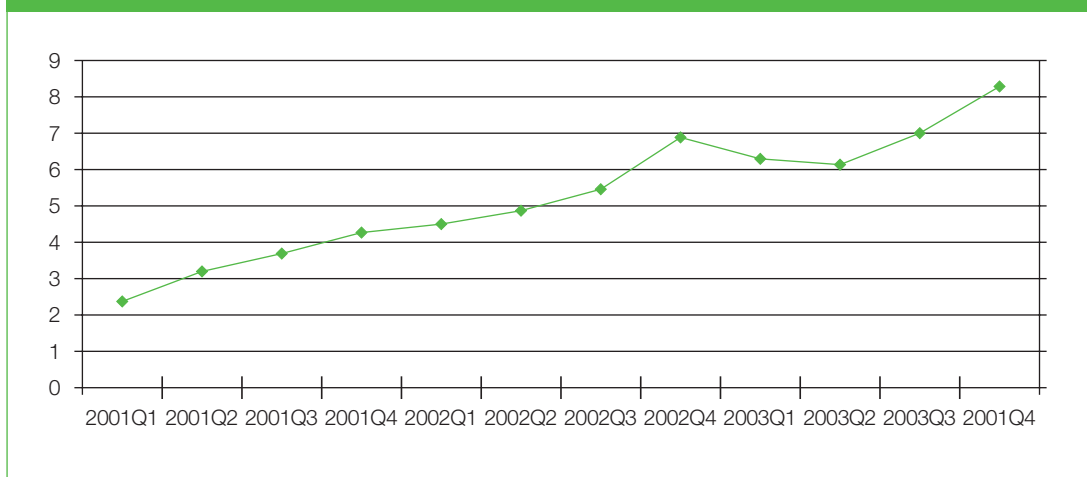
- 2.45 The importance of housing market instability increased over the evaluation period as it has become more closely linked to macroeconomic instability. This is because financial deregulation made housing a more liquid asset, i.e. it has become easier to convert equity into cash without actually selling the house. Periods of rising house prices have enable owners to undertake large-scale equity withdrawal. The development of a range of flexible mortgage products will increasingly make access to housing equity a routine possibility.



Source: Bank of England

- 2.46 The intervening slump in the 1990s led to large reductions, and even reversals, of this process as households repaid debt. Thus the volatile housing market contributed to volatile levels of consumption. When this was unexpected, as in the late 1980s, and monetary policy did not adjust accordingly, the impact was inflationary. Similarly, when monetary policy was constrained by ERM membership, the impact was deflationary.
- 2.47 However, since about 1993, monetary policy decisions have been taken with acute sensitivity towards the housing market. House price inflation has been combined with maintenance of low levels of inflation in the wider economy. This may be far from ideal with decisions of the Bank of England's MPC being a balancing act between the inflationary housing market and the depressed manufacturing sector. But it now seems that the volatile housing market has become a factor in macroeconomic management that can have a benign effect. Equity withdrawal has been rising strongly in recent years, underpinning strong consumer spending. Ironically, it has probably acted as a *stabilising* influence in the economy as a whole, counterbalancing manufacturing recession and a depressed stock market.

Figure 2.3: Mortgage equity withdrawal as a percentage of post-tax income 2001-2003



Source: Bank of England

POLICY INSTRUMENTS

- 2.48 The Government is seeking to broaden the range of policies used to stabilise the housing market.
- 2.49 Counter-cyclical demand-side policies were employed during the 1990s recession when stamp duty was suspended on transactions under £250,000 (i.e. then representing virtually all transactions) between December 1991 and August 1992. When the relative monthly distribution of transaction levels between 1993 and 1992 are compared, the main impact of this policy was to bring forward transactions from the autumn of 1992 (i.e. just after the tax concession ended) to the last months of the stamp duty 'holiday'. Thus the ability of stamp duty to affect housing transactions depended on its *temporary* variation. This may explain why the progressive increases in stamp duty on the more expensive properties (over £250,000 and £500,000) after 1997 probably had little impact on transactions, even in these segments of the market. However, prices are likely to have bunched just under thresholds, in the same way that earnings used to bunch beneath the old national insurance threshold. Some economists prefer property taxes to transaction taxes since the latter might deter mobility. The principal advantage of stamp duty is that it is easily and quickly controlled. On the other hand, property taxes are enduring and if re-valuations are sufficiently frequent might act as an implicit wealth tax. Looking ahead, the Government has attached importance to two structural features of the mortgage and housing market to decrease instability.
- 2.50 The first is the encouragement of fixed rate mortgages. David Miles' review identified several barriers to the development of long-term fixed rate mortgage products, and has made recommendations as to how they might be overcome. The question is whether fixed rate mortgages are the answer to instability. In the context of British membership of the Euro, the answer might be 'yes, in part' because 'inappropriate' interest rate decisions by the European Central Bank are likely to have a more powerful impact on the housing market if transmitted through a variable rate framework. The interest rate structure of the mortgage market is far less important so long as the UK remains outside the Euro, because, as noted above, the MPC

takes account of the condition of the housing market when setting interest rates. But the interest rate structure of the mortgage market is clearly not the only factor in explaining house price instability: for example the recent Dutch house price boom occurred in a fixed rate environment.

- 2.51 The second structural feature of the housing system identified as contributing to its instability is the supply side. The Barker Review has concurred with the evidence collected in this evaluation that suggests that the supply side has become a more important explanatory factor in explaining house price inflation (see para 1.38).

Choice in the social rented sector

THE GOVERNMENT'S OBJECTIVES

- 2.52 The Government wishes to reform the social rented sector by moving away from the current highly managed system. Currently most decisions are taken administratively, but the Government wishes tenants to exercise greater choice and wield more influence over management. This will involve reforming allocations, pricing and ownership structures. The Government's proposals aim to meet two broad objectives.
- 2.53 The Government's first objective is to create something more akin to a social market: housing let at below-market rents, but using pricing structures to register consumer preferences and choices. Tenants and prospective tenants are unable to exercise choice because allocations are made by administrative means, rent structures are incoherent and fail to reflect the relative values of properties and in any case the Housing Benefit system removes all price signals from the majority of tenants.
- 2.54 The second objective is to encourage local authorities to separate their strategic role of planning for housing needs, from the ownership and management of the stock. Tenant choice should be increased if there is a greater diversity of social landlord.
- 2.55 A third objective is to increase the responsiveness of local authority management to their tenants, through a series of initiatives including performance league tables, Best Value and tenant participation compacts.

POLICY INSTRUMENTS

- 2.56 The Government is introducing a series of interlocking policies that are intended to allow a social market to be developed in the social rented sector. These are:
- introduce choice-based lettings by 2010;
 - restructure rents so that they better reflect the relative attractiveness of individual properties by 2011;
 - reform Housing Benefit so that all tenants bear the marginal cost of housing.

- 2.57 Meanwhile local authorities are being given incentives to reduce their direct involvement with housing management:
- local authorities needing additional funding to bring their houses up to the Decent Homes Standard by 2010 can choose between three options: stock transfer, Arms Length Management Organisations (ALMOs) or the Private Finance Initiative (PFI).
- 2.58 The first set of policies can be characterised as a *demand-side* social market; the second as a *supply-side* social market.

