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Housing and Housing Policy in England 1975-2002

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Chronology and Commentary

This paper should be read alongside The Context for Housing Policy Since 1975: Statistical Time Series with Commentary. *That is the source for table references in the text.*

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I The Starting Point: The Mid-1970s

1. The first half of the 1970s were a time of accelerating inflation and large increases in nominal interest rates (see Table A.3 in the Context for Housing Policy Since 1975, cited subsequently as “Context”), which were destabilising for the finances both of local authority housing and for the market for owner-occupied housing. In the local authority sector the increases in interest rates meant not only much higher loan charges generated by new capital expenditure, but also higher loan charges on debt already outstanding from past capital expenditure. Housing Revenue Accounts bore loan charges on their debt at local authorities’ “pool” rates (a weighted average of interest rates on all outstanding debt, so as existing debt was re-financed at successively higher rates, thus the weighted average rose), which reinforced the rise in total loan charges. Local authorities could not respond by raising rents, for from 1972 rents were governed by the provisions of the 1972 Housing Finance Act. It provided that local authority rents should be set according to the same principles as registered “fair rents” for private sector tenancies, which should be approached by a transition (subject to exceptions too complicated to describe here) of 50p per week. When enacted these provisions were expected to raise rents in real terms and reduce central government subsidy, and initially they did so. But by 1974 the rent increases could not keep up with inflation, let alone costs. Furthermore the incoming Labour government in 1974 used Counter-Inflation Act powers to freeze local authority rents, which added still more to the amount to be met by central government subsidy and (to a lesser extent) from local authority rate funds. The Labour Party manifesto pledge to repeal the 1972 Housing Finance Act was a further element of the starting point for the local authority housing system as of 1975.

2. A further important aspect of local authority housing as of 1975 is that the prevailing view was that the demand for local authority tenancies exceeded the supply almost everywhere, hence the more dwellings that could be built the better. There had been signs of a change in the late 1960s, but in 1972 and 1973 signs of shortage returned and the government of the day (Conservative) encouraged local authorities to build. This encouragement was strongly reinforced by Labour ministers at the Department of the Environment. In this respect 1975 was among the last days of the environment for council housing that had existed since 1945, the “Indian summer” of what appears in retrospect to some as the “golden age” of local authority housing.

3. The surge in interest rates had substantial effects on owner occupation with mortgages. The cost of mortgage tax relief rose very sharply (Table I.1), which made it politically controversial in a way that it had not been before. The course of interest rates had a very disruptive effect on the supply of mortgage finance and hence on the housing market. At that time building societies were the dominant source of mortgage loans. Their interest rates were set at recommended rates through the Building Societies Association (BSA). When market interest rates were falling, recommended rates to investors generally followed market rates downwards only part of the way with a lag; and when interest rates rose, building societies rates followed only part of the way, again with a time lag. As a consequence the competitiveness of building societies’ interest rates improved when the general level of interest rates was falling, and diminished when market interest rates rose. In consequence there were substantial swings in the intake of funds by building societies and hence in the amount of funds available for lending. When market interest rates fell in 1971 and most of 1972 building societies’ lending ran at high levels; when interest rates went the other way in 1973 building societies’ lending was sharply cut back. Late in 1973 the Bank of England’s minimum lending rate was raised to

13 percent, a hitherto unheard of level, and short-term interest rates rose to 15 percent. The building societies had already (in September 1973) raised their mortgage rate to 11 percent, an increase of 3 percentage points in little more than a year and did not attempt to follow the market rate upwards. The consequence was a "mortgage famine" which generated a housing market slump – the number of private sector dwellings started halved between 1973 and 1974. This slump followed closely after the boom of 1971 and 1972 which resulted in large increases in house price. In 1972 average house prices rose by 40 percent within the year.

4. The swing from (comparative) plenty to famine in the supply of mortgage loans and from "boom to bust" in the housing market put stabilisation of mortgage finance on the agenda. In 1973 schemes were mooted for essentially a "buffer stock" of mortgage funds, which would be built up when funds were plentiful, and released when funds would otherwise be scarce. To facilitate closer co-operation between building societies and government a Joint Advisory Committee on Building Society Mortgage Finance was set up in 1973, and from this emerged at the end of 1974 the "guideline" scheme intended to keep the volume of lending approximately in line with what would meet demands at only modestly rising prices. It followed government loans to building societies at £100 million a month for five months from April 1974 to finance house purchase loans, subject to the condition that loan rates were held at 11 percent. The expectation was that interest rates would fall back from the crisis levels sufficiently for building societies to be able to take in sufficient funds from investors to both maintain an adequate level of lending and repay the loans. Events turned out as hoped for: only a very small amount remained outstanding at the end of 1974/75 so the effect on the public sector borrowing requirement for the year was minimal. The guideline scheme worked by government and the building societies agreeing a monthly total of new lending; when the inflow of funds was more than sufficient to maintain this amount of lending the excess would be added to liquid assets; and when the inflow was falling short, liquid assets would be drawn on to finance the guideline level of lending.

5. A further part of the housing policy scene as of 1975 was the Housing Finance (subsequently Policy) review set up at the end of 1974. It was a response to the perception that large parts of subsidy expenditure and tax relief were providing poor value for money ("poorly targeted" in later parlance). Its scope was the entire housing finance system, and was intended to devise a more efficient and "rational" system. The Minister who set it up (Crosland) let it be known, however, that he would not look with favour on policies that resulted in more means-testing (not made public at the time). At the time about 40 percent received means tested assistance with rents. The review reported in 1977 (*Housing Policy*, Cmnd. 6851). Its report was widely criticised for being insufficiently radical. Its value lay in demonstrating that there was no set of reforms to be had that would deliver better housing to more households at lower cost to the public purse without there being a large number of losers; and that no simple local authority subsidy system could be devised which would cope inexpensively with economic conditions like those experienced in the first half of the 1970s.

