
# Housing

" Housing is seen as archetypal, appropriate for provision and allocation through a mixed economy - ranging from market provision for those who are reasonably well off, subsidy to enable others to obtain adequate housing, and the direct provision and allocation of publicly owned housing. "

**Professor Christine Whitehead**
with **K.A. Martindale** and **F.M. Jones**

Cambridge Centre for Housing and Planning Research,
University of Cambridge

# 1. Introduction

## 1.1 Government involvement in housing

Historically, while the vast majority of housing has been provided by the market, there has always been a strong involvement by non-profit providers and later by employers and government. Almshouses go back many centuries. In the nineteenth century a number of larger employers provided accommodation for their workers. Government's role at this stage was mainly in setting physical standards but, by the end of the nineteenth century, local authorities had the right to provide accommodation. In the twentieth century rent regulation was introduced in 1915 affecting the vast majority of the population. The policy of 'Homes Fit for Heroes' in the inter war period involved government providing tenure neutral capital subsidies for the provision of new housing.

After 1945, government started to play a much larger role in the provision of housing because housing was seen as a major pillar of the welfare state. The policy of 'a separate house for every family who wishes to have them' was identified as early as 1945 (Ministry of Reconstruction, 1945) and one version or another of this commitment has remained in place into the twenty-first century. For thirty years from 1945 the main instrument of this policy involved the production of new housing by local authorities. For much of this period, public sector output by local authorities and new towns ran at about 50 per cent of total new investment. As a result, by 1979 the public sector directly provided over 30 per cent of all housing in England at heavily subsidised rents based on historic costs (Table 1.1). Rents for the vast majority of those in the private rented sector were also controlled. The market on its own, therefore, provided only for owner-occupation and for a small part of the private rented sector, mainly for mobile households. Housing finance was also still heavily regulated while the Town and Country Planning Act of 1947 had introduced tight regulation on the allocation of land for housing. Finally, in the early 1970s, rent rebates and allowances were introduced and made available to low income tenants, including those in employment, in both the private and public sectors to ensure affordability.

Since 1979 there has been considerable privatisation and deregulation not only through the Right to Buy, introduced in 1980, and rent deregulation in 1988, but also through the liberalisation of housing finance and the restructuring of the social sector transferring a significant proportion of local authority stock to housing associations (HAs or, more formally, Registered Social Landlords – RSLs). Even so, there are still large scale subsidies available for new build in the social sector; social sector rents are controlled well below market levels in most parts of the country, and income related subsidies remain available to all lower income households who are able to access the rented sector, either private or social.

Thus even the general housing system is quite tightly regulated through the planning system and through financial regulation. The reasons for this government involvement are not in the main specifically about competition. They are about the nature of the good housing, the attitudes of society to ensuring adequate housing for all and particularly about the distribution of income.

Housing for lower income households remains, and is expected to remain, subsidised through direct funding, rent policies and income related benefits. Housing, therefore, differs from other necessities, such as energy and food, in that government takes a strong pro-active role in ensuring access and affordability.

In organisational terms, housing is in many ways a microcosm of the mixed economy approach, with some parts being very much market oriented and mainly serving relatively better off households; while at the other extreme, the social sector provides subsidised housing and allocates it on the basis of need. In between, large scale subsidies, taxes and a wide range of regulations modify prices, output and allocation.

**Table 1.1 Housing stock by tenure**

| | Owner occupation % | Private rent % | Housing Association % | Local Authority % | Total stock 000s |
|---|---|---|---|---|---|
| 1961 | 44 | 32 | 24 | | 13,828 |
| 1971 | 52 | 20 | 28 | | 16,065 |
| 1981 | 59 | 11 | 2 | 27 | 17,912 |
| 1991 | 67 | 10 | 3 | 20 | 19,671 |
| 2001 | 70 | 10 | 7 | 13 | 21,207 |
| 2006 | 70 | 12 | 8 | 9 | 21,989 |

Source: *Census 1961 – 2001, DCLG 2006*

Table 1.2 provides a summary of the broad categories of regulation and assistance by tenure, drawing out the major changes over the last thirty years. The actuality is far more complex than this, but it does give a 'feel' for the main government interventions that frame the current picture (Stephens et al., 2004).

**Table 1.2 Broad Categories of Regulation and Assistance**

| | |
|---|---|
| 1. Land regulation | Tenure neutral controls on change of use. Since 1990 affordable housing has been a material consideration in granting planning permission. |
| 2. Housing finance regulation | Heavily regulated flows of funds and interest rates below market rates. Liberalisation from early 1970s, particularly after 1980s as housing finance became part of the global market. Increased regulation of the industry and products in1990s. Important innovations: Mortgage Backed Securities in 1980s, particularly from late 1990s; Buy to Let mortgages late 1990s. |
| 3. Rent regulation | Rent control in the private rented sector from 1915; deregulation from 1960s, full decontrol for all new lettings from 1988. Rents based on costs in the social sector, but rent control based on property attributes across sector introduced in 2000. |
| 4. Housing taxation and subsidy | |
| *All tenures:* | Property taxation through local rates, now Council Tax, based in part on property values. |
| *Owner-occupation:* | Mortgage tax relief increasingly constrained from 1970s and especially in the 1990s; finally removed in 2000; no capital gains tax on principal home; no tax on imputed income since 1960s; stamp duty on purchase; particular groups of low income households eligible for income support for Mortgage interest (ISMI). |

| | |
|---|---|
| *Private renting:* | Fundamentally treated as an investment good with net income and capital gains taxed; mortgage interest allowed as a cost; stamp duty; low income tenants eligible for housing benefit (HB) now local housing allowance (LHA). |
| *Local authority:* | Heavy constraints on building since 1970s; revenue based subsidies to support rent policy; subsidies to bring housing up to the Decent Homes standard. Rent rebates on actual rents available to all eligible tenants. |
| *HA sector:* | Capital grants for new building and regeneration. Rent allowances available based on actual rents available to all eligible tenants. |

## 1.2 Why Government Intervention?

Housing has many of the characteristics likely to generate market failure. On the one hand it is clearly a 'private' good in that benefits go mainly to the owner and/or occupier and choice is immensely important in ensuring the maximum value. On the other hand there are significant externalities arising from poor housing and neighbourhoods; there are imperfections in the housing finance market; housing supply can only be adjusted very slowly while demand responds rapidly to changes in incomes and the number of households; housing decisions are risky and costly to change; there is considerable asymmetry in information and power between landlords and tenants and more general problems of the market power, especially in the land market.

Even so, probably the most important efficiency reason for government intervention since 1945 has been that housing is seen as a 'social' or 'merit' good. In other words, society as a whole regards it as important that everyone is adequately housed and able to afford their housing. Moreover, to a significant extent government has been prepared to support this rhetoric with policy and finance. This, taken together with concerns about affordability and the capacity of lower income households to compete in the market and the argument that re-distribution in kind through prices subsidies and housing specific income subsidies is likely to be more effective in achieving minimum standards, has led to massive and continuing government intervention in the housing system.

