



Social Housing in England: Affordable vs 'Affordable'

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Abstract: *England's increasing housing affordability problem, widely described as a 'housing crisis', has become a major public and political concern in recent years. The proportion of social housing has been shrinking for 40 years but there is no political appetite—at least under the current government—to reverse this. Policies are instead addressed at making some private housing more affordable and at increasing access to owner occupation by allowing more social tenants to buy their homes. The government has increased its control over the financial affairs of social landlords, who are responding by concentrating on those areas of activity where control is less stringent.*

Keywords: social housing; affordable housing; England; social landlords.



Introduction

This paper discusses major developments in social-housing policy and practice in England since the GFC. It focuses on two areas: the position of social housing within the ever-expanding range of submarket housing products, and the increasing tension between the government and social landlords about how the organisations should be run and about what social housing is for.

Context

Social housing is owned by local authorities, housing associations and to a limited degree by non-charitable organisations. It is rented mainly to needy households (usually as defined by local authorities) at low rents (as defined by central government). Social landlords increasingly own other types of housing as well, while other types of landlord provide a growing range of affordable homes.

The role of social housing has changed radically in the last 60 years, as has the public perception. In the mid-20th century social housing was seen as an integral part of the English housing and social-welfare system, providing good-quality homes for (mostly) working households. The heyday of social-housing construction was in the postwar period. In 1950 local authorities built 87% of new homes in England, and throughout the 1960s and 1970s the proportion of new homes built by local authorities fluctuated around 40%. The sector continued to grow until 1979. Housing associations—mostly charities—were marginal players.

Fast forward 40 years and the situation has changed radically. Social housing made up 31% of England's housing stock in 1979 (DCLG Live Table 104) but by 2016 had shrunk to 17.3% -- a fall of 1.44 million units or around a quarter of the 1979 stock. Much of the reduction arose from council tenants exercising the right to buy, introduced by Conservative prime minister Margaret Thatcher in 1980. The original measure did not require local authorities to replace the homes sold and indeed government limits on council expenditure meant that for many years the monies were transferred to the Treasury. The Thatcher government strongly favoured private housing associations over public-sector landlords and enabled tenant votes in each area as to whether housing associations should take over the public stock. Local authorities are no longer the dominant social landlords: there are 1.6 million council houses vs 2.5 million housing association homes, and almost all new construction has been by housing associations.

In the first decades of the postwar period, new council housing represented an undoubted improvement for most residents in terms of space, facilities and condition. More than just acceptable, for many it was aspirational. As the sector matured, though, social and physical problems arose and the tenure became associated in the public discourse with concentrations of poverty and worklessness and 'no-go' estates. Central government policies to introduce social and income mix and refurbish or replace substandard homes have transformed the quality of many social-housing neighbourhoods but public opinion has not caught up. A vocal lobby of social landlords, tenants, housing activists and politicians champions the value of social housing, but there is no broad-based public movement in support of the sector.



The building of new social homes was historically funded by generous government revenue subsidies and then grants but these were progressively cut over recent decades. Now 38% of all new affordable housing and nearly half of new social rented housing is built by private developers as a condition of planning permission for private residential or office schemes and may or may not involve additional subsidy. It is then generally transferred to housing associations. New social housing is thus largely a by-product of commercial development; looked at another way it is funded not only by government but also by a tax on developers and landowners.

The cuts in grant resulted in a change in the traditional business models of housing associations, and many of the larger associations in particular have become more commercial and market-facing. Those that build new homes (a minority) now rely more on bank loans, bonds and cross-subsidies from market activities (see below) than on government grants.

Banks were willing to lend to housing associations because they had reliable rental streams that increased by at least the rate of inflation, and enjoyed an implicit government guarantee through housing benefit. However, in 2015 the government announced that all social landlords had to cut rents by 1% per annum for four years in order to reduce the housing benefit bill (some 63% of social tenants now receive housing benefit, according to the English Housing Survey 2014/15 and the majority of association revenue comes from government). This adversely affected associations' new financial model and potentially limited their ability to borrow to build new homes. Recently the government suggested it would allow rents to rise after 2020 better to support housing association borrowing against future income (Housing White Paper 2017).