Demand-side social market

- 2.59 The attempt to create a demand-side social market is fraught with a fundamental difficulty. The relative poverty of tenants in the sector makes it extremely difficult to introduce pricing mechanisms without jeopardising the safety net objectives of the housing and income maintenance systems. Their relative poverty was demonstrated clearly in Section 2 above.
- 2.60 There are two plausible ways in which the ability of tenants to make market-like choices can be enhanced: either a wider variety of household types are housed in the sector, *or* the incomes of households in the sector need to improve.
- 2.61 In its Green Paper, published in 2000, the Government stated that it ‘does not believe that social housing should only be allocated to the poorest and most vulnerable members of the community’. Nevertheless it recognised that priority should generally be given to households in greatest need. Because the poorest households have few housing options, some are likely to face total exclusion from the housing market if they are unable to obtain social rented housing. Faced with the inevitable trade-off between social mix and safety net objectives, the Government has opted to *strengthen* the safety net by increasing the obligations of local authorities towards homeless households. Consequently, the social rented sector is likely to become more homogenous in income terms.
- 2.62 The second route is to improve the position of existing tenants. The Government’s principal route for tackling poverty among the working age population is to promote employment in part through the use of in-work benefits, the Working Families Tax Credit and now the Working Tax Credit. The incomes of poor pensioners have also been enhanced through the Minimum Income Guarantee and Pension Credit. Should the Government’s strategy work then the basis for a social market in the social rented sector will broaden.
- 2.63 However, without an improvement in the position of many tenants, the key components of the social market can only ‘work’ through a trade-off with any safety net objective.
- 2.64 Choice-based lettings in themselves cannot create more desirable houses or neighbourhoods (although it is hoped that they will create greater stability and commitment in some places). The method of application is not the fundamental change brought about by choice based lettings in their pure form, rather it is the shift in *currency* from need to time waiting that alters the balance of power between applicants. It has long been observed that the ability of a better-housed applicant to wait (or hold out) for a desirable property can help to explain the

concentration of the very poorest households in the least desirable housing. A shift from need to time strengthens the relative position of the less needy: increasing their 'choice' at the expense of outcomes for the most needy. Perhaps for this reason most British choice-based letting schemes still place much emphasis on 'need'.

- 2.65 Rent reform should make rents reflect better the value of individual properties. Even if this does not prompt some tenants to move, in principle it may be a fairer system in distributional terms, even if an unreformed Housing Benefit system removes price signals from most tenants. In practice, pensioners who are living in family-sized homes seem likely to be a group that would be affected, and this may not be popular.
- 2.66 Housing Benefit reform is similarly constrained by the structure of the British social security system. It makes no allowance for housing costs in mainstream benefits. The 1988 Housing Benefit system is designed to prevent post-rent incomes from falling below social assistance levels, hence the payment of all of the eligible rent to households in receipt of social assistance and the 100% marginal subsidy for all other recipients.
- 2.67 The difficulty with the 'flat rate' Housing Benefit system being piloted in the private rented sector is that it risks allowing post-rent incomes to fall below social assistance levels when rents are above average. The trade off is simple: the more that low income tenants are exposed to price signals, the greater their shopping incentive, but the greater the chance that their post-rent income will fall below social assistance levels. The more that tenants' post-rent incomes are protected, the weaker are the price signals and the shopping incentives. Improved employment levels and the introduction of more generous in-work benefits (the Working Tax Credit) reduce the numbers entitled to HB, which open more households up to rent-related price signals. Similarly, the Pension Credit also increases the ability of some pensioner households to make a contribution towards their rent. But it is the success of the Government's employment policies that will most determine whether a social market in housing is possible.

Management effectiveness

- 2.68 Since choice is unlikely to be achieved through the measures aimed at creating a demand-side social market, much greater reliance must be placed on management effectiveness policies.
- 2.69 The most direct administrative route by which tenants might exercise consumer power over social landlords is tenant participation. But, while tenant participation may indirectly improve the culture of management, there is little evidence to suggest that it is an effective mechanism for the improvement of landlord performance. Tenants appear to have either lacked the motivation or organisation to exercise consumer power through the 'pick a landlord' mechanism. Although Tenant Management Organisations have proved to be efficient and popular with tenants, they make up only a tiny proportion of the stock, again reflecting a lack of motivation.
- 2.70 There is more evidence that the Government is rather more effective than tenants in extracting management improvements out of local authorities, not least because they can use the carrot of finances and the stick of regulation to achieve these.

Supply-side social market

- 2.71 One of the most successful housing policies has been the transfer of local authority housing to new housing associations. Although the first transfers took place in the late 1980s, the rate accelerated in the late 1990s. In total almost 750,000 houses, representing 18 per cent of the 1988 stock, have been transferred in this way.
- 2.72 Local authorities took advantage of the Large Scale Voluntary Transfer (LSVT) initiative and the Estates Renewal Challenge Fund (ERCF) largely because of the constrained financial choices that they faced. LSVTs were attractive to local authorities with surpluses on their Housing Revenue Accounts. This was because the new subsidy regime introduced in 1989 was able to ‘cream off’ some of these surpluses. Both LSVTs and ERCF were attractive to tenants, as restrictions on local authority borrowing, made stock transfer the only practical way in which homes could be improved, and tenants were further reassured by rent and other guarantees.
- 2.73 The Decent Homes standard is being used by the Government as a means of providing further incentives for local authorities to loosen their direct control over housing management. Local authorities requiring additional resources to meet the 2010 deadline for meeting the Decent Homes standard are required to either transfer stock, establish Arms Length Management Organisations (ALMOs) or (in principle) opt for funding under Private Finance Initiative (PFI). The latter option is still being piloted. ALMOs act as an additional lever over local authority behaviour as additional funds are made available only if management performance meets certain, stringent, standards.
- 2.74 These arrangements do not promote social market mechanisms in which tenants are making the decisions. Tenants are not responsible for initiating changes in ownership or management. Under LSVTs and ERCFs compulsory ballots give them a power of veto. Their involvement is reduced to being consulted in the formation of ALMOs or if the PFI is employed. Nor do these changes really widen the ‘choice’ of landlord open to tenants, as generally stocks are not being split up between landlords. (The viability of partial transfers is often diminished because of the high (‘breakage’) costs of repaying loans early.) Despite this, the desire to win a ‘yes’ vote encourages managers to develop packages that tenants will approve.
- 2.75 But these changes in social housing management arrangements do represent some form of quasi-market behaviour. It is one in which central government can be characterised as the ‘purchaser’ and the local authorities as a ‘provider’, despite the fact that the local authorities actually own the asset.

Sustainable communities and Supporting People

THE GOVERNMENT’S OBJECTIVES

- 2.76 It is widely recognised that general housing policies are by themselves insufficient to ensure that all citizens’ housing needs are met. For some people distinct policy instruments must be devised if all citizens are to be well housed.

POLICY INSTRUMENTS

- 2.77 Policies have been devised for three main groups for whom general housing policies are insufficient to meet their housing needs:
- Disadvantaged communities, such as Black and Minority Ethnic groups whose common interests are not *primarily* identified by where they live. Policies of mainstreaming, equality and diversity programmes have been devised to help provide a sensitive housing service to members of BME communities.
 - Disadvantaged communities defined by the geographical concentration of social exclusion and disadvantage. The Sustainable Communities strategy is aimed at these areas.
 - Disadvantaged *individuals* who need housing-related support to live independently, e.g. vulnerable older people, people with disabilities, those with learning difficulties or mental health problems, and homeless people. Supporting People is the key initiative in this area.