In economic terms, there are a number of reasons why lower income households can be expected to pay higher than average costs or receive lower value for money. In particular:

(i) economies of scale mean that larger amounts of a good can sometimes be cheaper to produce and provide than smaller units. This certainly applies to housing, in that providing an additional square metre of housing costs very much less than the average cost per square metre. So if households require smaller units because their low incomes constrain their consumption, the cost per square metre will be higher and they will thus pay more per unit of consumption;

(ii) the government may impose building, maintenance and occupancy standards which are higher than poorer households would otherwise purchase. If these standards are adhered to the poor will pay more but, as a result, they will also consume more housing (but would rather consume less given their other requirements);

(iii) poorer households have less market power and choice than those further up the income scale so may not be able to achieve as good a bargain with suppliers as the average household. As a result they pay more and get worse value for money; and

(iv) there may be reasons why poorer households would choose a different mix of products than the average which would include more on housing. In particular, if the family is going to spend a high proportion of their time in the home (e.g. because they are unemployed, out of the workforce or have a large family) they may choose to spend more on housing. In this case they are both paying more and achieving higher benefits.

It is necessary to identify which of these reasons applies in any given situation in order to ensure the appropriate response. In particular:

(i) is it simply a matter of real resources costs? If so, to the extent that low levels of consumption of the physical product – housing – are related to poverty the problems can only be alleviated by disproportionate subsidy as real costs are necessarily higher e.g. by relating subsidy to actual costs;

(ii) is it that standards are higher than lower income households feel able to afford? Setting standards above market levels has been at the core of housing policy since the nineteenth century when it was recognised that poor housing generated external costs in terms of public health (including epidemics), fire and low productivity of the workforce. Increasing standards necessarily increased the resource cost per unit and therefore worsened both problems of affordability on the one hand and led to avoidance and evasion on the other. This led directly to the need for subsidy, initially in the form of a subsidy per unit built and much later, in the 1970s, to income related demand side subsidies. Initially, subsidies to construction were available to private as well as social suppliers. However, in the inter-war period, and especially after 1945, supply subsidies became concentrated in the local authority sector and then, after 1974, were extended to RSLs. As a result there is a strong and continuing distinction between the positions of social tenants as compared to other households (Holmans, 1987; Stephens et al., 2005);

(iii) is it not being able to negotiate effectively? Problems of relative power and prices above costs concentrated among poorer households show up in a number of different ways, not just in terms of the price per square metre, but also through lower quality of provision, poorer management and maintenance and, particularly, through less security of tenure. Most such problems are concentrated in the private rented sector, although there is also evidence of difficulties in the mortgage market. They are also reflected in housing market segregation. Issues in the social rented sector are again very different because of rent subsidies, lifelong security of tenure, and social ownership. Mechanisms to address these issues range from rent controls and security legislation through social ownership as opposed to profit maximising in the private sector, to personal subsidies to increase the household's capacity to compete in the market; and

(iv) is it that poorer households need more? The possibility that certain groups of poorer households will require more housing is recognised in terms of the physical standards of social housing and the allocation rules applied to that social housing. It is also incorporated in the regulatory framework for Housing Benefit, although those across the rented sector maximum occupancy standard are also incorporated into the formula for calculating rent rebates and allowances.

There are also more general characteristics of housing which make markets work badly. In particular, housing expenditure is indivisible (lumpy), while that on, say, food or leisure is made up of many different elements, making it easier to adjust expenditure. This problem is compounded by the high transactions costs involved in changing housing decisions, which is again quite different to most other expenditures where decisions are made on a much more regular basis. Most importantly, basic housing is an essential good. As such it is difficult for those on low incomes to adjust their consumption in the face of worsening conditions without it impacting adversely in their overall wellbeing and capacity to purchase the other necessities of life.

All of these factors mean that markets alone cannot work to provide adequate housing for all. They also suggest that a wide range of instruments will be necessary to address the different issues.

One of the outcomes has been the complex 'cat's cradle' of policy that has been built up over the generations (Hills, 1991; Stephens et al., 2005). Successive governments have attempted to simplify and codify these policies but have generally ended up adding to rather than subtracting from this complexity (Department of Environment, 1977; DETR, 2000; Stephens et al., 2004).

It is clear from the above analysis that no policy maker, whether from the right or the left, regards housing as suitable for wholly market provision. The specific question of how poorer households are able to compete for housing must be addressed through an analysis of the extent to which government policy has been effective in ensuring that poorer households both achieve adequate housing and are able to pay for that housing while still able to afford other basic necessities (Whitehead, 1983; Hancock, 1984).

However, the nature of housing – particularly its heterogeneity and the fact that it serves so many different purposes (effectively minimum shelter requirements at one extreme and a capital asset to increase wealth at the other) - makes it extremely difficult to evidence these apparently simple questions. In particular, there are no straightforward measures of quantity, prices and rents that make it possible to separate out the elements of expenditure which relate to occupation as compared to asset accumulation. The property rights purchased with the rent or house price also differ enormously from three months, or at the limit of lodgings no security to tenure at one extreme, to full rights of alienation through freehold ownership without a mortgage at the other. The ways in which assistance is provided also varies between tenures and, to a lesser extent, between household groups, making it difficult to make direct comparisons. Even what makes up housing expenditure is unclear – should it simply cover rent or mortgage payments, or be defined more broadly to include everything that varies with the housing decision (such as Council Tax or utilities)? Much of the evidence is therefore either rather general or difficult to interpret. The rest of this paper can of necessity provide only indicative evidence on the extent to which households suffer from market insufficiencies and whether these are effectively alleviated by government policy. Before turning to the detail, we first give an overview of the outcomes of policy in terms of incomes and housing expenditure by tenure.