The strategies and operations of English social landlords are subject to strong government control: regulations channel and constrain their activities in myriad ways. Central government dictates how social rents are set, how councils may spend rent receipts, and what types of leases must be used. For local authorities, this degree of control is a given—as creations of Parliament they can only carry out those activities that Parliament permits, in housing as in any other field. Housing associations by contrast are in principle private bodies, but the degree of government control over their activities led the Office of National Statistics to reclassify them in 2015 as public-sector organisations. Their substantial debts now appear on the public-sector debt totals. The government is keen to reverse this, and recently reiterated 'its position that housing associations belong in the private sector and we are committed to implementing the necessary deregulatory measures to allow them to be classified as private sector bodies' (Housing White Paper 2017).

On the other hand, housing associations enjoy operational freedom outside the social housing sphere subject only to their charitable and mission status. Consolidations have been taking place for two decades or more, and a recent wave of mergers among the larger players has resulted in a few mega organisations (Clarion, the biggest, has 125,000 units across much of England; L&Q merged with East Thames and has 90,000 units, mostly in London; and the Peabody/Family Mosaic merger owns 111,000 homes). Many associations have, while maintaining their charitable and philanthropic status, become strongly business oriented. Housing associations are major builders of market-priced for-sale homes, and many partner



with commercial developers on large urban regeneration projects. One of the largest associations, Genesis, recently announced it would stop building new social housing entirely.

The GFC: effects and responses

The effects of the GFC on the English housing market overall were relatively mild (Whitehead & Scanlon 2011). Mortgage interest rates were low, so owner-occupiers in employment could usually service their mortgages, and although house prices fell sharply in 2008 and 2009 they soon recovered their nominal losses in many areas, and in London and the southeast are now higher in real terms than in 2007. Due to low interest rates and widespread lender forbearance there were relatively few repossessions.

The current discussion about England's 'housing crisis' focuses not on the social sector but rather on affordability in the (private) intermediate market. The main issues are the difficulties of would-be first-time buyers, and high rents and insecurity of tenure in the private rented sector. The debate is about how to increase housing supply generally, about whether longer PRS tenancies are a good idea, about how to encourage older people to downsize. Because the social stock is shrinking and its tenants have strong tenure security, access for new households is difficult—indeed close to impossible in many areas. Social housing is thus seen as mostly irrelevant for working families needing a home in higher-cost areas. When there are places they more often go to homeless and vulnerable people.

Since the GFC there has been steady stream of housing-policy initiatives, strategies, plans and schemes. Most are designed to address the cost of housing in Southern England, and have reflected strong political support for owner occupation. There are three main approaches:

- stimulating housing construction
- helping first-time buyers purchase new homes and
- increasing provision of 'affordable' housing.

But although almost all social housing is affordable (average social rents are about 50% of market), the same is not generally true of new build or even re-let 'affordable' homes. Officially defined 'affordable housing' includes low-cost owner occupation (e.g. shared ownership and, soon, Starter Homes) and various types of submarket rental (e.g. discounted market rent, affordable rent [up to 80% of market rent]). These offer less security of tenure and have higher rents than traditional social housing. There are also various demand-side subsidies for first-time buyers, resulting in a burgeoning constellation of lower-cost housing 'products' that confuses even housing professionals.

Most government subsidy for new construction now goes to these other types of affordable housing. In 2015/16, 51% of new 'affordable' housing was so-called affordable rent and only 21% social rented—a dramatic change from 2005/06, when 51% of new affordable homes were for social rent (DCLG Live Table 1000). In addition social landlords are being incentivised to transfer vacant homes to the affordable sector (Bibby 2014).



The Housing and Planning Act 2016

The 2015 Housing and Planning Act, which became law in 2016 despite bitter and determined opposition in both houses of Parliament, heralded several major changes. The implicit goals of the law with regard to social housing (the Act covers other areas as well) were

- to increase targeting
- to enable more tenants to buy their homes
- gradually to reduce the amount of social housing in high-cost areas and increase provision in cheaper neighbourhoods. In part this was to be done by emphasising development by associations which develop over wider areas.

The Act contains general outlines of several new policies; detailed mechanisms were to be set out in subsequent regulations.

Right to Buy for housing association tenants

The government's original intention was to legislate to extend the right to buy, afforded to council tenants in 1980, to tenants of housing associations. The major associations wanted to avoid this legal obligation; in a bid to preserve their independence they negotiated a 'voluntary agreement' (National Housing Federation undated) to offer tenants the opportunity to buy their dwellings at the same discounts available to local authority tenants, which can reach up to £103,900 in London. Housing associations will retain the receipts to help fund new homes.