II Local Authority Subsidies and Rents from 1975 to the Mid-1980s and Their Capital Expenditure

6. In 1975 the government wished to reform the local authority housing finance to meet the Manifesto commitment to repeal the Housing Finance Act 1972, and to fund a large programme of capital expenditure with only moderate rate fund subsidies and rent increases. The 1975 legislation (Housing Rents and Subsidies Act) abolished “fair rents” for local authority housing and the transition to these rents, with local authorities again responsible for setting rents for their dwellings, subject only to the long-standing obligation to make “reasonable charges” and review their rents from time to time, and a new reserve power for the Secretary of State (that in fact was never used) to restrict rent increases that were unreasonably large. The subsidy structure was much simpler than under the 1972 Act. Existing subsidies in payment were consolidated into a “basic element”, in substance the pre-1972 practice of leaving subsidies payable under earlier Acts to continue. Capital expenditure was supported by a “new capital cost element” of 66 percent of loan charges generated by new reckonable capital expenditure; partial protection against increases in loan charges on existing debt was provided by the “supplementary financing element” of 33 percent of increases in loan charges due to higher “pool” interest rates. The mandatory rent rebates provided by the 1972 Act were not altered. The 1975 Act was avowedly a stop-gap scheme until more fundamental reforms emerged from the Review. It was a very conservative measure (lower-case, of course) that was as far as practicable a return to the *status quo ante* 1972.

7. The Housing Policy Review searched long and hard for a subsidy formula that could be pre-set like a modern day equivalent of the “classic” subsidy of *x* pounds per dwelling per year for *y* years. The conclusion reached was no such formula could be found which would cope with high but unstable rates of inflation and high and variable interest rates when the difference between nominal interest rates and the rate of inflation (the “real” rate of interest) varied unpredictably. It concluded that in the extreme economic conditions experienced in the 1970s and which could reasonably be expected to recur, the balance of advantage lay with an annual subsidy determination. In outline, the expenditure side of the account would be governed by loan charges on outstanding debt and on debt generated by capital expenditure sanctioned by central government and by reckonable expenditure on repair and maintenance and supervision and management. On the income side there would be central government subsidy and a “local contribution” to be divided between rents and local authority subsidy (rate fund contribution) as determined by individual authorities. Interest rates were outside local authorities’ control; central government would absorb the difference, plus or minus, between actual interest rates and those assumed in the annual settlement. The central government’s control variables were the size of the capital expenditure programme, reckonable expenditure on repair and maintenance and supervision and management and the “local contribution”, which could be set according to policy. This system could fund any desired volume of capital expenditure in combination with any acceptable increase in rents (or rent and rates), and had the flexibility to cope with a wide variety of policy choices and economic conditions. A Parliamentary Bill to enact such a scheme was introduced in 1979 on the day before the government of the day was defeated in a vote of confidence. The same basic principles, however, appeared in the ensuing Conservative government’s subsidy legislation (paragraph 10 below).

8. The 1975 subsidy scheme had been designed to finance a large building programme; but in the later 1970s local authorities' demand to build fell away. This became clearly apparent in 1978, when most authorities asked for fewer approvals for subsidy than DoE offered them. The Department did all it could to get the programme taken up, but to no avail. At this time "difficult to let" entered the vocabulary of local authority housing. The demand for tenancies had clearly declined. In part this was due to the reduction in slum clearance activity – "pensioning off the bulldozer" is a phrase that dates from 1978 – but there were other reasons as well. With hindsight signs of the demand for council tenancies having become sated can be seen in 1968 and 1969. The boom in house prices and then the mortgage famine gave a boost to the demand for tenancies, but only temporarily. Less new building, of course, meant a slower growth in loan charges to be met from subsidies, rate funds, or rents.

9. Part of the response to these changed conditions was the beginning of a change of emphasis in capital expenditure towards what later came to be termed "reinvestment" in the local authority stock (see Table N.1), and more emphasis in management on responsiveness to tenants' wishes and consultation with them. Estate Action began in 1986 in response to a perception that in some estates conditions had deteriorated severely, such as to make them unattractive to new tenants in a position to choose.