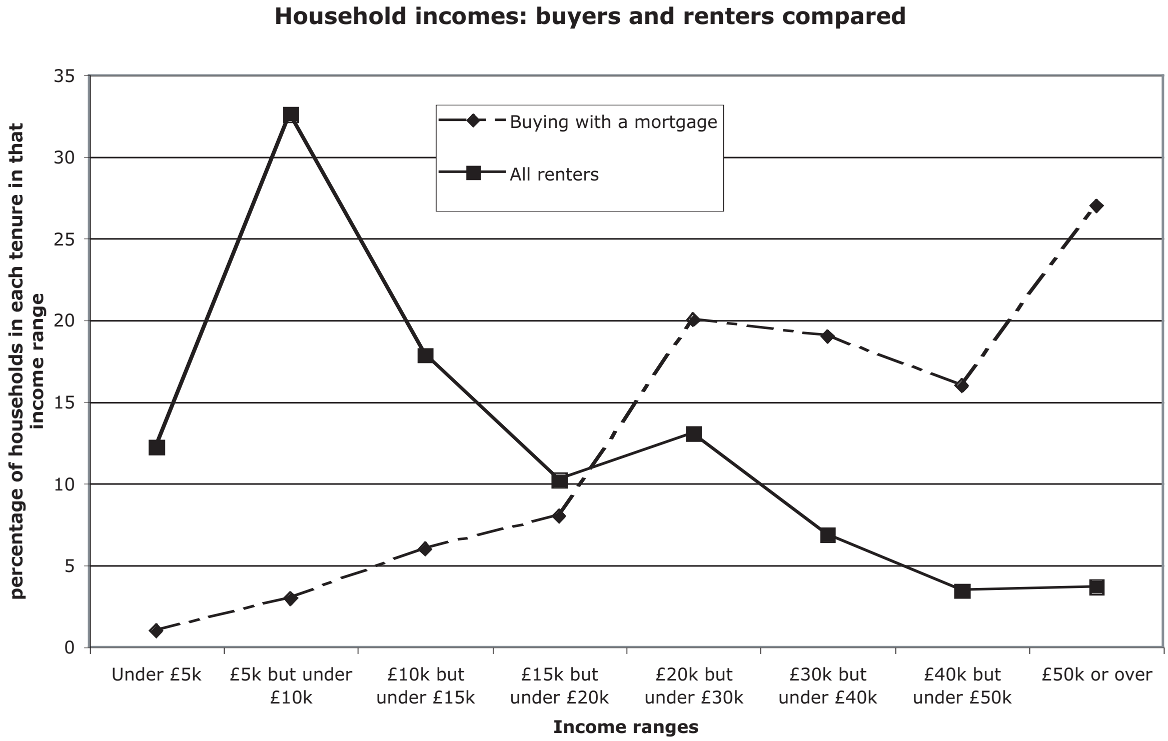
## 1.3 Housing Expenditure

Using a comprehensive definition of housing expenditure suggests that, on average, households paid £145 per week on housing and related costs in 2006 against a total expenditure of £456 per week. Therefore, housing accounted for almost a third of all expenditure. This compares to less than 9 per cent (although on a considerably narrower definition) fifty years ago (Family Spending, 2007 edition, 2008). The same publication notes that three of the four more narrowly defined expenditure items in 2007 – mortgage interest, gross rent and Council Tax/domestic rates – are housing related.[1] It is hardly surprising, therefore, that there is very considerable concern about the impact of housing costs on the well-being of households and of poor households in particular.

As already noted, there is generally a strong relationship between incomes and housing tenure, with lower income households concentrated in the rented sectors, particularly the social rented sector. Figure 1.1 compares the household incomes of owner-occupiers with a mortgage (who are generally better off than older owners who own outright) and those who rent. It shows that the vast majority of renters earn less than £20,000, while most households with a mortgage have incomes of more than £30,000. Table 1.3 shows how these figures break down between those in work and those where the head of household is not in the labour force. It confirms that the vast majority of lower income households are tenants and that incomes for those out of the labour force are generally below £10,000 per annum.

[1] It should be noted when interpreting these figures that the general figures in Family Spending simply average across all households. Individual households, especially poor households, do not usually pay both mortgage interest and rent.

**Figure 1.1 Household incomes of buyers and renters by income range**




Source: *Survey of English Housing Preliminary Results 2006/07*

| Table 1.3 Gross income by tenure 2005/06 (%) | | | | |
|---|---|---|---|---|
| | **Under £10,000** | **£10,000-£20,000** | **£20,000-£40,000** | **£40,000** |
| **In work** | | | | |
| Owner-occupiers | 3 | 14 | 21 | 40 |
| Social renters | 15 | 39 | 11 | 5 |
| Private renters | 9 | 27 | 17 | 20 |
| All tenures | 5 | 19 | 19 | 34 |
| Not in work | | | | |
| Owner-occupiers | 31 | 43 | 6 | 5 |
| Social renters | 63 | 34 | 1 | 0 |
| Private renters | 67 | 28 | 1 | 1 |
| All tenures | 44 | 38 | 4 | 3 |

Source: *Department of Work and Pension, Family Resources Survey*

Turning next to housing expenditure, Table 1.4 gives the median percentage of income spent by households in each sector, with the highest percentage in private renting and those buying with a mortgage, while social tenants spend relatively low proportions of income, as do those owing outright. Absolute levels of expenditure range from £28 per week for social tenants to £160 per week for those with a mortgage.

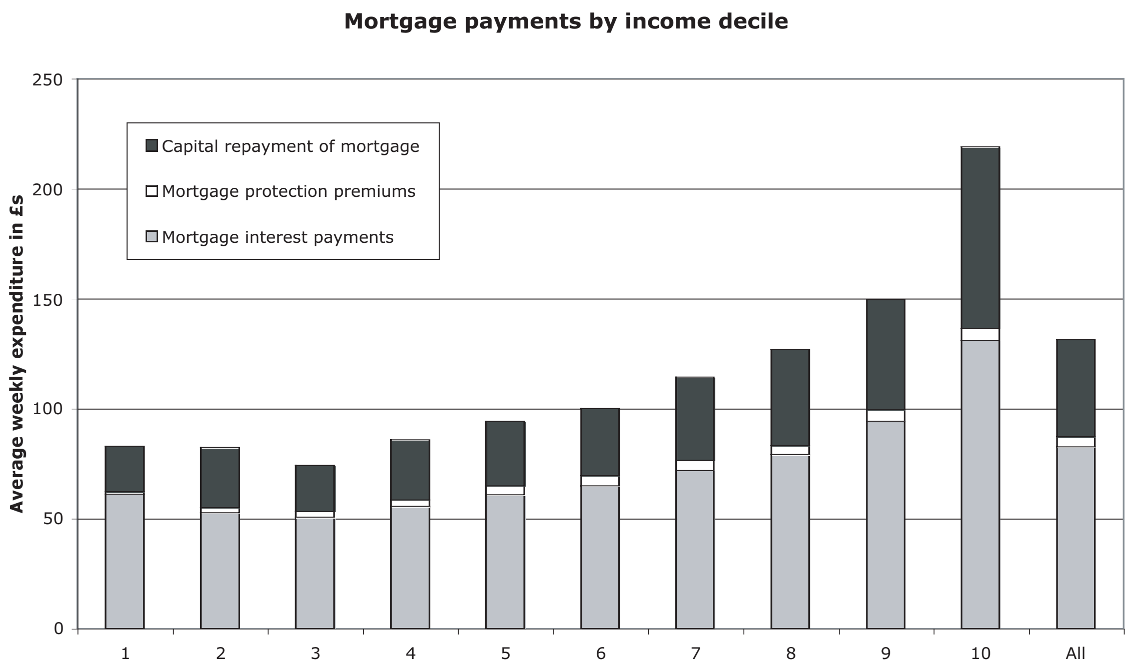
**Table 1.4 Household expenditure in housing 2005/05**

| | Owned outright | Buying with mortgage | Private renting | Social | | All tenures |
|---|---|---|---|---|---|---|
| | | | | General | HA | |
| Median percentage of incomes (%) | 10 | 27 | 28 | 14 | 17 | 19 |
| Median expenditure £ per week | 37 | 160 | 125 | 28 | 53 | 79 |