The voluntary agreement states that for every dwelling sold, a new social or affordable unit will be built. There is no commitment that the replacement be of the same size or dwelling type, and replacement homes would not be limited to social rented homes but could include Starter Homes, shared ownership or other part-rent/part-buy models—all of which cost residents more than social rental. The initial assumption was that these would mainly be built by housing associations.

Sales of high-value local authority homes

Because housing associations will sell homes at a discount to market value under the voluntary right-to-buy (VRTB) they will lose money on each sale. The Act provides a mechanism to compensate them for this loss using funds from local authorities. Councils are expected to sell 'high-value' homes when they became vacant and transfer the receipts to government, which will use them to pay associations the difference between the market value of VRTB stock and the discounted sales price. The regulations defining 'high value' have not appeared; the threshold is expected to vary by region and perhaps by individual local authority. The policy was vehemently opposed by local authorities in the capital: some inner London councils protested that the vast majority of their units would have a market value above any likely threshold.

If implemented the changes will reduce the amount of social housing available in the short and medium term. The Act requires that each social home sold be replaced by a new affordable



home (two in London). If this does happen then over the long term the social stock will regain its previous level or even exceed it, but it is almost inevitable there will be an overall reduction in inner London. In the long term, the provisions could increase the overall amount of social housing nationally, although this would take many years.

There is no requirement that replacement homes be in the same local authority, or of the same size and type as the homes sold, so local effects will depend on the investment decisions of housing associations and councils and on detailed regulations (still to come) about where new housing must be built. Much of the debate around the Bill focused on these effects (the arguments are well summarised in Wilson & Smith 2015). History gives grounds for pessimism about one-for-one replacement: it has been a goal for some years that councils should replace every home sold under Right to Buy, but in fact the number of new homes never matched the number sold let alone exceeded it.

Pay to stay

Historically, rent levels and rent increases for social rented housing by law were independent of tenants' characteristics, including household income. Since 2012 social landlords have had the right to vary rents for households with incomes over £60,000, but few chose to do so. The Act introduced a category of 'high-income' tenants, and required local-authority landlords to charge them a higher rent; pay to stay was voluntary for housing associations. The Act left open the cut-off for 'high-income' and the determination of the new rent levels, although ministers said the household-income thresholds were likely to be £30,000 nationally and £40,000 in London.

Fixed-term leases for local authority tenants

Most social tenants, whether already living in local-authority or housing-association homes, currently have lifetime tenancies. Eligibility has been determined on entry, but after a provisional period (usually one year) there has then generally been no reassessment. Over the last few years many housing associations have moved to five-year fixed term tenancies with the expectation that these will be renewed if the tenant has met their responsibilities. The Act phases out lifetime tenancies for council tenants and replaces them, for new tenants, with fixed-term tenancies of two to five years. This would allow local authorities to assess eligibility regularly, in a similar way as 'pay to stay'. The housing minister recently said 'The Government's guidance to councils will make clear that they should take into account a household's financial circumstances when looking at this, and that, except in exceptional circumstances, tenancies should be targeted on those on lower incomes' (Barwell, 2016).

One year on

The Housing and Planning Act became law nearly a year ago but few implementing regulations have been issued and the government has explicitly abandoned one of the policies: in November 2016, the housing minister said the pay-to-stay policy of higher rents for higher-income



households would not be implemented. ‘The Government remains committed to delivering its objective of ensuring social housing is occupied by those who need it most. But we need to do so in a way that supports those ordinary working class families who can struggle to get by, and in a way which delivers real savings to the taxpayer. The policy as previously envisaged did not meet those aims’ (Barwell 2016).

VRTB is being tested in a few areas but national roll-out will not happen until April 2018 at the earliest and there are doubts about whether all associations will participate. Of 602 members of the National Housing Federation only 54% voted in favour (although they own more than 90% of housing association stock), and as the scheme is voluntary the government cannot sanction associations who refuse to comply. VRTB goes hand in hand with the sale of high-value council homes, as the latter was meant to pay for the former. Because of the delay in VRTB no payments will be required from local authorities in 2017/18 and some commentators wonder if the policy will ever go ahead.