Disadvantaged communities: Black and Ethnic Minorities

- 2.78 A review of the housing outcomes of one disadvantaged group, BME households, showed how housing outcomes are, in many important respects worse than for the majority, white population. This is partly simply a reflection of wider economic inequality, an inevitable association in the largely marketised housing system. However, it was also clear that additional and broader factors work to exacerbate economic disadvantage. While it is acknowledged that poor quality housing and neighbourhood environments characterise many areas containing ethnic minority clusters, such broader factors have salience across the whole BME community.
- 2.79 A variety of barriers exist that prevent minority groups from accessing and benefiting from mainstream policies. These include inappropriate service delivery (including lack of translated material or interpreters, or inappropriate settings, such as insensitivity to the gender mix of staff and clients), a lack of awareness amongst households of the availability of particular services, and reluctance to face bureaucratic hurdles, or to undergo means-testing. Choice throughout the housing system is restricted to the extent that members of BME communities fear significant racially motivated harassment and violence, particularly in circumstances where they 'pioneer' entry into new neighbourhoods or tenure sectors.
- 2.80 An important policy tool used to tackle discrimination has been legislation, especially the Race Relations Act (1976) now amended in 2000 to place a positive duty on public funded authorities to promote race equality and increases the investigation powers of the Commission for Racial Equality. It also imposes duties on the Housing Corporation in its regulatory role, to eliminate unlawful racial discrimination, to promote equality of opportunity and promote good relations between different racial groups.
- 2.81 The audit and regulatory framework is key to ensuring that the goal of moving equalities issues into the mainstream of policy-making is attained. In recent years the development of much good practice advice, has disseminated clear guidance as to how organisations, and organisational practice, can counteract any unintentionally racist practices. Some of this best practice has evolved from the approaches adopted

by organisations specifically set up for and run by members of BME communities. But the biggest gains will not be achieved until all housing organisations take the issues seriously and follow effective and inclusive procedures and there are encouraging moves towards a wider agenda of 'mainstreaming' equalities issues across all public services.

- 2.82 The increased focus on empowering local authorities to develop a range of locally sensitive policy approaches is also likely to improve practice, as local authorities are better placed to develop a fine-grained picture of the diversity that exists within their locality and to work with their local voluntary sectors to respond to the particular needs of resident BME communities and to enable wider access to housing opportunities in the locality.

Sustainable communities

- 2.83 The extent to which problems of social exclusion have become concentrated in the social rented sector and particularly in local authority housing has been well documented, especially by the Social Exclusion Unit's reports. There is an explicit policy commitment in the Green Paper to 'promote social cohesion', reflecting the view that such concentrated exclusion is a problem for both those living in the socially excluded areas and for the population more generally. But the experience of the last 25 years has shown that both administered and market housing systems tend to 'sort' households, to create concentrations of households on the lowest incomes or who are otherwise deprived (as well as parallel enclaves of higher income households). The question must therefore both be whether current policies can tackle, improve and turn round, the places where disadvantage has become most concentrated and also whether they can achieve a greater mixing across space more generally than would otherwise be the case.
- 2.84 The Right to Buy has undoubtedly generated tenure-based polarisation. However it is argued that it has been a positive influence in maintaining mixed communities in spatial terms. It has also provided a cheaper access point into owner-occupation for lower income employed households helping to sustain mixed communities as these properties are transferred in the market. With reductions in discounts and other restrictions on the availability of the RTB for social rented tenants, this driver for social and tenure mix within local areas will be reduced. The ability of the planning system to continue to deliver affordable housing within new developments remains an important mechanism creating mixed communities for the future, as do other ways of enabling lower cost home ownership to be provided alongside both owner-occupied and social rented housing.
- 2.85 There has been an enormous commitment to tackling 'problem' estates over the period of the review, and there can be little doubt that a great deal has been learned about the complexities and dynamics of the underlying problems and (in)effective policy solutions. There have been many policy initiatives, and evaluations tend to suggest that it is typically possible to capture some significant gains, at least in the short-term. What is also evident, though, is that often these initiatives are swimming against the economic tide that is creating deeper and more sustained inequalities. So, for example, success in estate regeneration is increasingly seen as being founded on successful partnerships, where many of the agencies involved in tackling different aspects of a localities problems are brought together with the community to devise effective, 'joined up' strategies. But such local strategies may not be able to tackle longer-term problems of educational under-achievement and disassociation from the

labour market. The success of such partnerships may be disproportionately reliant on the commitment, ability and the working relationships between some of the individuals representing key partners. The emphasis on capacity building reflects this view.

- 2.86 Similarly, understanding of the dynamics of the low demand areas that have been emerging in some northern (private) housing markets is increasing and a large range of additional instruments have been put in place to tackle the problems identified. But any such measures must achieve success in a broader local or regional context of decline, where the lack of labour market opportunities is a particular issue driving broader population out-migration and income and skills decline. There is also a danger that such policies simply transfer the problems of low demand to other areas where less is being done to offset decline. Understanding these tensions and why and how particular policies are successful at this stage is as likely to be as valuable as introducing further change.
- 2.87 One of the most important issues with respect to housing and sustainable communities (defined in terms of economic and social as much as environmental sustainability) is the acceptability of social housing in the twenty first century. There is some evidence that the costs of management and maintenance within RSLs have been rising while aspirations with respect to tenure still heavily favour owner-occupation. Even if renting were to become more popular, as appears to be the case among younger households, the types of dwellings and the range of services required does not tend to favour social housing. The challenge facing social housing in the context of sustainable communities is therefore to provide both dwellings and services to which people wish to aspire.

Disadvantaged individuals: Supporting people

- 2.88 Supporting People is a major initiative, marking the largest transfer of public funds in this area since the introduction of Community Care a decade ago. Whereas Community Care focussed on relatively intensive home-care services, Supporting People aims to provide a whole range of housing-related support including low intensity support that was often lacking and resulted in people being left to struggle to live independently or institutionalised unnecessarily. The funding provided by the Supporting People programme is intended to help a range of household types with support needs to continue to be able to live independently in general needs housing. It is anticipated that such an approach, by filling a gap in the system of care provided by Community Care, can reduce the demands on social services, the NHS and other providers of institutional or intensive support and improve people's quality of life.
- 2.89 Bringing together various budgets, such as the former Housing Benefit service charge element, has enabled the programme to be funded. The budget is administered by the Homelessness and Housing Support Directorate within ODPM, which allocates funding to Supporting People Units in 150 Administering Authorities. These are charged with drawing up local strategies and contracting with a range of organisations (potentially in statutory, voluntary and private sectors) to deliver particular services.
- 2.90 The programme encountered some problems when it was introduced, arising from the speed of implementation. It was inevitable that established programmes tended to be the ones that were funded initially, at least until a review had taken place. Moreover, the scheme's costs were higher than anticipated, in part because various

schemes that would have qualified for Housing Benefit funding were established in the expectation that they would benefit from transitional payments. There are also more serious concerns. Expenditure does seem to have been concentrated on maintaining relatively expensive 'supported housing' rather than on ensuring there is a wide range of support services that are good value for money, good quality and meet local needs. Moreover, there are concerns that some 'cost-shunting' has occurred whereby services that should be funded by the NHS or social care services have been moved to Supporting People, albeit in modified 'housing' forms.

- 2.91 These may well be transitional problems that will be overcome over time. However, two underlying concerns remain. First, some studies have suggested that 'floating support' services alone cannot always overcome the barriers of unsuitable housing or localities or of low income to achieve independence. Secondly, it is difficult to see how strategic assessments can be made when allocating funds between such diverse groups as older home owners, people with mental health problems and homeless households, especially when such a wide variety of support instruments are employed.

Undermaintenance, repair and improvement

THE GOVERNMENT'S OBJECTIVES

- 2.92 The Government has made clear its intention to improve the quality of housing in all sectors. Legacies of disrepair in the local authority sector have received greatest attention, although a new interest in long-term maintenance has also emerged.

POLICY INSTRUMENTS

- 2.93 The main policies directed at current problems of under-maintenance and inadequate standards include:
- changes in the definition of unfitness to align it more closely with objectives;
 - more targeted approaches to the licensing of HMOs and private landlords in low demand areas;
 - a target to achieve the Decent Homes standard by 2010 across the social housing stock and to increase the proportion of vulnerable households living in decent homes to 70 per cent by the same date; and
 - subsidies and incentives to reorganise social sector ownership and management to realise imputed capital gains to pay for the investment required.
- 2.94 Ensuring longer-term maintenance depends mainly on the shift to resource accounting in the local authority sector and the incentive framework within which independent social housing providers are expected to operate.