10. The subsidy system described in paragraph 7 above would fund capital expenditure on stock renovation in the same way as new building. The subsidy mechanism in the Conservative government's Housing Act 1980 was in principle that described above as being in the previous government's subsidy Bill, but was used in a way very different from what the previous government probably had in mind. The Conservative government's aim was to shift from general to means-tested subsidy for housing costs, and make overall savings in the process. With 40 percent of council tenants receiving means-tested assistance considerable overall savings were in prospect if general subsidy could be reduced substantially. This was indeed the policy that lay behind the 1972 Act. Since the provisions of that Act that removed rents from local authorities' control had aroused strong resistance and in some instances open defiance, in 1980 financial pressures were relied on. The expenditure side of local authorities' accounts for determination of subsidy was governed by interest rates and approved capital expenditure, and reckonable expenditure on maintenance and management (generally speaking the previous years' level plus a prescribed percentage increase). On the income side the previous year's subsidy was increased or reduced by the difference between the increase in reckonable expenditure and the "local contribution differential", an additional sum per dwelling over and above the previous year's rent income and rate fund subsidy (if any), to be raised from rent and rates. How much of the "local contribution differential" should come from rents was for local decision; but the reformed system of local government finance as a whole could be used to exert strong pressure to get the extra funds from higher rents and not the rate fund. The "local contribution differential" was set at substantially more than the increase in costs per dwelling, with the result that rents were forced upwards (see Table J.1) and general subsidy reduced. Rent increases under this system would continue for an authority until it was "out of subsidy", i.e. its entitlement to general subsidy was reduced to zero. When this would happen depended not only on the increases in reckonable expenditure and successive values for the "local contribution differential" but also on where the authority started from. In essence, an authority's rents would be forced up until its gross rent income (i.e. before deducting rent rebates) covered historic costs in full. The scheme thus did not attempt to remedy anomalies between authorities in historic costs per dwelling, which had been a major part of the case for separating rents from historic costs in the 1972 Act. That the 1980 Act did not seek to

prescribe rent levels helped make it more acceptable, as did the formal power of authorities to set the rents for their dwellings. The Act succeeded in forcing up rents in real terms, drastically reducing general subsidy, and making savings in subsidy expenditure overall.

11. When an authority was "out of subsidy" the mechanism of the 1980 Act could not compel further increases in rents apart from what was needed to offset increases in expenditure. Surpluses were permitted by the Act and could be transferred to the rate fund. To do this was, however, widely perceived as "making a profit out of tenants". Consideration was given to using the Rate Support Grant mechanism to exert pressure on "out of subsidy" authorities to raise rents and make surpluses by deeming notional surpluses as negative expenditure ("negative E.7"). But strong opposition was aroused, from Conservative local authorities as well as Labour, and the idea was dropped. There matters stood until local authority housing finance was reformed again in 1989 (see paragraphs 23-24 below).

12. The mandatory rent rebate scheme was one of the least controversial provisions of the 1972 Housing Finance Act, and it was continued without change in the 1975 and 1980 legislation. Very little interest was taken in rent rebates and allowances in the Housing Policy Review, and they hardly figured in its report. Means-tested assistance with housing costs was however raised as a policy issue by the Supplementary Benefits Commission. Supplementary Benefit was paid at scale rates plus rent, and hence for claimants receiving it, Supplementary Benefit met 100 percent of any increase in rents. Rent rebates met (with exceptions too complex to explain here) only 60 percent of any increase in rents. On the other hand, the means test for Supplementary Benefit included capital as well as income, whereas for rent rebates the means test depended on income alone. The income from financial assets was treated like other income, but the amount of the assets was not part of the test. For a tenant who could claim both rent rebates and Supplementary Benefit, a calculation was required to work out which was the "better buy". This so-called "better off" problem led the Supplementary Benefits Commission to press the case for a unified housing benefit. Housing Benefit was brought into being in 1982 and 1983. It comprised two parts: the former rent element of Supplementary Benefit, termed "certificated Housing Benefit"; and "standard Housing Benefit", which replaced rent rebates. The two systems were in effect brigaded rather than merged. A true merger came in 1988 (see paragraph 25 below). Administration of both forms of Housing Benefit became the responsibility of local authorities; and within government both became the responsibility of the (then) Department of Social Security. Social security principles and thinking came to dominate its future development. Rent rebates were designed for householders in low paid work, or retired with an occupational pension or some invested savings who were not eligibly for Supplementary Benefit. Supplementary Benefit recipients were for the most part different.

13. Local authorities' housing capital expenditure was sharply cut in the early 1980s. Mention was made above (paragraph 8) of how the demand by local authorities to build fell away in the late 1970s, so initially the reductions from the previous government's housing capital expenditure programme did no more than bring the programme amounts into line with what authorities were likely to spend anyway. From 1981 onwards however the reductions in planned capital expenditure (see Tables G.2 and N.1 for dwellings completed and expenditure) were "for real". DoE Ministers rejected arguments by the House of Commons Environment Committee (among others) that the planned expenditures were well below what was needed to finance new building on a scale that would meet need as estimated by the Housing Policy Review. Capital expenditure on local authority housing had to be determined not by estimates of need (which

anyway were speculative) but by “what the country can afford”. By that was meant by the government’s overall fiscal stance and the provisions made for other public services. At this time increases in real terms in defence expenditure were being planned. The government’s stance was to simultaneously reduce taxation, deflate, and re-arm. To do this substantial reductions in civil public expenditure were needed. Most were found from housing capital expenditure, supplemented by the subsidy savings (paragraph 9 above). The judgement of the government of the day that large reductions in expenditure could be got from housing (housing associations as well as local authorities) without unmanageable opposition proved correct. It is here that housing could be seen to have lost its earlier political salience. For the three decades after 1945 housing was thought to be a make-or-break issue for governments. Events in the early 1980s demonstrated that this was no longer so. Whether in reality the change came earlier without being recognised is an interesting question but not for discussion here.