Source: *DCLG Live Tables 901*

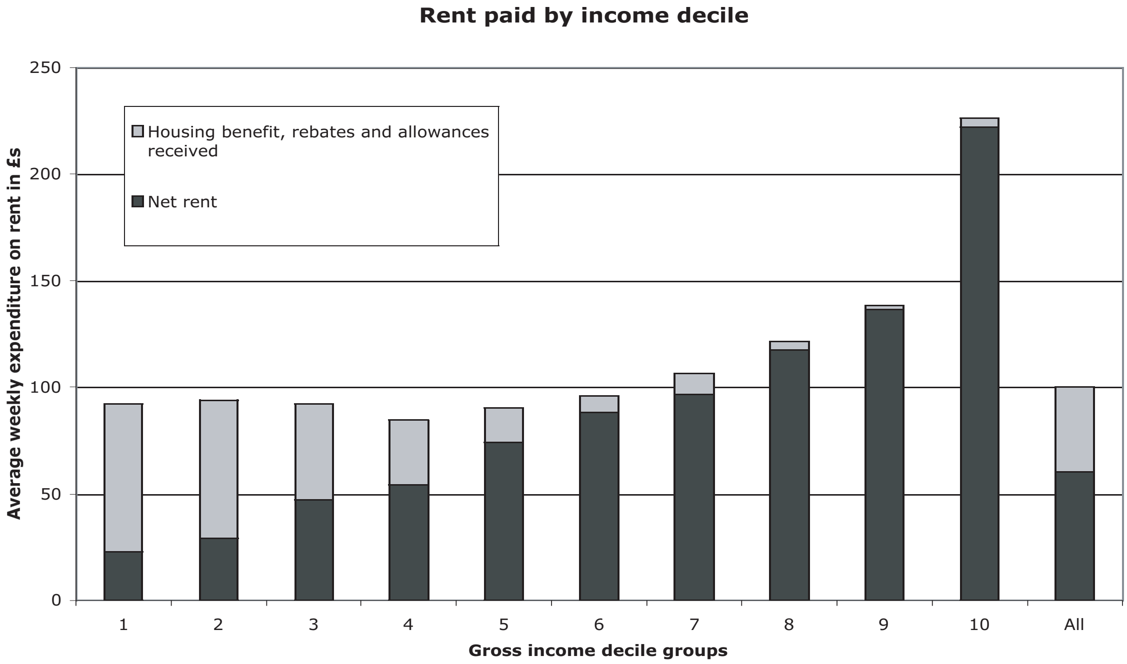
Figures 1.2 and 1.3 clarify how housing expenditure relates to gross incomes across tenures. Figure 1.2 shows that mortgage payments rise strongly with incomes, with the lowest income groups paying well below £100 per week. Figure 1.3 distinguishes gross rents and net rents (after Housing Benefit). It again shows a very clear positive relationship with incomes – with the lowest income groups among tenants paying less than £25 per week, with decreasing proportions of Housing Benefit as incomes rise up to the highest decile, where households are paying over £200 per week from their own resources.

**Figure 1.2 Mortgage payments by income deciles of buyers (£ per week)**




Source: *Family Spending 2007, Table 2.10*

## Figure 1.3 Rent payments by both private and social renters




Source: *Family Spending 2007, Table 2.10*

The general picture is, therefore, one in which first (except for older outright owners) the vast majority of low income households are tenants and, secondly, tenants on low incomes receive a great deal of assistance with their housing costs. As a result, household expenditure on housing in the social sector and in parts of the private rented sector is kept down to reasonable levels by government assistance.

# Section 2 Government Assistance to Housing

## 2.1 The Main Policies

There are three main strands of policy which directly aim to ensure that households do not suffer housing poverty (often defined as direct expenditure on housing above 25 per cent of income):

(i) income support for mortgage interest (ISMI) is available for eligible owner-occupiers to help the household pay mortgage interest when the household income falls below relevant income support levels through unemployment, sickness or accident. However, ISMI is only payable after six months of becoming eligible: in the meantime, insurance is meant to bridge the gap.

(ii) the availability of Housing Benefit (and since April 2008 the Local Housing Allowance (LHA) in the private rented sector) for all eligible households in the rented sectors. This personal allowance pays all rent and service charges eligible for Housing Benefit to households with incomes at the relevant income support level for their household type. Above that level, support is withdrawn as income rises. There are additional constraints which apply to the size of the property and to acceptable rent levels in the private rented sector.

(iii) the provision of social rented housing, where revenue subsidies to local authorities and capital grants to housing associations (RSLs) enable rents to be held below market levels. A national framework for rent determination set by central government specifies the level of rents that can be charged in the social rented sector. As a result, almost all social sector tenants obtain housing at a lower cost than those in the market sector. This policy provides assistance to around one in five of all households. In addition to which, nearly two thirds of social housing tenants receive Housing Benefit.

In addition (iv), there is a rapidly diminishing strand of direct rent control in the private rented sector, with rent controls remaining, to a very limited degree, for private tenants who have been in the same home since before 1988.

More fundamentally, the calculation of social security, unlike in most other European systems, does not include housing in estimating the minimum level of income required for reasonable subsistence. This is because housing costs are seen to vary too much across the country and in relation to local circumstances to allow a single formula to provide adequate housing assistance to all low income households in need. Instead, individual housing circumstances are taken into account through Housing Benefit. One impact of excluding housing costs from social security is to limit the cost of social security. But it also results in an apparently very generous Housing Benefit system – as by definition housing assistance must pay the whole rent for appropriate housing for those on the poverty line.

These policies taken together imply that:

a) all those in social housing should be fully protected from housing poverty in that rents are below market levels, and those on low incomes are eligible for Housing Benefit based on their actual rents and now LHA;

b) those in the private rented sector who claim Housing Benefit face a less generous scheme than social tenants, which can impact negatively on their residual income (i.e. that available for non-housing expenditures);

c) the main groups of tenants that may suffer housing poverty are those who are eligible but do not take up Housing Benefit. In addition, the income taper by which HB is withdrawn is quite extreme, leaving only 10p in the pound of each additional pound earned until the tenant is out of HB subsidy;

d) there are likely to be owner-occupiers, especially among the elderly, who have difficulty in paying housing related expenditures and for whom there is very little direct help available. Among mortgagors the problems relate more to those who have over-stretched themselves or whose household circumstances have changed, rather than to poverty as such. Only those with reasonable incomes can access owner-occupation.

## 2.2 How the policies operate

### (i) Income support for mortgage interest

Support payments for mortgage holders have been available since the introduction of National Assistance in 1948. This was replaced by Supplementary Benefit in 1966, Income Support in 1988 and more recently by Jobseeker's allowance. The payment remained almost unchanged until 1995 when the restrictions were placed on the payment value and value of the loan covered for loans taken out after October 1995. The restrictions were considered necessary to control spending on the policy after poor risk assessment by lenders and borrowers, as well as rising mortgage debt in the recession of the early 1990s, saw costs rise rapidly from £71 million in 1980 to a peak of £1.2 billion in 1993.

Income support mortgage interest (ISMI) is not paid to those on very low income or the unemployed whose mortgage was in place before a claim for benefits was made. As the name suggests, the payment is intended to cover the interest payable on a mortgage and does not cover any money required to cover the capital originally borrowed or any investment that is linked to the mortgage, such as an endowment policy or pension. Loans for essential repairs or improvements may be covered, even if the agreement was entered into after a claim for income support or Jobseeker's allowance was made.

Owner-occupiers may be able to get help with mortgage interest through Income Support, income-based Jobseeker's Allowance or Pension Credit. Housing costs for owner occupiers will be taken into account in assessing the needs for Income Support. The amount is a weekly sum representing mortgage interest, interest on loans for repairs or improvements, co-ownership payments, ground rent and service charge. The level of support for mortgage interest and repairs and improvements is restricted to total loans below £100,000.

Those who are eligible for ISMI payments include:

- people over 60;
- those with mortgages dated prior to 2 October 1995;
- carers where the person looked after is eligible for certain benefits;
- single parents whose partner has died or left;
- offenders waiting for trial or sentence;
- holders of mortgage protection insurance which will not pay out because of pre-existing medical conditions; and
- those whose mortgages replace a previous mortgage on the same property that was taken out with the same lender on or before 2 October 1995.