- 2.95 As Theme Paper 3 makes clear the problems of under maintenance in the local authority sector are to a significant extent the outcome of past government policy, notably with respect to controls on expenditures and rents. The use of past capital gains through ownership re-structuring, supplemented by dowries and grants where that source is inadequate, provides a one-off opportunity to break the downward spiral. The Decent Homes target provides a benchmark against which to evaluate the use of resources. Even in the social sector however there are clear problems about the nature of this target and the extent to which it reflects household priorities and aspirations. Equally the new landlords' choice with respect to the mix of demolition and replacement as compared to upgrading and the timing of the upgrading programme is affected as much by the financial regime as by the underlying demand for the existing stock and the real resource cost to bring the property to acceptable standards. There is undoubtedly some concern that there will be a range of different types of waste associated with the policy. This should not detract from the fact that the current policy framework probably does allow the Decent Homes standard to be achieved for most local authority and ex-local authority property within a reasonable time-scale. The position with respect to mixed funded housing association property is less clear, but this is less of a problem because of the age structure of the stock.
- 2.96 The main problems in achieving the Decent Homes standards lie in the private sector where the instruments available to the government even to define the problem let alone address it are far less clear. There is very little funding available for grants to the private sector, compared to the 1980s. The problems associated with implementing this policy are three fold: the inadequacy of the evidence at individual property level; the costs to the local authority associated with enforcing the regulations; and, most important, the potential loss of poorer quality housing from the stock.
- 2.97 In the context of owner-occupation the result is likely to be benign neglect until the occupier dies or the property is put on the market, i.e. the current approach will continue. However the mismatch between the actual quality of the owner-occupied stock and the requirements of government regulation is likely to increase as the population of older owner-occupiers expands. This is because interest in and capacity to undertake large-scale maintenance tends to decline with age and it is well evidenced that unfitness is often positively correlated with satisfaction because of older households' inertia.
- 2.98 The Housing Act recognises that due to the problems associated with the regulation of private landlords, such regulations are best limited to areas where alternative, better quality accommodation is available, often at similar rents. However this does leave the problem of achieving the Decent Homes standard in higher demand areas mainly to the market supported by the local authorities' general regulatory powers. What is clear is that if these standards are too distinct from what the market is prepared to pay for, the result of strict implementation will be either a reduction in the availability of private rented housing or an increase in illegal lettings or both. Given the need for flexibility in the private rented market particularly in London and the evidence that this flexibility has been forthcoming at least to some extent as a result of deregulation, there is an obvious trade-off between ensuring modernisation and maintenance and ensuring supply. Taken together the demolition programmes in lower demand areas, where there is no requirement to replace fully and the implementation of the Decent Homes standard in the private sector could more than offset any gains from additional new provision.

- 2.99 The most important longer-term concern relates to whether the new financial regime, notably with respect to social sector rents, will actually provide adequate funding for the required continuing programme of maintenance and upgrading. To the extent that what is required is more expensive than allowed for in the past it must be covered by the rents paid by future tenants. The formula for rent setting does not directly allow for this. Indeed it is based on keeping the overall revenue of the sector constant. This will be viable if interest rates continually fall which is unlikely. Instead the real costs of labour are likely to increase raising real concerns about whether funding will be available. Thus once again the sector remains heavily dependent on central government adjusting policy in the face of external change.

SECTION 3

Housing futures

3. Introduction

3.1 By evaluating housing policies over a 25-year period we can make some generalisations about policy design and its success:

- Individual policy instruments are most successful when judged in their own terms. For example, Right to Buy raised the level of home-ownership, the homelessness legislation provided a safety net for eligible families, and the planning system helped to protect the countryside. A series of policies reduced government funding and improved its targeting.
- Policies often had unintended consequences. Frequently these were undesirable ones. So Right to Buy and the homelessness legislation contributed to the residualisation of social rented housing so creating concentrations of poverty and exclusion. Targeting subsidies on the poorest tenants reduced incentives to work.
- Policies often also presented trade-offs. For example, the greater choice for borrowers that arose from the liberalisation of the mortgage market also resulted in greater risks for certain households, as did changes in the safety nets. The planning system may have protected the countryside, but it has also contributed to housing shortages and higher prices. Transferring social rented housing to the housing association sector has fragmented management and increased the costs of funding. It has also fragmented ownership and therefore made regeneration and renewal more complex.
- Policies are most successful when they follow the grain of economic and social change, and least successful when they do not. On the positive side the staged removal of mortgage interest relief occurred during a period of falling interest rates that tended to outweigh the loss of subsidy. On the negative side policies aimed at neighbourhood regeneration have often produced disappointing results because they have been overwhelmed by unfavourable economic circumstances.
- Overall, there is considerable evidence of good governance with few instances of direct wastage of government funding and little large-scale dead-weight loss. Few policies have been almost entirely unsuccessful.
- Housing policies are clearly only one factor in shaping wider housing systems. Institutional, economic and social contexts are fundamental to shaping both policies and outcomes.

- 3.2 These messages also help us to consider how the housing system might perform in the future when presented by various challenges. We consider four tests:
- The robustness test: can the housing system absorb economic shocks?
 - The economic flexibility test: can the housing system meet the needs of a flexible economy?
 - The demographic test: can the housing system respond to future demographic demands?
 - The aspiration test: can the housing system respond to rising expectations?

The robustness test

- 3.3 For almost a decade the housing system has operated in a benign environment of low inflation, until recently falling nominal interest rates which nevertheless remain historically low and generally rising house prices. But earlier in the evaluation period, the housing market was faced with periods of inflation and recession. In this section assessments are made of the robustness of the housing system in response to recession, deflation and inflation.

RECESSION

- 3.4 Of particular current concern is how well the system would operate were there to be a sharp recession in the economy leading to sudden increased unemployment, as happened in the early 1990s.
- 3.5 With respect to the owner-occupied sector it is arguable that the system might well fare considerably better, at least in the short-term. The rate of growth of the owner-occupied sector over the last few years has been relatively slow and the numbers of first time buyers, who are generally most heavily exposed to debt, has been a falling proportion of total borrowers. Their average age is also higher. Transactions are considerably below their peak in the later 1980s when the advanced notice of the withdrawal of double tax relief from non-married couples induced additional activity. The proportions of households borrowing more than 100 per cent are quite low and concentrated more in the cheaper areas and downpayments have also grown. The market is more mature and the likely short-term consequences of recession less extreme.
- 3.6 Although the immediate problems arising from recession may be less there are three changes since the early 1990s which make it difficult to predict longer-term outcomes:
- the restrictions to Income Support for Mortgage Interest, the safety net available to owner-occupiers who lose their income;
 - the low rate of inflation; and
 - the extent of re-mortgaging.

- 3.7 Mortgage Payment Protection Insurance was meant to fill the gaps left by restrictions to government support, but it appears to have been taken up by the risk averse rather than those exposed to the highest risks. To avoid a repossessions crisis, mortgage institutions would have to help uninsured households to restructure their debt if they could not sell their houses. Low inflation would prolong problems and make restructuring more problematic while re-mortgaging means that even more established owner-occupiers may be as exposed (although the evidence suggests that most still have significant equity in their properties). These factors would all be of importance once house prices started to fall because one of the features of any asset market is that expectations of future prices help to drive the market. If prices are falling then more potential buyers will postpone entering the market, so contributing to price falls overshooting, as they did in the early 1990s.
- 3.8 An effect of recession on the rental sectors would continue to be offset by Housing Benefit. Eligibility has been restricted since the last recession, mostly in the private rented sector, and this would tend to weaken its stabilising influence. Nevertheless, a rapid rise in Housing Benefit costs would still be expected and it is not clear that a future government would readily accept a doubling in payments to the private rented sector, as occurred in the last recession. A further complication is the reaction of the relatively new Buy to Let market, especially where expectations of capital gains play a major role. If rents fell in the face of short-run variations in demand and owners needed to realise assets this could add a further turn of the screw.
- 3.9 Equally capital allocations to social housing would be likely to be reduced adversely affecting the capacity of the sector to benefit from lower costs. In addition much of the capacity to raise finance through S106 planning agreements depends on the maintenance of, and indeed the increase in, land values. A recession would make it easier for local authorities to negotiate affordable housing allocations on developments but harder to obtain the funding to achieve the output. Affordable housing supply continues to depend on government funding and the capital allocation system makes it easy to adjust available resources, and a government could increase new build in a counter-cyclical manner, as was done in the early 1990s.