III Owner-Occupation, Mortgage Finance and the Right to Buy

14. Mention was made in paragraph 4 above of the “guideline” scheme to regulate the volume of lending by building societies so as to reduce the risk of “booms and busts” in the housing market. The scheme was accepted by building societies as a lesser evil than a statutory stabilisation scheme, and had been “sold” to Ministers as a way of achieving the objects of a statutory stabilisation fund that was more acceptable to building societies. By 1978 the building societies were becoming restive, and their opposition was greatly strengthened when DoE invoked the power to call for a reduction in lending in an attempt to restrain an acceleration in house prices. Conservatives had never given the scheme any support and it lapsed when they took office in 1979. Interest rates were raised drastically in 1979 to restrain inflation, and the Building Societies Association’s recommended mortgage rate reached 15 percent. In contrast with 1973 and 1974, the government made no attempt to mitigate the effects of high interest rates on owner-occupiers with mortgages. In 1981 a major change in the way in which monetary policy was conducted allowed the “High Street” banks to enter the mortgage market on a large scale. Entry of the banks into a market hitherto dominated by building societies brought about a complete change in the way in which the mortgage market operated. Mortgage rationing, which had applied with varying degrees of severity since the mid-1950s was replaced by competition to lend, at market interest rates instead of rates at below market levels.

15. The Housing Policy Review did not recommend changes in tax relief on mortgage interest, notwithstanding the volume of criticism of the relief in memoranda submitted to the Review and elsewhere. For that the Review was strongly criticised. Few arguments were advanced to rebut the criticisms of it other than the inequitable distribution of losses from a straightforward reduction in the rate of relief or its abolition. For as well as the distribution with respect to income, there was a distribution with respect to the length of time a household had been a home owner with a mortgage. The losses would fall heavily on households who had recently become house buyers and had mortgages that were large in relation to income. In 1983 mortgage interest relief given through the tax system was replaced, for basic rate tax payers, by mortgage interest relief at source (MIRAS). Higher rate tax payers received MIRAS through their mortgage lender, and relief from higher rate tax through the tax system. That made higher rate tax relief stand out more clearly, and was widely regarded as an anomaly. It nonetheless remained unchanged until 1991. Also in 1983, the upper limit to the amount of mortgage debt on which the interest was eligible for tax relief was raised from £25,000 set in 1974 to £30,000.

16. The Right to Buy was a policy that had earlier antecedents, which did not, however, give any inkling of the scale of its results. Sale of council houses at a discount off market (in the sense of vacant possession) value had been a Conservative policy since the later 1960s and had been strongly encouraged by the 1970-74 Conservative government and Conservative authorities, notably Greater London and Birmingham promoted sales. Sales of 60,000 (including new towns) in 1972 (see Tables F.1 and F.2) were high in comparison with earlier years, but far below the early 1980s. Authorities were authorised by Ministerial general consent to sell at a 30 percent discount. The Housing Act 1980 raised the discount by one percentage point above

30 for each year as a tenant, with a maximum of 50 percent after 20 years. This Act also provided a right to buy on these terms to tenants of three years' standing or more. In practical terms a right to buy is a duty to sell, in defined circumstances and on specific terms. In 1984 the maximum discount was raised to 60 percent after 30 years and the minimum qualifying period shortened from three years to two. Then in 1986 to make flats more attractive to sitting tenant purchasers, the discount was increased by 2 percentage points a year from the initial 30 percent, with a maximum of 70 percent after 20 years. The long term financial results of selling council houses to sitting tenants at such discounts were the subject of controversy in the later 1970s and in 1980, and were shown to depend on future rates of increase in rents, and on the volume and timing of major repairs and renovation. These were necessarily uncertain so finality was unattainable. Interest in this financial controversy quickly lapsed, however, in the face of the manifest popularity of the policy. No appraisals of the financial implications of the changes to sales terms in 1984 and 1986 were published, nor was there any pressure for them.

17. Right to Buy purchasers in the 1980s were primarily family households with one or often two earners (see Table E.4). These were full rent payers while tenants. Transferring them out of the local authority sector therefore increased the proportion (as distinct from the absolute number) of tenants that were receivers of Housing Benefit. With many fewer tenants paying full rents, the gains in prospect from raising rents in order to further shift the balance between general and means tested subsidy would be smaller than in the early 1980s (paragraph 10 above). That was to prove important in the 1990s.

IV The Private Rented Sector to the Mid-1980s

18. Between 1975 and 1980 there was no legislation affecting the private rented sector. In 1976 the government of the day began a review of the Rent Acts which included a consultation exercise in which proposals and suggestions were invited for ways of increasing the supply of accommodation for rent, excluding changes to security of tenure and to levels of rents set by the "fair rent" system. No policy proposals had emerged when the government left office in 1979. The Housing Act 1980 made changes to the "fair rent" system to make it easier for private sector rents to keep up with rising costs and prices; and introduced two new forms of renting: "shorthold" and "assured tenancies". The legislation that set up the "fair rent" system (Rent Act 1965) had provided that an application could be made to re-register a fair rent after an interval of three years. The 1974 Rent Act provided for phasing of rent increases from re-registration, that the increase should take place in three equal steps at annual intervals. The 1980 Act reduced the interval before re-registration could be applied for to two years, with the increase to take effect in two stages, the first immediately, the second one year later. The landlord's rental income was increased, but without any change to the definition of a fair rent, and no change to the security of tenure that went with "regulated tenancies" (i.e. tenancies to which the fair rent system applied).

19. "Shorthold" was introduced in response to the contention that letting of accommodation by private owners was inhibited not so much by regulation of rents as by inability to regain possession of dwellings other than when the tenant left. With regulated tenancies there were two successions: one succession (typically by the tenant's widow but not necessarily so) had been a feature of statutory security that went with rent control ever since 1915, but the second was added in 1965. With shorthold, the letting was for a period of at least one year but not more than five. During this term security of tenure and regulation of rents were the same as with regulated tenancies, but at the end of the term security of tenure came to an end. Assured tenancies under the 1980 Act need only a brief mention as they were applicable only to new or substantially renovated dwellings owned by organisations approved by the Secretary of State.