There are, however, several caveats that limit the payments made. If a property is considered to be too expensive or too large for the claimant's needs, payments may be reduced. The value of the payment is based on the average interest rate at the time the claim is made. If this is above the interest value of the mortgage, claimants are permitted to retain the excess. Claimants may also find their payments reduced if they increase their original mortgage after making the initial claim.

A person under 60 with a new loan taken out on or after October 1995 will not receive housing costs for the first 39 weeks of a claim. Carers, persons in custody awaiting trail or sentence, persons refused payment under a mortgage protection policy because of a medical condition and lone parents claiming income support because of the death of a partner or being abandoned are exempt from this waiting period. Instead, they receive no help for the first 8 weeks, 50 per cent for the next 18 weeks and full housing eligible costs thereafter. A person with a partner aged 60 or over is entitled of full eligible housing costs straight away. A person under 60 with an existing loan (i.e. taken out before October 1995) will not get housing costs for the first 8 weeks, 50 per cent for the next 18 weeks and full eligible costs only after 26 weeks.

The total cost of ISMI rose to over £1 billion per annum in the early 1990s when the housing crisis was at its worst. This led to a change in policy to limit payments. Partly for this reason and partly because employment has improved consistently, ISMI payments were only around £350 million in 2005/06. However, in the current crisis there is increasing pressure from financial institutions to modify the rules to at least update eligibility in line with current housing costs. There are also proposals to provide a rather stronger safety net to keep people in their own homes (Stephens et al., 2008).

### (ii) Housing Benefit

Housing Benefit is a benefit for people on a low income to help them pay their rent. It may be payable to people who are in receipt of other benefits, and to those who work part-time or work full-time on a low income. Housing Benefit is not available to help with the costs of a mortgage or home loan (see above). Housing Benefit does not help with the Council Tax, but those on a low income may be able to get Council Tax Benefit to help pay their Council Tax.

The principles by which Housing Benefit operates apply across the whole rented sector. The fundamental objective is to ensure that a household has, at the minimum, after paying rent eligible for subsidy, the income support level of income for that household's characteristics. As a result, household rents will be paid in full if their income is at that minimum level. Above that level subsidy will be withdrawn for each additional £ of income (the income taper).

Housing Benefit is paid through the local authority. For private rented tenants, the rent covered by Housing Benefit will normally be restricted to an amount set by a rent officer. This varies depending on whether the application was made before 7 April 2008 or after that date, because of the shift to Local Housing Allowance (see below). For social sector tenants, Housing Benefit covers the rent charged plus eligible service charges.

Finally, Housing Benefit is restricted to tenants. However, those who have bought a property using a shared ownership scheme may be eligible to receive Housing Benefit on the proportion of the property that they rent.

The cost of Housing Benefit has risen significantly and consistently in monetary terms over the last decade. In 1995/96 it cost around £11 billion, of which over £7 billion was paid to social sector tenants (who also benefitted from regulated rents) and around £3.8 billion to private tenants. In 2005/06 the total was some £14 billion, of which over £10 billion went to social tenants and around £3.7 billion to private tenants. It is worth reiterating that over that period the size of the social sector declined considerably and rent increases were heavily restricted, while the size of the private rented sector increased by more than a fifth. The changes in the amounts paid therefore reflect two different pressures: the increasing relative poverty of social tenants, and the growing constraints on Housing Benefit payments to private tenants.

*New applications for Housing Benefit or those who moved on or after 7 April 2008*

When tenants of a **private landlord** make a new claim for Housing Benefit, the local authority will normally calculate how much rent Housing Benefit can cover using the Local Housing Allowance rules. Local Housing Allowance rules will also normally apply if the tenant moves address, even if this is within the same local authority's area.

Under the Local Housing Allowance rules, when the local authority calculates how much Housing Benefit to pay, they will not usually look at the actual rent paid. Instead, they will use a standard Local Housing Allowance figure which has been calculated by a rent officer. The figure used will be the one which is based on the local area and the number of rooms the Housing Benefit rules say are needed for the household. This may not be the same number of rooms as the household is actually living in.

In some cases, it is possible for the Housing Benefit entitlement to be more than the rent, although only £15 a week more than the actual rent can be paid. This is intended to give the tenant an incentive to negotiate the rent.

However, more often the amount of Housing Benefit will not cover all the rent. If this is the case, the tenant has to make up the difference out of any other income, or find cheaper accommodation. Those on the lowest incomes may be able to get further help with housing costs through other sources.

*Applications for Housing Benefit before 7 April 2008*

There are different rules about how Housing Benefit decisions are made for private sector tenants who applied for Housing Benefit before 7 April 2008. How much of the rent Housing Benefit can cover is decided by a rent officer. Instead of using the Local Housing Allowance rules, they look at the rent actually paid and decide whether it is reasonable for Housing Benefit to cover all the rent. This depends on a number of things, including how much the rent is compared with other similar properties in the area and whether the accommodation is the right size for the household’s needs.

For those who are under 25 and single with no children, the rent officer compares the actual rent paid with the market rent for a single room with shared facilities. The local authority works out how much Housing Benefit the household is entitled to based on the rent officer's decision.

If the amount of Housing Benefit does not cover all the rent, the tenant may have to make up the difference out of any other income they may have, or find cheaper accommodation. Again, low income households may be able to get further help with housing costs.

It is possible to challenge a rent officer’s decision if the tenant applied for Housing Benefit before 7 April 2008 and they think the decision is wrong because, for example, there is no cheaper accommodation in the area. Appeals cannot be made directly to the rent officer, but the local authority can ask the rent office to review their decision. Those wishing to challenge a rent officer's decision should consult an experienced adviser, for example at a Citizens Advice Bureau.

Thus the difference between before and after April 2008 is that those before 2008 are eligible for their actual rent subject to adjudication by the rent officer. They never receive more than that rent and will receive less if the rent is unreasonable or they are consuming more than the appropriate space standard. Adjudications after April 2008 take account not of actual rent but rent for an appropriately sized dwelling in the locality. If the tenant can do better, they may keep up to £15 as income to spend freely. Housing Benefit for social tenants is based on the same principles. However, the actual rent charged by the social landlord is accepted as the rent on which Housing Benefit will be paid together with any eligible service charges. No account is taken of the size of the accommodation as it is assumed that the landlord allocates approximately.

### (iii) The provision of social rented housing

Social rented housing is provided at a subsidised rent by local authorities and housing associations. There are roughly 4 million homes in the social housing sector. Just under half are owned by local authorities, and the number is shrinking by sales under the Right to Buy, the demolition of obsolete stock, and by the transfer of stock to housing associations. Just over half is owned by housing associations, and the number is increasing by the transfer of stock from local authorities and by new house building. Virtually all new housing in the social housing sector is now built by housing associations.

*The allocation of social housing*

Local authorities retain the primary role of administering the 'waiting lists' of applicants wishing to move into social housing, and have the statutory duty to secure accommodation for households whom they assess as being homeless and in priority need.

In order to enable local authorities to discharge these duties, local authorities have the right to nominate applicants to vacancies in housing association properties. These nomination rights are usually 50 per cent of the vacancies, rising to 100 per cent in the high stress areas of London.