DEFLATION

- 3.10 A rather different, though related, concern is that of deflation that occurred in Japan, after a massive housing and commercial property market bubble burst, and is feared in Germany as well as other parts of the European Union (though not following a property boom).
- 3.11 The policy approach often adopted in the face of deflation is to cut interest rates and pump money into the economy to increase consumer spending. This would make it easier to borrow to purchase housing and could help to maintain the housing market. However, the fear is that lack of confidence would restrict such spending resulting in declines in house prices. In an extended version of the recession scenario outlined above owner-occupiers would continue to be exposed to debt whose value would be maintained so reducing their purchasing power elsewhere. Long-term unemployment would make it difficult for institutions and households to address problems of default. Forced sales would further reduce prices, as would older households that need to realise assets in the face of falling incomes from savings.

- 3.12 Equally declining asset values would make it problematic for developers to sell properties because of the adverse impact on their balance sheets and would make it more difficult to obtain finance contributions through S106 planning agreements. Finally, tax revenues could fall while the costs of demand-led expenditures such as Housing Benefit would rise, putting pressure on capital allocations. Thus while on the face of it the deflation should make it easier and cheaper to build, this would be inhibited by a crisis of confidence in the market and would be likely to require active measures by government to revive confidence.

INFLATION

- 3.13 Concerns about potential inflation mainly relate to the impact of higher money interest rates on repayments. While perhaps half of all first time buyers have some form of short-term fixed interest rate mortgage the vast majority of remortgages are at variable rates with short-term discounts. A 2 percent increase in money interest rates would increase repayments for most mortgages by at least 25 per cent – a major impact on people's budgets. This in turn would reduce house prices that have been structurally increased by expectations of low interest rates. Again the fear must be that the volatility inherent in the UK housing market would continue. It remains exposed to macroeconomic pressures while house price cycles are exacerbated by changes in confidence

The economic flexibility test

- 3.14 The role of the housing system in inhibiting or facilitating the flexible economy is widely recognised in current policy concerns. The two most important relationships between housing and the flexible economy relate to labour mobility and work incentives and have been discussed in detail in Section 2. However, these are not the only areas where the housing system interacts with the economy.

FINANCE MARKET

- 3.15 The deregulation of the finance market has been a considerable success and whose impacts have been positive and are sustainable. The market is competitive and has attracted new entrants. New business even by established institutions is being undertaken at appropriate risk adjustment rates, although there is still 'excess' profit on older mortgages. The growth of mortgage backed securities especially in the last five years gives greater stability to the market by providing greater access to the wholesale market even though costs are somewhat higher. The new international accord on banking regulation, known as Basel 2, while not ideal from the institutions' point of view will allow the continued expansion of this market.
- 3.16 There is growing understanding that the more open finance markets in the UK and the USA while requiring much more complex risk management techniques also provide greater opportunities and make the market more responsive to policy change, which with good macro-management change can help stabilise the economy. Equally deregulation has enabled the mortgage market to restructure in ways which allow some economies of scale to be realised. While the housing finance market is not immune to large-scale shocks, for example arising from inflation or recession, and may not yet have priced all risks effectively, it appears relatively mature and reasonably robust.

- 3.17 Assessing the role of finance for the social sector is rather more complex. The numbers of institutions involved in lending are relatively small and there are elements of oligopoly or bilateral monopoly. The Housing Corporation's regulatory role is clearly seen as comfort by lenders. It is not clear that the risk assessment of Large Scale Voluntary Transfers in metropolitan areas has been fully assessed and it would be of some concern if lending had taken place on the assumption that the Government would bale out such landlords if they encountered major problems.
- 3.18 The implications for economic flexibility lie in the fact that up to now the financial market has been prepared and able to address risks as they emerge. Even the experience of the early 1990s did not curtail lending significantly. Competition may however mean that traditional prudential requirements are not fully being met and mechanisms for addressing sudden large-scale changes in the economic environment may still be inadequate. If so, external factors could undermine the stability of the financial market. Market instability would feed back into the stability of the overall economy. There is a low probability of these risks being realised, but if they were the costs would be high.

EQUITY

- 3.19 Partly because of the success of the debt finance market the position with respect to equity holdings is far less robust. Owner-occupiers are clearly heavily exposed to specific risks by holding so much of their wealth in a single property. Undiversified asset holdings are more risky than portfolios that are diversified by asset type, and in the case of property, location. This strengthens the case very considerably for stabilising the market further. The position is obviously least satisfactory in low demand and other high risk areas where lower income households who wish to become (or remain) owner-occupiers take on large scale specific risk in relation to their overall wealth position. The case for developing risk-sharing instruments such as shared equity or other forms of government support in order to help maintain and improve these areas is strong. Nevertheless, the development of such instruments or policies without generating opportunistic behaviour is equally problematic.
- 3.20 The more general question of whether financial instruments can be developed which allow people to have a broader housing asset portfolio while remaining owner-occupiers is one to which considerable attention has been given in the USA and Australia. There is nothing formally to prevent such markets from developing. There do however appear to be strong psychological barriers arising from the nature of owner-occupation. They are, however, relevant not just to problems with entry into home ownership but also to asset realisation by older owner-occupiers.
- 3.21 The development of shared equity approaches to problems of low-cost home ownership, except for shared ownership itself, where the intention is usually to move to full ownership, has been very limited. Equity mortgage approaches are however embedded in Homebuy and other government initiatives. The case for risk sharing together with maintaining property as affordable into the longer terms seems strong.
- 3.22 Equity based solutions in the private rented sectors are also not robust. Greater institutional involvement in the private rented sector would facilitate greater diversification as well as the allowing of economies of scale to be realised. This has not occurred significantly since deregulation and seems unlikely to do so without

government support, for example in the form of tax credits. In part this is about the nature of the private rented stock which includes relatively little flatted accommodation where economies of scale can be realised. In part it is the lack of stability and in part it is the dependence of the sector on capital gains. Although there are some signs of small-scale institutional investment the major growth has been in Buy to Let. This seems likely to remain the case so long as the stock market remains so uncertain.

- 3.23 Equally up to now there has been little attempt to introduce private equity into the social sector, although this is a growing trend in some other European countries. Enabling developers to bid for grant, the possibility of tax credits, and the possibility of time limited social sector provision are all under discussion, but are not yet on the policy map.
- 3.24 Overall there are clear benefits to more balanced portfolios for all those involved in housing but this is one area where developments have been slow. Equally there are opportunities to provide a wider range of tenures to meet diverse requirements.

FLEXIBILITY IN HOUSING PROVISION

- 3.25 A fundamental requirement for greater flexibility in housing and the economy is the capacity to adjust supply. It is fully recognised by government that this is an area of policy failure and it is being addressed by a range of analyses and policy statements. So far there is a vision but not the capacity to follow this through into higher output levels where they are needed.
- 3.26 As concerning is the evidence on the capacity to adjust the existing stock to changing needs and aspirations. There is some sign of successful change of use of buildings and land in inner city areas, notably in London. However, much of the existing stock is fairly inflexible and regulations including those relating to houses in Multiple Occupation and to Decent Homes that aim to achieve quality and safety objectives tend to reduce flexibility of use. Environmentalists are deeply concerned about the capacity to bring energy use in existing housing in line with sustainability objectives and there is a broader based concern about the inflexibility of building regulations and the impact of development controls on what is provided. All these factors tend to limit the range of housing provided and increase the costs of adjustment to changing requirements.