V From the Mid-1980s to the End of the 1990s: Overview

20. The later 1980s and the 1990s saw major changes in all three main areas of policy: the social rented sector; owner-occupation; and private renting. Common to all was a diminution in the role of government, central and local. New building of housing for letting at subsidised rents by local authorities came to an end in the mid-1990s, and this function was taken over by housing associations (Registered Social Landlords or RSLs after 1996), with local authorities' capital expenditure concentrated on renovation or "reinvestment" in their housing stocks. Owner-occupiers' tax relief on mortgage interest was reduced and then abolished, so that owner-occupiers were fiscally "on their own". Private sector rents for new lettings were de-regulated from January 1989 onwards. Financial pressures were important for the changes to finance for social rented housing and owner-occupation. Housing associations are private organisations, though regulated and subsidised, so their borrowing counts as private, and is not part of public expenditure. The reduction and then abolition of mortgage interest relief appears to have owed much to the wish of Chancellors of both parties to increase the revenue from income tax without raising the actual tax rates.

VI Local Housing Authorities and Housing Associations/RSLs from the Late 1980s to the Late 1990s

21. The decisive change for the structure of “social” housing (used here to mean letting of dwellings by public or non-profit-making bodies at rents well below market levels) was private finance and mixed funding for housing associations. Under the system in force from 1974 to 1988 rents charged by housing associations were governed by the “fair rent” principles that applied to the private rented sector, and their capital expenditure was financed by a combination of grant and loan from the Housing Corporation, all of which counted as public expenditure. The Housing Act 1988 withdrew this restriction on the rents that housing associations could charge, which enabled them to borrow from private sources to finance capital expenditure, in practice from banks and to a lesser extent building societies. To enable rents to be charged that would be within the reach of tenants employed full-time, subsidy would be required. This was given by the Housing Corporation as Housing Association Grant (HAG), after 1996 Social Housing Grant (SHG). Initially a 50:50 division between private and public funding overall was looked for, with different proportions in low-cost and high-cost areas. But rising costs resulted in increases in the public share of mixed funding to 60 percent or over. Even so new building by housing associations was less costly in public expenditure terms than building by local authorities, whose capital expenditure in its entirety counted as public expenditure. Therein lay the main attraction of making provision of new dwellings to let at subsidised rents a function of housing associations instead of local authorities. It was also advocated as providing an alternative source of “social” housing and so avoiding local authority monopolies. Whether housing associations provided a higher standard of service to tenants was the subject of dispute that was vigorous but inconclusive.

22. The 1988 legislation provided for transfers of dwellings from local authority ownership to housing associations. Most of these transfers took the form of “large scale voluntary transfers” (LSVTs) by which a local authority’s entire housing stock was transferred to a specially created housing association. East Cambridgeshire district council, for example, transferred its stock to the Hereward Housing Association. At least for a time, most of these LSVT housing associations were in substance the transferring authority’s housing department with a new name, a new legal status, and a new financial structure. The housing association bought the dwellings from the transferring authority (at tenanted value) with finance from banks on similar terms to mixed funding for new building. Usually additional borrowing facilities were arranged at the same time to finance repairs and renovation work. The attraction of LSVTs from the local authorities’ point of view was that needed repair and renovation work could be funded from private sources and not subject to public expenditure controls, when the amounts that they themselves were permitted to borrow were insufficient. The balance of advantage for tenants was more equivocal owing to the effect on rents. For a transfer to go ahead there had to be a financial plan acceptable to lenders, in which income from rents was a vital part. For a transfer to go ahead, approval was required from a majority of tenants voting in a ballot. Transferring authorities of course sought to convince their tenants to vote in favour, but in a number of instances strong campaigns were waged by opponents. Not all proposed transfers were approved; but the number that were approved (see Table F.3 for the number of transferring authorities and numbers of dwellings) was sufficient to give rise to predictions that council housing would have come and gone within less than a hundred years (counting from 1919). That, though, would be a matter of appearance rather than substance. The dwellings would still be there and so would the tenants.

23. Local authorities' housing finance, specifically subsidies, was reformed again by the Local Government and Housing Act 1989. It made two main changes. One was to "ring fence" housing revenue accounts by prohibiting subsidy from authorities' general funds, so as to make rents dependent on costs and central government subsidy alone. That would put local authorities on a par with housing associations, and prevent competition being distorted by local authorities being able to subsidise rents from their general funds, to which there was no housing associations equivalent. Rate fund contributions to housing accounts had been mandatory from 1919 to 1956; discretionary from 1956 to 1972; mandatory again from 1972 to 1975; discretionary from 1975 to 1989, and then prohibited.