The issues in London

The issues in London are rather different than elsewhere, for two reasons: first, London has a higher proportion of social housing than the rest of the country (25%, vs 17% in England as a whole). Second, the nation’s affordability ‘crisis’ is largely a London problem: market rents and house prices are very high in relation to incomes, and social housing is almost the only source of genuinely low-cost accommodation, especially in inner London. This affordability gap generates very strong demand for London’s social homes.

Turnover is low and waiting lists long even though the stock is relatively large. Low vacancy rates create an expensive conundrum for London councils, who are required by law to provide accommodation for certain types of households if they become officially homeless. Increasing private sector rents combined with recent benefit cuts have pushed up the number of homeless families, but they can rarely be rehoused in the social sector. Some live for months or even years in expensive and unsuitable bed-and-breakfasts or poor-quality private rented units; some are sent to distant areas of the country with cheaper housing. This temporary accommodation is hugely expensive for local authorities, but they have not been able to increase their social stock commensurately.

London’s housing shortage has generated strong financial and policy pressures to exploit underutilised brownfield land for housing. Low-density social estates from the 1960s and 1970s are tempting targets for redevelopment. For social landlords, regeneration (whether inserting new buildings between existing blocks, or demolishing and rebuilding entirely) seems to offer a triple benefit: providing much-needed housing, generating income, and creating more mixed communities. Existing residents often disagree, especially when the new schemes have fewer affordable and social units than the estates they replaced, and some current regeneration schemes have attracted great local hostility.



Conclusions and critique

The Housing and Planning Act essentially presented a set of ideas rather than fully formed policy, as most of the measures lacked concrete detail and could not take effect without subsequent implementing regulations. The Act became law under Conservative Prime Minister David Cameron, who shortly afterwards resigned in the wake of the Brexit vote. His replacement Teresa May has taken a somewhat different approach to housing questions (though they are far from her central concern). Her abandonment of pay to stay for higher-income households may respond to worry about possible unintended effects: the policy could incentivise social tenant households not to seek better-paid employment, and could weaken local communities if it caused stable employed households to leave.

The Act's other measures also risk damaging the existing social housing ecosystem. Housing associations who adopt the 'voluntary' right to buy can expect gradually to lose their best-quality social rented homes. In the short term this will almost certainly reduce the quantum of social housing; in the longer term it will make the management of housing-association estates more complex and challenging. Some of the larger associations have already stopped building new social rented homes, and VRTB may well accelerate this process.

Social tenancies were once seen as homes for life, offering an affordable secure alternative for those who could not afford owner occupation. But fixed-term leases, pay to stay and VRTB suggest government now views social housing as a temporary solution to tide households over a difficult stretch—the expectation being that they will move on to the private sector, either as tenants or owner-occupiers, when they can. This change in expectation may be a natural evolution; many former social tenants preferred to be homeowners and did indeed move on to owner occupation. Those who exercised the Right to Buy could do so without moving. But if the social rented sector is in future to be a temporary way station rather than a permanent home, then a steady flow of new social dwellings must be built to replace those bought by their tenants, and the housing market needs to offer accessible alternatives for those leaving social rented housing. Both are particularly challenging in London.

There is a fundamental split between social landlords and the current government about what social housing is for and how the system should operate. The government can impose its views through legislation and force even nominally private organisations to reduce rents and dispose of their stock. Housing associations, which are increasingly commercially oriented, are responding by changing their business focus to areas where the government has less control. Local authorities are less able to do so. Social landlords in general are fighting a rear-guard action to protect the most important elements of the current system. There is little prospect, at least in the current political environment, of a return to growth.

The current government is committed to reversing the decline in home ownership, so the overall thrust of policy is to help more people to own their homes. This may further reduce the supply of social housing, at least in the short term. It is increasingly recognised that genuinely affordable housing is a critical resource for the economy and for well-functioning cities but perhaps oddly this has not fed through into a groundswell of public support for social housing as opposed to affordable housing generally.



Housing availability and affordability are burning political issues, so it is an opportune moment for a genuinely open national debate about the purpose of social housing. Even under the most optimistic scenarios the sector will stay roughly the same size; more likely it will continue to shrink. What is the fairest way of allocating this limited stock of housing? Maintaining the principles of lifetime tenancies and rents unrelated to incomes clearly benefits households who do manage to secure a social home, especially if they are in a position eventually to exercise the right to buy. But there are costs as well, and they fall most heavily on those excluded from the sector.

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