The demographic test

HOUSEHOLD SIZE

- 3.27 The average size of household in England has been declining consistently since the 1950s, as it has in almost every industrialised country. It is one of many factors, including the ageing of the population, smaller families, structural changes in family patterns arising from divorce and separation, as well as the capacity of many single people to live on their own. Yet England's average household size is still higher than many other European countries.

- 3.28 The capacity to choose to live independently for poorer and older households often depends on government welfare and housing policy. Once people have found a rented home they are eligible to claim Housing Benefit, so if their financial circumstances deteriorate, for example as a result of retirement, they can receive assistance to stay in their homes. There is no direct assistance for owner-occupiers, although housing wealth is still treated preferentially to other savings when determining access to income-related benefits. Were general welfare policies to change the impact on the capacity to live independently would be significant.
- 3.29 This is true at the early stages of people's housing careers as students leave college with increasing debts – with some evidence that this is reducing their capacity to form separate households in particular delaying their date of entry into owner-occupation. Finally, housing costs may inhibit household formation. This is one reason given for the apparent cessation of the downward trend in household size in London.
- 3.30 Nevertheless, demographics are not the only or even the main factor determining housing demand. There is continuing strong evidence that income growth produces strong demands for additional space. This implies that more single person households will become dissatisfied with small dwellings.
- 3.31 Government housing policy influences both the demand to live separately and the amount of space required by both directly and indirectly. Its most direct influence is through land use planning and allocation systems in the social sector, where third party standards are sometimes in conflict with the demands and aspirations of households. Powerful indirect influences arise through government's ability to affect disposable income, notably through benefits and other measures, such as tax policies, that alter the long-term economic cost of housing to households.
- 3.32 Over the next 20-25 years it can be hoped that income growth will be in the order of 50 per cent. This implies that the average household will want significantly more space and higher standards. The impact will undoubtedly be offset by higher prices especially if supply, and adjustments within the existing stock, remain so inflexible.
- 3.33 Two fundamental objectives of housing policy should be: first, to ensure that the costs faced by consumers properly reflect the real costs of housing to society; and second, to ensure that those with inadequate incomes are able to achieve specified standards. While these are clearly recognised by government there is still a great deal of incoherence in the overall approach.

THE AGEING POPULATION

- 3.34 It is well recognised that on average our population is getting older and that their needs change over time. It is equally well established that older households are often satisfied with poor quality ill-maintained accommodation and that purpose-built sheltered units are sometimes unpopular. The housing needs frequently arising from ageing include the flexibility of the dwelling, paying for maintenance, residential-based support and access to other services. Arguably, for the vast majority of households housing should be a matter of choice and the appropriate role for housing policy is to enable people to exercise, rather than to constrain, choice. While the Supporting People programme is intended to address some of these needs (see Section 2) there are clear areas of market failure where proactive policy is required:

- **Equity release:** Many elderly owner-occupiers are 'income poor' but 'asset rich', their incomes derived from pensions and state benefits are low, but they nevertheless have much wealth 'locked up' in their houses. The removal of mortgage interest relief makes possible the development of a market in equity release without cost to the Government. However, the market in equity release instruments is underdeveloped as a result of numerous difficulties. These include inadequate information (especially relating to the longevity of households and the future value of their properties), the interface between equity release and social security entitlement, the difficulty in anticipating changes in household behaviour that are designed to maximise the benefit derived from schemes, as well as the underlying risks of low demand and increasing costs. A further hindrance arises from the distinctive treatment of housing wealth whereby asset realisation reduces eligibility to welfare benefits whereas unrealised housing wealth does not. This is an area where 'joined-up' government has a major role to enable the private sector to develop while meeting both housing and tax efficiency objectives.
- **Poor information and low income:** The near demise of the system of private sector improvement grants has had significant impacts on the level of investment. The policies that remain in place are mainly those of regulation and constraint. Much of the regulation is specific to particular problems and is not always wholly orientated towards the achievement of particular outcomes. Consequently, these policies do not look for the most efficient way of achieving a safe, secure and warm environment. Issues relating to the relationship between housing and access to other services are also of importance, but are part of a broader agenda. On past evidence new initiatives need to be far more oriented towards consumer needs rather than to standards set by third parties.

IMMIGRATION AND DIVERSITY

Minority ethnic groups

- 3.35 Across the country only around 9 per cent of people are from minority ethnic backgrounds. But in some, mainly urban, areas they form a significant minority of households in need, and particularly in parts of London, they are the majority not only of those in need but of the population as a whole.
- 3.36 Housing policy in this area has been relatively limited. It has included the development of minority led housing associations, now often part of wider groups; the publication of good practice and performance standards with respect to provision; allocation and staffing in the social rented sector; and now the enabling of Islamic mortgages.
- 3.37 One particular difficulty in current policy has been the disincentives to provide larger dwellings within the social housing sector, which may well be exacerbated by the emphasis on S106 agreements. It is difficult to predict future demands as incomes rise and aspirations may become more similar to the majority.

In-migration

- 3.38 An associated problem is that of in-migration and both its immediate and long-term impact on demand. Changing patterns of migration suggest that much of the employment-related demand should be satisfied within the private rented sector, subject to minimum standards. Longer-term demands can be expected to be similar

to others at the same stage of their housing careers. The initial position of refugees and asylum seekers is rather different and must be dealt with as part of social sector policy. The main concern in the longer term is to integrate them into the labour market, which may also require their inclusion in training and other employment programmes. In-migration clearly affects the age structure and household size helping London in particular to be a younger more vibrant community. Flexible housing provision is fundamental to the continuation of this success.

- 3.39 Demographic change puts pressures on the housing finance and welfare systems, and requires flexibility of supply. Most of the problems are well recognised by at the present time policies remain generally piecemeal and reactive.

The aspiration test

- 3.40 The fundamental objective of housing policy remains a decent home for all. The system by which it addresses this aim is still highly delineated by tenure resulting in gaps, particularly with respect to provision for potential low-income owner-occupiers as well as differential treatment and opportunity for households in similar circumstances but in different locations and tenures. The most important factors determining the attainment of longer-term objectives, whether individual or governmental, relate to the underlying distribution of income and employment. Again these are not within the powers of housing policy which must therefore address the outcomes.
- 3.41 It is clear that housing aspirations continue to rise and that many of those seen as difficult to obtain in 1975 have been achieved for the vast majority of people. Systems are in place to meet the administratively determined Decent Homes standard at least in the social sector. However, the mechanisms for continued maintenance and improvement look much less robust.
- 3.42 Of fundamental importance with respect to aspirations is the role and acceptability of the social sector. If those in work are able to purchase and policies of low cost home ownership are successful in helping a further tranche of households into sustainable ownership it is inherent that the social sector must provide the assistance necessary to house those who are excluded. If this is not to be second choice it must not be spatially polarised and must be far more consumer-oriented. If anything, the regulation of the sector can tend to limit this potential. It is already clear, for example from the Starter Home Initiative, that over-specification and professionally determined constraints can make policies non-viable even in areas of high demand where they should be attractive. The ideal is again well understood, but the practicalities of providing a wider range of ownership and of greater consumer orientation is extremely difficult to achieve, especially without apparent waste and the fear of putting neighbourhoods at risk. Some of these questions and trade-offs relate particularly to the physical fabric and to the potential for renewal and regeneration, where diverse ownership makes implementation particularly difficult.
- 3.43 There are still many questions to be answered, notably with respect to whether policies should prioritise the most deprived areas or poorest households ('worst first') or prioritise the maintenance of those areas (and people) who may be rather better off. A related question is that of appropriate risk sharing, between individuals, communities and government. The vision is the same as 25 years ago – of integration between tenure choice and quality for all. While many of the immediate housing objectives have been achieved the problems of achieving that coherence remains unsolved.