24. The subsidy system was reformed in a way that would restore to central government the influence over local authorities rent levels that was lost when authorities came "out of subsidy" (see paragraphs 10 and 11 above). Large amounts of interest from the proceeds of Right to Buy sales ensured that for most authorities gross rent income and interest and other receipts were sufficient to meet loan charges and maintenance and management costs so that they remained "out of subsidy". Very important here is that housing revenue accounts were credited with gross rent income, with tenants' Housing Benefit (rent rebates) financed separately from central government and rate fund subsidy. The 1989 reform provided that authorities whose gross rent income and other receipts exceeded reckonable costs should in effect put this surplus towards the cost of rent rebates. With these arrangements an authority would only be "out of subsidy" if its income from rents and other receipts was sufficient not only to meet costs falling on the housing revenue account but to pay for rent rebates as well. Rents were raised as intended by nearly 40 percent in real terms between 1990 and 1995 (see Table J.1). But raising rents in order to produce savings by shifting from general to means-tested subsidy did not, however, work as well in the early 1990s as it had done in the early 1980s. Then 60 percent of tenants paid full rents and 40 percent received means tested assistance, either through rent rebates or the rent element in Supplementary Benefit, but in the early 1990s between 60 and 65 percent of tenants were receiving Housing Benefit and so would pay nothing of any rent increase. Furthermore, rent increases resulted in increases in public expenditure through payments linked to the Retail Prices Index (RPI) either by statute (e.g. National Insurance retirement pensions and public service pensions) or contract (index-linked National Savings Certificates and gilt-edged securities). Rents were entered in the RPI gross, i.e. before deducting Housing Benefit, which increased the weight of local authority rents in the index. Additional public expenditure generated by these index effects went a long way towards cancelling out any housing subsidy savings. By the middle of the 1990s it became accepted that no significant further public expenditure savings were to be had by raising local authority rents in real terms. Between 1995 and 2001 average rents increased by only 1.1 percent a year in real terms.

25. In 1988 Housing Benefit was reformed, to create a single structure in place of the two types of benefit that had existed since 1983 (see paragraph 12 above). The single structure was modelled on Income Support, the social security safety net, particularly in respect of the means test. As originally set up, Housing Benefit (like Income Support) ceased to be available to households with assets greater than £8,000, with reductions in benefit to people with assets between £3,000 and this level. The effect was to withdraw benefit from people with quite modest amounts of savings; and the steeper taper, i.e. the rate at which benefit was reduced as income increased withdrew or severely reduced the benefit to tenants who had small occupational pensions or were in low paid employment. Protests led to the assets maximum being raised, but taken as a whole the effect was to withdraw benefit from many tenants not solely dependent on social security benefits who had received rent rebates since 1972. Housing Benefit was stamped even more clearly as part of the social security system rather than part of housing finance.

VII Owner-Occupation in the Later 1980s and the 1990s

26. "Boom and bust" in the housing market in the early 1970s had led to attempts to stabilise the market by stabilising the supply of mortgage finance (paragraph 12). Interest in this area lapsed at the end of the 1970s, at least in policy terms. The next two decades saw a sequence of boom-bust-boom, as house prices rose fast between 1983 and 1989, then fell in nominal terms down to 1993; and then rose fast from 1997 to 2002. The annual rates of increase of house prices in 1983-1989 were below 1970-73 (see Table H.1, 10 percent a year in real terms as compared with 17 percent) but the cumulative increase was greater because the boom lasted so long. Increases in mortgage rates to 15 percent in 1989 precipitated a housing market slump in which house prices fell not just in real terms but in nominal terms as well, for the first time since the early 1950s. A consequence was "negative equity", where the value of a mortgaged house fell below the amount of the loan secured on it. This was a new peril for owner-occupiers, and together with the rise in unemployment resulted in a large increase in the number of mortgage defaults (Table I.2). The housing market slump was not addressed by policy – other than the reduction in interest rates in the economy as a whole – until late 1992 when the "housing market package" was produced, which included grants to housing associations to buy unoccupied re-possessed dwellings from mortgage lenders and a stamp duty "holiday" (Stamp Duty suspended on purchases at prices below £250,000) for house buyers whose purchases were completed within a specified period. The boom and then the bust were geographically skewed. The boom of the 1980s was largely concentrated in the South of England, with much smaller house price increases in the Midlands and North. House prices then fell most in the South, where the impact of the economic recession was (for the only time since before 1914) greatest. In terms of the geographical pattern of house prices, the boom and the bust approximately cancelled out.

27. Fiscal assistance to owner-occupiers took two forms: mortgage interest tax relief; and assistance with mortgage costs to households receiving Supplementary Benefit and then Income Support. Both were in a sense unplanned and "just grew". The origins of mortgage interest tax relief are too well known to call for comment here. Assistance with mortgage costs for owner-occupiers receiving Supplementary Benefit and then Income Support developed from benefit scales expressed as x pounds per week (and before that y shillings) plus rent. The practice of a scale rate and rent separately originated in the 1930s when different rent control regimes produced different rent levels for similar dwellings, which prevented there being scale rates that covered all living costs, rent included. At that time too few owner-occupiers received assistance to attract interest, and "rent" was taken to include mortgage interest virtually without comment. It continued to be treated in this way when mortgaged owner-occupiers claiming assistance became much more numerous.

28. Tax relief on mortgage interest was reduced and then abolished in stages. Higher rate tax relief was withdrawn by the 1991 budget, with only one year's notice given for existing borrowers, in contrast with six years in 1974 when the £25,000 limit was imposed. The rate at which MIRAS (paragraph 15) was given was then separated from the basic rate of income tax and reduced to 20 percent (as against a 25 percent tax rate) in 1994 and 15 percent in 1995. Both reductions were announced in the 1993 budget, in the aftermath of Britain's withdrawal from the European Exchange Rate Mechanism. Falling interest rates made these reductions in tax relief possible without increases in home owners' mortgage outgoings. All that happened was that these outgoings declined by less than they would otherwise have done. The same was true of the reduction to 10 percent (in 1998) and then abolition (2000).