All local authorities are free to set their own housing allocation policy as long as it conforms to certain legal guidelines. By law, all local authorities must clearly set out procedures and priorities by which social housing will be allocated and ensure that information on these policies is made publicly available. Local authorities must also ensure that the following groups are given **'reasonable preference'** under any allocation scheme:

- people who are **legally classed as homeless** (or threatened with homelessness);
- people occupying **unsanitary, overcrowded or otherwise unsatisfactory housing;**
- people who need to move for **medical or welfare reasons;** and
- people who need to move to a particular locality in the district to avoid hardship to themselves or to others. For example, to be nearer to special training opportunities or special medical facilities and who would suffer hardship if they were unable to do so.

Among those who are deemed inadequately housed, those people normally considered **'in priority need'** and therefore given preferential access to social housing include the following groups:

- **pregnant women;**
- families with **dependent children;**
- people who have been made homeless through an unexpected disaster;
- people aged 16 or 17;
- certain young people aged 18–21 who are leaving care accommodation or foster homes;
- people who are considered particularly **vulnerable** on emotional and health grounds; and
- people in prison, care or the armed forces.

On the other hand, those who are normally excluded from social housing include:

- people who are considered to have made themselves **homeless 'intentionally'** - for example, by failing to pay rent or mortgage payments when they could have afforded to do so;
- people who previously lost their home due to **rent arrears;** and
- people considered guilty of **anti-social behaviour** or convicted of a criminal offence.

Most local authorities and housing associations operate a 'points' system, whereby applicants on waiting lists gain points according to the extent to which they fall into priority groups, are overcrowded or living in insanitary conditions, and their length of time on the list. Where social housing is particularly scarce, only those in priority need may be housed, including statutory homeless households and those from vulnerable groups.

As private sector organisations, housing associations are not subject to the same statutory requirements as local authorities, although they are required by the Housing Corporation to follow regulatory guidance on allocation policies.

*Homelessness and social housing*

Local authorities have the statutory duty to secure accommodation for households whom they assess as being both homeless and in priority need.

'Homeless' does not mean literally 'roofless': local authorities must deal with households threatened with homelessness within 28 days. The main reason for households becoming homeless is that their family or friends, with whom they are living, are no longer willing to accommodate them. As lodgers, such households have no security of tenure, and can be evicted at will.

Only certain groups of homeless households are statutorily classified as being in 'priority need', and therefore creating a duty for the local authority to secure accommodation for them. The priority need categories are broadly:

- Households containing a pregnant woman or dependent children;
- Households that are defined as 'vulnerable', including:
  - The elderly
  - People with physical or mental illness or disability
  - People with problems of substance abuse
  - People suffering from violence or harassment
  - People who have been in care, or prison, or discharged from the armed forces
  - Young people aged 16 or 17or
  - Households made homeless by fire, flood or other emergency.

In this context, poverty is not a direct criterion. Rather it is the interface between household characteristics and circumstances taken together with their housing conditions that determines their rights to housing. Obviously these are usually closely related to poverty.

There are two main groups of people who are not eligible for assistance as homeless. These are primarily asylum seekers and people returning to the UK who are not regarded as 'habitually resident', although this status is normally acquired after six months' residence.

Households who are homeless but not in 'priority need', are therefore generally childless couples or single people, under the state pension age and without any degree of 'vulnerability'. Local authorities are only required to supply 'non priority' homeless with advice and assistance, but in practice a significant proportion of these households are rehoused by both local authorities and housing associations through their normal waiting lists.

About a quarter of all households rehoused by local authorities and housing associations are homeless and in 'priority need' and just over 10 per cent  are homeless but not in 'priority need'. Roughly two thirds of all households rehoused in social housing are therefore not homeless.

*Setting rents in the social rented sector*

In England, the central government's policy for social rents is to ensure rents are fair and affordable. Under the Housing Green Paper issued in April 2000 (DETR, 2000), the government introduced a proposal for determining social rents. The rent restructuring policy, which was implemented in April 2002, was intended to 'harmonise' rents of similar dwellings in the local authority and the housing association sectors, and to move towards a consistent, integrated method for setting rents across all social housing stock within 10 years (ibid., para. 10.1). It also implemented a policy of charging social rents that, in part, reflect the market values of properties, but also within the affordable range for tenants. The rent-setting formula therefore included two main components, property values and average earnings, as follows:

> 70 per cent x 'average net rent' x 'relative local earning' x 'bedroom weight'
> +
> 30 per cent x 'average net rent' x 'relative property value'

The larger proportion of average earnings used in the formula was intended to guarantee that properties with very high capital values would still be affordable to those in need. A further component, namely number of bedrooms, was added to differentiate between properties of various sizes. Again the intention was to ensure that those with higher needs (usually those with dependent children) who required larger accommodation would be able to afford adequate housing. Details of each component of the rent formula are explained in the table below:

**Table 2.1 The rent formula for social housing**

| Component | Description |
|---|---|
| Average net rent (rent excludes service charges) | Average national rent in April 2000:<br>RSL - £53.50 per week increased each year by the HC's guideline limit for rent increases (i.e. RPI+1% from April 2000 and RPI+0.5 from April 2002).<br><br>Local authority - £45.60 per week, need to adjust each year by the average guideline increase before using in the formula. |
| Relative local (county) earning | Average earnings for the county/Average national earnings County earnings – based on the New Earnings Survey and represent county average gross weekly earnings full-time male and female manual workers over the 1997-99 period, updated to 1999 prices.<br><br>Average weekly national earnings in 1999 - £316.40. |
| Bedroom weight for property size | 2002-05: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 bed, 1.05 for 3 bed and 1.1 for 4+bed<br>The property size weights were increased in 2006 to: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 bed, 1.1 for 3 bed, 1.2 for 4 bed, 1.3 for 5 bed and 1.4 for 6+ bed. |
| Relative property value | Individual property value/National average property value Individual value: derived from the property value of the 'beacons' (the typical properties having the same attributes of the assessed property within the area), which were valued by local surveyors based on market valuations on an Existing Use Value (assuming continued residential use and vacant possession) in January 1999, as reported in the 1999 English House Condition Survey.<br>National average property value in January 1999:<br>RSL - £49,750.<br>Local authority - £41,350. |

The framework has now been in place for over five years and most rents are now within 5 per cent of their 'target' rents (Udagawa, 2007). The impact of this policy on the spatial patterns of rents and how they relate to property size and rents in the private sector have been examined in detail (Solomou, Wright and Whitehead 2006; Udagawa and Whitehead, 2007; Udagawa, 2008). The evidence suggests that rents are now more consistently related to property values across the country, with much lower rents in the North than in the South and particularly London. However, in terms of property size, those in smaller accommodation still pay relatively high rents while those in larger units pay much lower rents compared to market values.

## (iv) Policies on rents and security in the private rented sector

Rent controls were originally imposed on private rented housing, together with security of tenure, to protect tenants from what were perceived as exploitative landlords. Today, most tenancies have been deregulated and only a small number remain. However, there is a measure of rent control which operates via the Housing Benefit system (see above) whereby benefit is payable only for a rent assessed to be 'fair' (for regulated tenancies). Assured and Assured Shorthold tenants can also apply for their rent to be set by a rent assessment committee if they think that the landlord has set the rent too high. The principles whereby the rent is set by the committee are broadly similar to those used by the Rent Service to set fair rents, except that improvements made by the tenant are not taken into account.