An agenda for the future

- 3.44 The evaluation has shown that many policies pursued over the past 25 years have been successful in their own terms. However, many of the problems identified at the beginning of the period have not been addressed effectively.
- 3.45 We can identify four factors that explain this apparent paradox whereby individual policies are successful when assessed in their own terms while the housing system as a whole is seen to be dysfunctional:
- Emerging challenges remain unanticipated because policies are formulated as *reactions* to particular problems.
 - Policies are often *narrowly conceived* because they deal with the symptoms of particular problems and ignore wider contextual influences.
 - Consequent unanticipated behavioural responses to policy instruments sometimes spawn an array of follow-up policies leading to *excessive micro-management*.
 - There is little vision of what a coherent and robust system would look like, and therefore little attempt to test policies against achievement of this system.
- 3.46 Although a decent home for everyone at a price within their means should remain the key housing objective, the way in which housing policy is conceived must change if these problems are to be overcome:
- The first challenge is to achieve policy coherence. Housing policy has become increasingly fragmented, with the department responsible for housing losing influence both to what is now the Department of Work and Pensions and to the Treasury. The development of regional level policy making risks further fragmentation of the system. A mechanism for coherent cross-governmental policy development for housing, with a pre-evaluation element, is missing.
- This is emphatically not a call for policy to be based on rigid planning mechanisms, whether they are conceived at a national, regional or local level, although of course high quality information systems are a part of any well-functioning system.
- The second challenge is to consider demand and supply sides together *and* within the context of uneven regional economic development. This challenge arises from the recognition that the relatively efficient financial market combines with an inefficient supply side resulting in access and affordability problems, market instability and labour market immobility. Better pricing of the costs and benefits to society would help to achieve a more efficient level of land release within the current planning gain framework and would support the sustainability agenda.
 - The third challenge is to renew the emphasis placed on subsidised building. Demand-side subsidies alone have clearly failed in this context. The costs to government over time can be limited by the development of better financial instruments including greater use of equity finance. More fundamentally there is a strong case for more balanced regional economic growth which needs to be addressed in the broader policy arena.

- The fourth challenge is to recognise that nature of housing system and of housing policy is constrained by the social and economic context. Macroeconomic instability has disproportionate impacts on the housing system because of the importance of wealth and debt within it. This in turn feeds back on the achievement of macro objectives. Housing contributes to flexibility in macro-management, but similarly takes the blame for macro-mismanagement. This symbiosis needs to be recognised directly in policy development.
- The fifth challenge is to create greater choice in the social rented sector. This will be hard to achieve partly because of the poverty of tenants, partly because of over-regulation and partly because of under-supply. Yet the safety net role of the social rented sector is needed to respond to labour market polarisation, inequality and the nature of social security system. Crucially there is a need to reform the Housing Benefit system, in parallel with the new welfare state, particularly with respect to the tax credit system. This is a necessary first step for providing the basis of a viable social rented sector, as well as work incentives.
- The sixth challenge is to create a viable social rented sector, that is a tenure of choice. This challenge can be tackled only once the fifth challenge has been met. Only then would the social rented sector stand some chance of becoming viable, i.e. not trapped as a low-aspiration tenure subjected to excessive micro-management. The key is to promote its simultaneous disassociation from direct state ownership and management, to allow flexible response while promoting solidarity within the sector. Some redistribution of financial surpluses between social landlords is needed, but the incentive to create them too must be retained to allow reinvestment to meet long-term sustainability objectives. A degree of risk for social landlords is probably necessary to provide incentives to anticipate future demands and aspirations.
- The seventh challenge is to reduce the barriers between the social rented sector and the market sector. Once again the achievement of this objective is dependent on the achievement of the previous one. So far only the Right to Buy and to a far lesser extent low-cost homeownership schemes do this. Opening up subsidies to competition from private sector landlords would be one possible way in which barriers could be reduced. Equally, the potential for introducing equity into both social and private housing institutions should be addressed.
- The eighth challenge is to devise mechanisms for collective repairs within buildings in multiple ownership and for renewal in neighbourhoods where ownership structures are fragmented.
- The final challenge is to reconsider the distributive impact of housing subsidies alongside their wider social consequences. Inconsistencies in the distribution of subsidies are well recognised, especially the lack of support for low-income homeowners and the failure of Housing Benefit to provide adequate assistance for many of those at the bottom of the private rented sector. But the growing importance of housing wealth also needs consideration. Housing will increasingly provide a key link to wider social policy, including smoothing income over the life cycle (e.g. reverse mortgages in retirement and paying for long-term care); and intergenerational life chances (paying for children's education and inheritance). Housing raises new questions of equality of opportunity and outcome, as well as public spending.

APPENDIX 1 Table of key policies 1975-2000

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Widening Choice	Management Effectiveness
Legacy	<ul style="list-style-type: none"> • Large council sector & new building programme. • Active New Towns. • Two-tier planning system. • Locally variable policies on access & homelessness. 	<ul style="list-style-type: none"> • 1972 Act signals strategic shift from bricks and mortar to individual subsidies. • National system of rent rebates and allowances established by 1972 Act. • Attempt to harmonise local authority and housing association rent regimes in 1972 Act ('fair rents'). • Housing Association Grant (HAG) introduced by 1974 Act. 	<ul style="list-style-type: none"> • 1974 Act and associated policy changes introduced: <ol style="list-style-type: none"> a Housing Action Areas- small areas targeted for improvement- established by 1974 Act to replace General Improvement Areas. b New home improvement grant system. c Housing associations recognised as a vehicle for renewal of older housing areas. 	<ul style="list-style-type: none"> • Local authorities had the right to sell houses to their tenants. 	<ul style="list-style-type: none"> • Housing Corporation given role of registering and monitoring housing associations wishing to receive Housing Association Grant.
1975		<ul style="list-style-type: none"> • 'Fair rents' in local authority sector abolished. • shift from bricks and mortar to individual subsidies dropped, but rent rebates retained. 		<ul style="list-style-type: none"> • Sex Discrimination Act (1975). 	
1976	<ul style="list-style-type: none"> • Public Spending cuts: rapid reduction in LA new build. 			<ul style="list-style-type: none"> • Race Relations Act (1976). 	
1977	<ul style="list-style-type: none"> • Homeless Persons Act gives local authorities a statutory duty to house priority need unintentionally homeless households. 				

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1978	<ul style="list-style-type: none"> • Exhortation on land supply (C 44/78). • Housing Investment Programmes (HIPs) increase central control over local authority capital spending. • General and Housing Needs indices introduced to guide capital allocations. • Inner Cities policy foreshadowed rundown of New Towns. 				
1979			<ul style="list-style-type: none"> • Priority Estates Project established to experiment with localised housing management as difficult to let housing begins to be recognised. 		
1980	<ul style="list-style-type: none"> • Joint Housing Land Availability Studies established. • Urban Development Corporations (UDCs) established to encourage land and building reclamation in designated areas. 	<ul style="list-style-type: none"> • Strategic shift from bricks and mortar to individual subsidies resumes: 1980 Act strengthens Government leverage over local authority rents. • Major steps towards financial market deregulation. • First round of private rental deregulation (shorthold tenancies introduced). 		<ul style="list-style-type: none"> • Right to Buy introduced. • Secure tenancies for local authority tenants. • Tenants' Charter. • Low Cost Home Ownership schemes introduced. 	<ul style="list-style-type: none"> • Compulsory competitive tendering introduced for local authority building construction and maintenance. • Local authorities obliged to consult tenants on housing management.