29. Assistance with mortgage outgoings for home owners receiving Income Support was reduced though not abolished. In 1988 the amount of assistance was reduced to one half of the full claim for the first 16 weeks of the claim. In 1995 a nine months waiting period was introduced for claimants who had taken their mortgages out after 1995. Owner-occupiers were urged to use mortgage payment protection insurance to safeguard themselves against mortgage payment difficulties due to accident, sickness, and unemployment, with Income Support providing only a back stop only after the nine months.

VIII Private Rented Sector

30. The private rented sector began a transformation in 1989 when the Housing Act 1988 abolished rent regulation and security of tenure for new lettings made after January 15th 1989. In place of "regulated tenancies" (paragraph 17 above) two forms of tenancy were provided for lettings other than by resident landlords: "assured tenancies" and "assured shorthold tenancies". They were very different from the tenancies with similar names provided by the 1980 legislation (paragraph 18). Assured tenancies may be described first as a letting was deemed to be an assured tenancy unless it was declared (in writing) to be an assured shorthold. Assured tenancies had no fixed term, as distinct from provision for a review of the rent at specified intervals (not essential, however, as in the absence of such a provision review at annual intervals was provided for in the legislation). When reviewed the rent increase was for agreement between the tenant and landlord, subject to the tenant having a right to appeal to a Rent Assessment Committee to determine a market rent. The purpose of this provision was to prevent a tenant's security of tenure being nullified by charging a rent that was beyond his means. An assured tenant had security of tenure in that the tenancy could be terminated only by a court order on one or more specified grounds.

31. An assured shorthold tenancy was similar to an assured tenancy in that rents were agreed between landlord and tenant, but its defining characteristic was that it was for a fixed period of six months or more, after which the tenant had no further security. During the term, the tenant had the same security as with an assured tenancy, and the same right of appeal to a Rent Assessment Committee to determine a market rent. With effect from March 1997 the law was changed so that a tenancy was deemed to be an assured shorthold unless declared to be an assured tenancy, instead of *vice versa*. The rationale for the change was that letting of houses and flats would be encouraged by removing the risk of unwittingly making a letting that would continue until the tenant moved away.

32. These changes led to a revival of letting by private owners, with some increase in the total rented stock (see Table E.1). Much of it was to younger households, many of whom could afford to buy if they chose. The overall growth in the number of private sector tenants was the outcome of a reduction (due to ageing) in the number of older tenants with regulated tenancies, and a reduction in the number of tenants in "tied" accommodation (statistically part of the private rented sector) more than offset by an increase in assured tenancy and assured shorthold lettings.

IX The Social Rented Sector: Composition, Lettings, and Homelessness

33. Differences between the circumstances of local authority and housing association – subsequently RSL – tenants, together termed for convenience the "social rented sector" widened during the 1970s, 1980s, and 1990s. These differences were most clearly marked in employment status. Details are in Tables E.2, E.3, and E.4. Between 1977/78 and 2000/01 the proportion of owner-occupier household heads in employment, full- or part-time, fell from 72 percent to 67 percent; but the proportion of social rented sector tenants in paid employment fell from 56 percent to 32 percent. In 1971 23 percent of local authority tenant households had no earning members, in 2000/01 62 percent (down, however, from 65 percent in 1995/96). This greatly increased contrast has been described as "polarisation" or "residualisation". These terms describe the same facts; whereas "polarisation" merely denotes a growing contrast "residualisation" carries the connotation of renting in the social sector being the tenure of last resort. This is the background to the array of initiatives directed at improving and regenerating local authority housing estates and attempts to improve conditions by better management.

34. An element of the changing characteristics of social rented sector tenants was local authorities' obligations under the homelessness legislation (Housing (Homeless Persons) Act 1977, as amended). Responsibilities under this legislation to homeless families (and sometimes individuals) in priority need, as defined in the legislation, took up an increasing proportion of the accommodation that local authorities had available for letting (see Table H.1 for the figures, which increased continuously year by year till 1991). The scope for meeting other needs was therefore constrained, which led to complaints about "queue-jumping", and from the opposite direction complaints about homeless households being given one tenancy offer only, in effect to press them to take the most difficult to let accommodation.

X Overview of Housing Policy From the Mid-1970s to the Late 1990s

35. The trend of the development of policy sketched in Section II to VIII is one of reduction in the scope and scale of state activity. This is seen most clearly in the owner-occupied sector, with the ending of tax relief and the cutting back of Income Support, and also the very limited response to the surge of mortgage defaults in the early 1990s. New building of dwellings of letting at subsidised rents was much reduced compared with earlier years. De-regulation of new private sector lettings will in time bring to an end statutory limitation of rents. A key question is whether the primary reason was that housing conditions had so far improved by the mid- to late-1970s that the earlier policies were no longer needed to the same extent.

36. That by the late 1970s the housing shortages that had prevailed since the war years had been much reduced and in parts of the country eliminated is not in doubt. Dealing with shortages had taken far longer than anyone in the 1940s and 1950s had expected, owing to the increase in the number of households relative to the population (not discovered until the 1961 census). Also in the mid-1970s slum clearance activity began to fall. Demolishing and replacing areas of dwellings that were unfit by the standards of the 1950s (or even the 1930s) from the day they were built was inherently a finite task. Unfitness due to disrepair could not so readily be dealt with by clearance. Re-housing people displaced by slum clearance was a substantial part of local authorities' house building, and as the need for it fell so too did local authorities' new building. More generally, reduced pressure of housing shortages made possible the reductions in public sector house building in the early 1980s with far less resistance than might have been expected from earlier experience.