*Assured tenancies and Assured Shorthold tenancies*

These are the commonest forms of arrangement for the renting of houses and flats by private tenants. In their current form, they were introduced by the Housing Act 1988 but important changes were made by the Housing Act 1996 with effect from 28 February 1997.

In the legislation, the term 'assured tenancy' covers both assured tenancies (sometimes called 'full' or 'ordinary' assured tenancies) and assured shorthold tenancies. For clarity, this report will refer to assured tenancies and shorthold tenancies to highlight the important differences between the two.

An assured or shorthold tenancy is the usual form of letting if:

- the tenant is a private tenant and the landlord is a private landlord;
- the tenancy began on or after 15 January 1989;
- the house or flat is let as separate accommodation and is your main home.

A tenancy will not be an assured or shorthold tenancy if:

- the tenancy began before 15 January 1989;
- it is a business or holiday let;
- no rent or a very low or very high rent is charged; or
- the landlord is a 'resident landlord' (see section 1.2).

Assured and shorthold tenancies allow landlords to charge a full market rent, unlike previous forms of tenancy. Shorthold tenancies also allow landlords to let their property for a short period only and to get it back if they wish after 6 months.

Changes in the 1996 Act mean that:

- a new tenancy will automatically be a shorthold tenancy unless the landlord gives written notice that it will not be a shorthold tenancy;
- the landlord has a right to possession if the tenant owes at least 2 months' or 8 weeks' rent (rather than 3 months' or 13 weeks' rent);
- it will be easier for the landlord to evict the tenant if they cause a nuisance or annoyance to other local people; and

- if the landlord agrees a new or replacement shorthold tenancy with the tenant, they have a right to a statement of the main details of the tenancy agreement if the landlord does not provide a written agreement.

Under changes in the 1996 Act, a new shorthold tenant is:

- only able to refer their rent to a rent assessment committee during the first 6 months of the tenancy; but
- continue to have the right not to be evicted without a court order and to have the same rights as existing tenants to stay in the property.

*The regulation of rent increases in the private rented sector*

If the tenancy is a fixed term tenancy, the landlord can only put the rent up during that term if the tenant agrees. If they do not agree, the landlord will have to wait until the fixed term ends before he or she can raise the rent.

If the tenancy is a contractual periodic tenancy, the landlord can put the rent up if the tenant agrees. Alternatively, the landlord can use a formal procedure in the Housing Act 1988 to propose a rent increase to be payable a year after the tenancy began. He or she can then propose further increases at yearly intervals after the first increase.

When a fixed term tenancy ends and the tenancy lapses into a statutory periodic tenancy, the landlord can put the rent up if the tenant agrees. Alternatively, he or she can use the formal procedure in the Housing Act 1988 to propose a rent increase to be payable as soon as the statutory tenancy starts. The landlord can then propose further increases at yearly intervals after the first increase.

The landlord must propose the rent increase on one of two special forms, namely 'Landlord's notice proposing a new rent under an Assured Periodic Tenancy of premises situated in England'; or 'Landlord's notice proposing a new rent under an Assured Periodic Tenancy of premises situated in Wales'. The forms can be used for assured or assured shorthold tenancies.

He or she must give at least a month's notice of the proposed increase if the rent is paid on a weekly or monthly basis (more if the rent period is longer).

If the tenant accepts the rent increase, they should simply pay it from the date given in the notice.

If they do not agree with the increase, they must apply to a rent assessment committee to decide what the rent should be. A special form must be used called 'Application referring a Notice proposing a new rent under an Assured Periodic Tenancy or Agricultural Occupancy to a Rent Assessment Committee', available from law stationers or rent assessment panels (see Appendix D). (This form must also be used if the tenancy is a shorthold tenancy). The committee must receive the application before the date on which the new rent would be due.

Rent assessment committees are made up of 2 or 3 people – usually a lawyer, a property valuer and a lay person. They are drawn from rent assessment panels – bodies of people with appropriate expertise appointed by Government Ministers. There are 6 rent assessment panels in England and Wales. The committees are independent of both central and local government. There is no appeal against a committee's decision except on a point of law.

The committee may make a decision by considering the relevant papers, although the tenant or the landlord can ask for an informal hearing, which both may attend. There is no charge for a committee decision.

A shorthold tenant can also apply to a rent assessment committee at the beginning of the tenancy for a decision on the rent if they consider the rent to be significantly higher than the rent for comparable tenancies. The Housing Act 1996 made important changes to the deadline for applications.

*Fair rents*

Fair Rents are a form of rent control applicable for private sector rented accommodation without a residential landlord and which was let before 15 January 1989. The Rent Act 1977 sets out the rules for setting Fair Rents and the Rent Acts (Maximum Fair Rent) Order 1999 limits the amount of rent that can be charged by linking increases to the Retail Prices Index. Only about 4 per cent of all private tenancies are registered as having a fair rent (affecting approximately 115,000 households). From January 1989 to March 1997, the default was an Assured tenancy, at a market rent, but in practice landlords preferred the Assured Shorthold tenancy and 1993/4 Assured Shortholds exceeded Assured Tenancies. From March 1997 the Assured Shorthold became the default and changing legislation encouraged this trend.

## 2.3 Summary

These four major areas of policy – (i) assistance with mortgage interest for those whose circumstances change; (ii) Housing Benefit to support low-income households in achieving adequate rental housing; (iii) the allocation of social rented housing to lower income and vulnerable households; and (iv) rent controls below market levels in both the private and the social sector, are all directed at ensuring that, first, all households can obtain adequate housing and, secondly, that housing is affordable to households on low incomes and to those whose circumstances change for the worse. In principle they address all the major areas of concern. In practice there are gaps.

## Section 3 Where are the gaps?

### 3.1 Owner occupation

In the private sector, i.e. owner-occupation and private renting, allocation is by willingness and capacity to pay for housing. To enter owner-occupation most households will require a mortgage, which will only be available if there is at least one member in employment. Households have generally been expected to borrow perhaps 3.5 times income, although many do in fact borrow more. Rising house prices over the last few years have resulted in access problems for many lower income households and significant numbers of households who are overstretched in terms of their repayment commitments. Problems of access and affordability have been addressed by government initiatives which have targeted assistance to help lower income households into owner-occupation. Those households that are able to access these schemes pay **less** for their owner-occupied housing than average.

The schemes include:

(i) the Right to Buy introduced in 1979 by which some 2.4 million social sector, mainly local authority, tenants have been enabled to purchase their homes at a discount and to obtain a mainstream mortgage;

(ii) shared ownership available since 1980 and now called New Build HomeBuy by which households may purchase a percentage (between 25 per cent and 75 per cent) of a new unit provided by RSL and pay rent on the other element at a usual maximum of 2.75 per cent of capital value. Such households can staircase to 100 per cent ownership; and

(iii) shared equity schemes with various names, currently including MyChoiceHomeBuy and Ownhome, which provide a shared equity loan, initially without an interest charge, on a proportion of the price up to 50 per cent. These schemes have generally been restricted to lower income employed households, notably key workers (Housing Corporation, 2008).