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1981		<ul style="list-style-type: none"> • New subsidy system used to raise local authority rents. 			
1982		<ul style="list-style-type: none"> • All front-line Housing Benefit administration shifted to local authorities. 			
1983		<ul style="list-style-type: none"> • Mortgage interest relief ceiling raised to £30,000 – subsequently frozen. 			
1984	<ul style="list-style-type: none"> • New Town construction falls below 1,000 p.a. 	<ul style="list-style-type: none"> • Building society interest rate cartel collapses. 	<ul style="list-style-type: none"> • Building Act codifies building regulations. 	<ul style="list-style-type: none"> • Scope and generosity of Right to Buy extended. 	
1985			<ul style="list-style-type: none"> • Fitness standard defined. 	<ul style="list-style-type: none"> • Right to repair for local authority tenants. 	
1986			<ul style="list-style-type: none"> • Estate Action introduced. 	<ul style="list-style-type: none"> • Right to Buy discounts for tenants in flats increased. 	
1987				<ul style="list-style-type: none"> • Leaseholders' right of first refusal on sale of freehold; rights to appoint manager or to buy in event of mismanagement. 	

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1988	<ul style="list-style-type: none"> Housing Associations adopted as main providers of new social rented housing. Local authorities encouraged to shift from housing providers to enablers. Second wave of UDCs. 	<ul style="list-style-type: none"> Partial deregulation of building societies widens access to wholesale funding, broadens scope of activities and permits demutualisation. New and more restrictive Housing Benefit system introduced with safety-net role emphasised within social security system. 'Double' mortgage interest relief for unmarried couples ended. 	<ul style="list-style-type: none"> Housing Action Trusts introduced. Tenants' Choice introduced. 	<ul style="list-style-type: none"> Tenant's choice of landlord introduced – unused. Large Scale Voluntary Transfers begin. 	<ul style="list-style-type: none"> Tenants' Guarantee requires housing associations to consult with tenants.
1989	<ul style="list-style-type: none"> Rural exceptions planning policy for affordable housing announced. 	<ul style="list-style-type: none"> 'Ringfencing' introduced for local authority HRAs as part of new subsidy system. Private finance and rent deregulation for Housing Associations. Private sector rent deregulation on new tenancies. 	<ul style="list-style-type: none"> Home improvement grants means-tested. Replacement of Housing Action Areas with Improvement Areas. Local authorities empowered to fund Home Improvement Agencies. Fitness standard redefined. Introduction of private finance for housing associations' development programmes leads to a de-emphasis of rehabilitation activities DICE (Design Improvement Controlled Experiment) underway. 		<ul style="list-style-type: none"> Local authorities obliged to publish performance indicators. Performance expectations for housing associations introduced.
1990	<ul style="list-style-type: none"> Rough Sleepers Initiative (RSI) launched in London. 	<ul style="list-style-type: none"> 'Poll tax' replaces domestic rates. 			

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1991	<ul style="list-style-type: none"> Plan-led system (full local plan coverage intended). General planning policy for affordable housing introduced (C 7/91). More competitive HIP & Approved Development Programme allocation process. 	<ul style="list-style-type: none"> Mortgage interest relief restricted to basic rate of tax (25%). 			<ul style="list-style-type: none"> Tenants' Guarantee requires housing associations to provide performance information to tenants. Performance-based HIP funding introduced.
1992	<ul style="list-style-type: none"> Remaining New Town DCs wound up. PPG3 Housing Revised: guidance on planning & affordable housing issues. 	<ul style="list-style-type: none"> Housing market rescue package, including suspension of stamp duty and direct payment of Income Support for Mortgage Interest directly to lenders. 	<ul style="list-style-type: none"> City Challenge (1992-98). New approach to controlling residential design introduced through PPG1 and PPG3. 		<ul style="list-style-type: none"> Compulsory competitive tendering (CCT) for local authority housing management, but implementation delayed.
1993	<ul style="list-style-type: none"> Urban Regeneration Agency established to adopt partnership approach to land regeneration. 	<ul style="list-style-type: none"> Council Tax replaces 'poll tax'. 		<ul style="list-style-type: none"> 'Collective enfranchisement' or extended leases for leaseholders in flats. 	
1994	<ul style="list-style-type: none"> UK Strategy for Sustainable Development published. 	<ul style="list-style-type: none"> Mortgage interest relief restricted to 20%. 	<ul style="list-style-type: none"> Single Regeneration Budget 1994-2002 brings together numerous regeneration budgets. Constructing the Team (Latham report) heralds new approach to relationships between players in the construction industry. 		<ul style="list-style-type: none"> Housing Corporation makes tenant participation a key performance standard.

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1995	<ul style="list-style-type: none"> 1992-based household projections 4.4 million. 	<ul style="list-style-type: none"> Income support for mortgage interest restricted. Mortgage interest relief restricted to 15%. 	<ul style="list-style-type: none"> Housing Plus introduced by the Housing Corporation. 	<ul style="list-style-type: none"> Disability Discrimination Act. 	
1996	<ul style="list-style-type: none"> Site size thresholds for s.106. Local authorities' maximum duty to house homeless reduced to securing temporary accommodation for two years. RSI extended beyond London. 	<ul style="list-style-type: none"> Single Room and Local Reference Rent introduced to limit rise in cost of Housing Benefit. 	<ul style="list-style-type: none"> Mandatory home improvement grants limited to attainment of fitness standard. More strategic approach to renewal areas. Estates Renewal Challenge Fund launched. 		
1997	<ul style="list-style-type: none"> Reasonable preference in allocation to priority homeless re-instated. 		<ul style="list-style-type: none"> Social Exclusion Unit established to focus on 'worst estates'. 		<ul style="list-style-type: none"> CCT again delayed 'Best Value' piloted.
1998	<ul style="list-style-type: none"> Planning for affordable housing policies, strengthened – lower thresholds. Encouragement of Urban Capacity Studies (vs. HLAs). Last UDCs wound up. Rough Sleepers Unit established. 	<ul style="list-style-type: none"> Mortgage interest relief restricted to 10%. 	<ul style="list-style-type: none"> National Strategy for Neighbourhood Renewal published for consultation (in final form 2001). New Deal for Communities established. Rethinking Construction (Egan report) heralds push for modernisation of construction procurement. 		

Theme	Supply, Need and Access	Affordability & Finance	Housing and Neighbourhood Quality	Choice	Management Effectiveness
1999	<ul style="list-style-type: none"> • Acknowledgement of 'low demand' problem (PAT7). • Urban Task Force Report. • English Partnerships created out of merger of CNT and URA to promote 'sustainable communities' agenda. • First Urban Regeneration Company. • Regional Housing Boards & Statements. 	<ul style="list-style-type: none"> • Mortgage interest relief ceases. 	<ul style="list-style-type: none"> • Part M regulations insist on measures for accessibility measures in all new housing. 		<ul style="list-style-type: none"> • CCT abolished.
2000	<ul style="list-style-type: none"> • PPG3 Housing Revised: emphasis on brownfield/urban development, higher density, sequential testing. 	<ul style="list-style-type: none"> • Mortgage interest relief ceases. 	<ul style="list-style-type: none"> • Urban White paper sets out policies for the urban renaissance. • Housing Green Paper signals new emphasis on creating sustainable housing markets. • Green Paper develops positive proposals for improving the condition of council housing. 	<ul style="list-style-type: none"> • Race Relations Act amended: puts a positive duty on all publicly funded agencies to promote racial equality. 	<ul style="list-style-type: none"> • Housing Inspectorate established to assess local authority housing performance and compliance with 'Best Value', which superseded CCT and emphasises quality as well as cost.

The report gives an overview of the key messages from an independent desk-based evaluation of English housing policy between 1975 and 2000. Seven housing specific legacies that emerged from the evaluation period are identified. An assessment of current issues for housing policy at the end of the period is presented. Finally, the key requirements for the housing system to function well and the major challenges for housing policy in the future are described.

Price £15.00
ISBN 1 85112 753 4

ISBN 1-851127-53-4



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