37. Whether "enough" new dwellings were being built did not come back onto the policy agenda until the mid-1990s. At the end of the 1990s the government of the day sought to push it off the agenda again by deriding a "numbers game" in terms not dissimilar to the early 1980s. But the house price boom and manifest shortages of "affordable" housing in many parts of the country put adequacy of the amount of new building back on the agenda.

38. Investment in adding to the stock of local authority and housing association dwellings attracted less emphasis than what came to be termed "reinvestment in the existing stock". Reinvestment consisted of repairs, renovation, and up-grading, together with in some instances demolishing dwellings that proved inherently unsatisfactory or had deteriorated so far as to make attempting to restore them to a good standard throwing good money after bad. The amounts of needed expenditure appeared to be very large, on a scale not foreseen in the mid-1970s. The public sector capital expenditure required was seen to be very large, which was a reason for resisting a notion that more expenditure was needed for adding to the social sector housing stock. Quite why so much of the local authority housing stock needed so much to be spent on it is a subject where many views are possible. But not in doubt is the perception that it became part of the problem, and not, as in the 1940s, 1950s, 1960s, and into the 1970s an important part of the solution of housing problems.

XI Policies from the Late 1990s Onwards

39. The policies of the government of the day for housing were brought together in the *Housing Green Paper* published in April 2000, of which the watchword was "Quality and choice: a decent home for all". This was a consultation document; it was followed by the policy statement *The way forward for housing*, which was published in December 2000. Both should be read alongside the housing section of the 2000 Comprehensive Spending Review (published as a written answer to Parliamentary Question July 24 2000, text also in DETR News Release of the same date). With one exception, though an important one (the Starter Home Initiative – see paragraph 41 below), the focus was on rented housing, predominantly the social rented sector. Here the principal policy area was up-grading the existing stock, where a "step change" in quality and condition was stated as the aim, with all houses and flats belonging to local authorities and RSLs brought up to a decent standard within ten years. What constituted "decent" in this context was left for further discussion. The backlog of major repair and renovation work required was put as £19 billion, £1.9 billion a year. This figure did not include the cost of worked needed to "hold the line" on the condition of the stock to deal with on-going deterioration, of which no mention was made. A sizeable part of the cost was intended to be funded from private finance through transfers from local authorities to Registered Social Landlords, where a figure of "up to" 200,000 dwellings a year was mentioned. The Comprehensive Spending Review provided for a large increase in the Housing Corporation's Approved Development Programme (from £691 million in 2001/02 on previous plans to £1,236 million in 2003/04), but from a very low level. Rising costs and higher grant rates would reduce the number of dwellings that could be financed from these amounts. No estimate was offered of the number of dwellings that could be financed from the ADP, and other sources including Local Authorities Social Housing Grant (LASHG), and anything from developers' contributions (S.106). Still less was anything mentioned about how the programme compared with the need for what was coming to be termed "affordable" housing, a term of art because most people can afford the housing they occupy.

40. The other policy focus in the social rented sector was restructuring of rents, in order to bring about greater coherence and consistency in the rents charged, in terms of differences in rent levels between individual local authorities and RSLs and between the local authority and RSL sectors. The case for re-structuring arose not only from the differences between RSL and local authority rents, but also differences between local authorities, where over the years the subsidy pressures for rent increases were applied incrementally, to authorities' rent levels as they happened to be. A combination of property values, dwelling size, and local average earnings will be the criteria to guide the restructuring. A ten year transition is planned. An obvious question will arise about RSLs with substantial amounts of private finance being in difficulties with the rent income that the new regime would allow them.

41. For owner-occupiers, the notable new measure was the Starter Home Initiative; otherwise there was a small number of minor measures such as allowing owners receiving Income Support for mortgage interest to continue to receive it for a short period after returning to employment. The Starter Homes Initiative provided for grants or loans to assist with house purchases in high house price areas for people who are needed in these areas who could not otherwise afford to buy. "Key workers, particularly nurses, teachers and police" (paragraph 2.7 of *The way forward for housing*).

42. No reference was made in the *Housing Green Paper* to whether “enough” new dwellings were being built to provide a “decent home for all”, either in all tenures together or in the affordable sector specifically.

43. *Sustainable Communities: Building for the Future* (published by the Office of the Deputy Prime Minister, February 2003) put forward plans to increase the supply of housing in high house price and shortage areas, and to tackle problems of low demand and abandoned housing in parts of the North and Midlands. Rapidly rising house prices in the later 1990s and in 2000 and 2001 in the South of England and consequent inability of key workers to afford to live and work there forced back on to the policy agenda the question of whether “enough” new houses and flats were being built; and where the answer was “no”, what were the constraints preventing this. Housing market booms in the 1970s and the 1980s generated both increases in house prices and in new building (see Tables G.2 and H.1), but the boom from 1997 onwards was a house price boom alone. Between 1997 and 2001 the number of dwellings completed in England for private owners is recorded as having actually fallen. Under-recording is a possibility, and conversions are not included in the figures cited; but it is unlikely that these can do much to account for the contrast. *Sustainable Communities* envisages 200,000 additional homes by 2016 being accommodated over and above provision in the Regional Planning Guidance for the South East and East of England regions (and the part of London that is within the Thames Gateway area). As well as the Thames Gateway the growth areas are Milton Keynes and the South Midlands; the London-Stansted-Cambridge Corridor; and Ashford.

This report gives an overview of the key events in English housing policy between 1975 - 2002