Those households who pay more than the average for their mortgages are those who wish to borrow more than the lenders regard as acceptable; who are higher risk because of their household circumstances, insecurity of income or the attributes of the properties they purchase; and those who use other sources of funds either because they are ineligible for a mortgage from the formal banking sector or wish to top-up their borrowing. All of these factors are related to poverty and insecurity, but they are also related to personal behaviour and aspirations.

The mortgage market is regulated both by legislation (which, for instance, forbids discrimination and 'red-lining' – i.e. refusing to lend in particular areas) and by the Financial Services Authority (FSA) as well as by self-regulation frameworks developed by the Council of Mortgage Lenders. An important development over the past few years has been the secondary mortgage markets which lend to credit impaired households.

Many of those who use the secondary mortgage market will have to pay higher rates of interest because they are perceived as being at higher risk. In addition, households, especially those looking to borrow outside generally accepted credit limits or looking for lower initial repayments, are likely to use mortgage brokers and pay arrangement fees of some hundreds and indeed thousands of pounds. There is thus a group of households just able to enter owner-occupation who are paying more for their mortgages (Whitehead with Gaus, 2007).

However, this group is not generally poor – rather, they are overstretched. Issues of poverty are concentrated among those whose circumstances change through unemployment, accident, illness or other reasons for income loss. The mechanisms for addressing these problems are private insurance (Mortgage Payment Protection Insurance - MPPI) and ISMI.

In addition, there are households that, in order to purchase, use non-formal sources of funds which are often outside the regulatory framework. Very little is now known about this group, although there is anecdotal evidence of very high interest charges and of costly buy and leaseback arrangements. These appear to be concentrated among older Right to Buy households and some parts of London where there are high concentrations of black and minority ethnic (BME) households. There is also evidence of those practices growing in the current difficult economic environment.

In this context Shelter has stated:

1. There is currently widespread concern over bad practice among some companies running 'buy and lease back' schemes, where a company offers to buy a borrower's property when they are facing mortgage arrears, and then rents it back to them so they can stay in their home. Advertising for many of these mortgage rescue schemes states that they offer struggling borrowers a way of getting out of financial trouble, releasing equity from their property, and allowing them to stay in their homes. But in reality the company will often buy the property at a price far below its full market value, and rent it back to the former owners on an assured shorthold tenancy, giving them no long-term security of tenure. After six months there is nothing to stop the new owner evicting them, leaving them homeless.

2. Adam Sampson said Shelter came across many problems with it. ‘People are being ripped off. We are seeing people who are getting only 50 per cent or 60 per cent of the value of their homes instead of the 70 per cent to 90 per cent they should be getting. Many of the promises that are made that people can stay in their homes for the rest of their lives are not being honoured. Some of these schemes are themselves financially unsustainable. We have had people whose homes are being repossessed because the people they sold them too couldn't keep up with their payments.’

3. John Fingleton, OFT Chief Executive, said that they wanted to take ‘a good look’ at whether consumers were adequately informed and protected. ‘Sale and rent back schemes might be helpful for some consumers but there are a number of potential concerns including whether consumers in difficult circumstances are making well informed choices.’

The vast majority of those in poverty in the owner-occupied sector are older households who are often seen as being asset rich, yet income poor. Those households generally pay no mortgage costs because they are outright owners. Their direct housing costs are therefore low. However, they face the continuing costs of upkeep for their home; often these homes are older, in a poor state of repair and have inadequate thermal insulation. Moreover, households have to pay Council Tax related to the value of their home. Mortgage mechanisms for releasing equity are generally poor value for money and may adversely impact on the person’s eligibility of tax credits and income support. Such households are thus not poor in terms of direct payments for housing but have to spend more on housing related services and taxation. Government assistance in this context is limited to Council Tax Relief, some income related grants and loans for insulation and other improvements, and general income support.

Thus, in the owner-occupied sector, there are three main groups of households who may be poor because of housing decisions:

a) those who overstretch themselves in terms of borrowing. This group will generally not be on very low incomes, but rather as a result of their high housing expenditure may not have adequate residual income to purchase other necessities of life. This group may be paying more for their mortgage especially if they have not been able to save for a deposit or they have borrowed outside normal limits. This additional cost relates to the higher risks to lenders;

b) those whose circumstances change for the worse and therefore find themselves in financial difficulties. These are supported to a limited extent by insurance in the form of MPPI and by ISMI; and

c) those who become poorer as they grow older, notably through loss of income on retirement. This group generally pay low direct housing costs because they no longer have a mortgage but pay high housing related costs because they cannot adjust these costs without moving. The impact of the Council Tax is modified by Council Tax Relief (so the poor who claim pay less). Other costs are market determined but may be higher per unit because of the type of housing in which older households live.

## 3.2 The private rented sector

Households in the **private rented sector** also pay market rents. However, as already noted, if they are eligible for Housing Benefit their income will be increased to cover all or part of their direct rental payments.

For many households, the issues in the context of private renting relate mainly to obtaining value for money, to the high housing costs of those whose incomes are just above the Housing Benefit eligibility levels (and more generally to the steepness of the income taper), and to those who for one reason or another do not take up Housing Benefit.

The first relates to what the market provides and, in this context, there is considerable evidence that rents are not strongly related to either square metres or to quality of accommodation (Crook and Kemp, 1995).

Most of this evidence suggests rather that rents, especially at the bottom end of the market, relate to the number of rooms and the number of persons accommodated and their capacity to pay. To this extent it is clear that there are issues of relative market power and that those on lower incomes will generally pay more per unit of quality, while those further up the market will obtain higher quality and more space at lower marginal costs.

A more general issue is that what private tenants are obtaining is quite different from the housing consumed in other tenures in that they have very limited security of tenure. Issues of eviction, harassment and uncertainty are clearly concentrated among poor, vulnerable households. They are addressed through regulation, the provision of Housing Benefit and social housing. Thus there are general issues in relation to the suitability of private renting for poorer households and the value for money they receive. Because of the availability of Housing Benefit, the vast majority of the very poor pay less for their housing. The gaps are restricted to:

(i) those who do not take up Housing Benefit;

(ii) to the extent that not all the rent is fully covered, reducing residual income.

## 3.3 The social sector

In the **social sector** the rents policy together with Housing Benefit ensures that those who gain access to social housing pay **less** for their housing. Moreover, landlords have a strong incentive to ensure those eligible for Housing Benefit actually claim it. The problems of poverty therefore relate to those who are excluded from social housing; those who are inadequately housed in the sector, mainly in terms of dwellings that do not meet the Decent Homes standard and through overcrowding where the quality and quantity determined by government standards cannot be achieved; and the problems associated with the Housing Benefit income taper and disincentives to work. These are Housing Benefit problems – but they are not an outcome of the poor paying more either in terms of total payments or payments per unit of housing quality.

Finally the most important issues arising from these complex tenure specific arrangements is who is excluded from suitable accommodation by poverty: in particular, who is homeless or living with family and friends. This is obviously an area where, in particular, while not paying more specifically for housing, households actually pay more for many other services. There is a great deal of evidence that such households suffer major costs in terms of health, education, costs of organising their lives and the risks they face (Whitehead, 1998). Again, though in general terms, homeless households who are generally poor pay more on the broadest definition of wellbeing, they do not generally pay more specifically for housing.

The next section looks at the empirical evidence on these issues: who lives in each tenure; what they pay for housing; how government assistance impacts on their payments; and what types of accommodation they obtain.

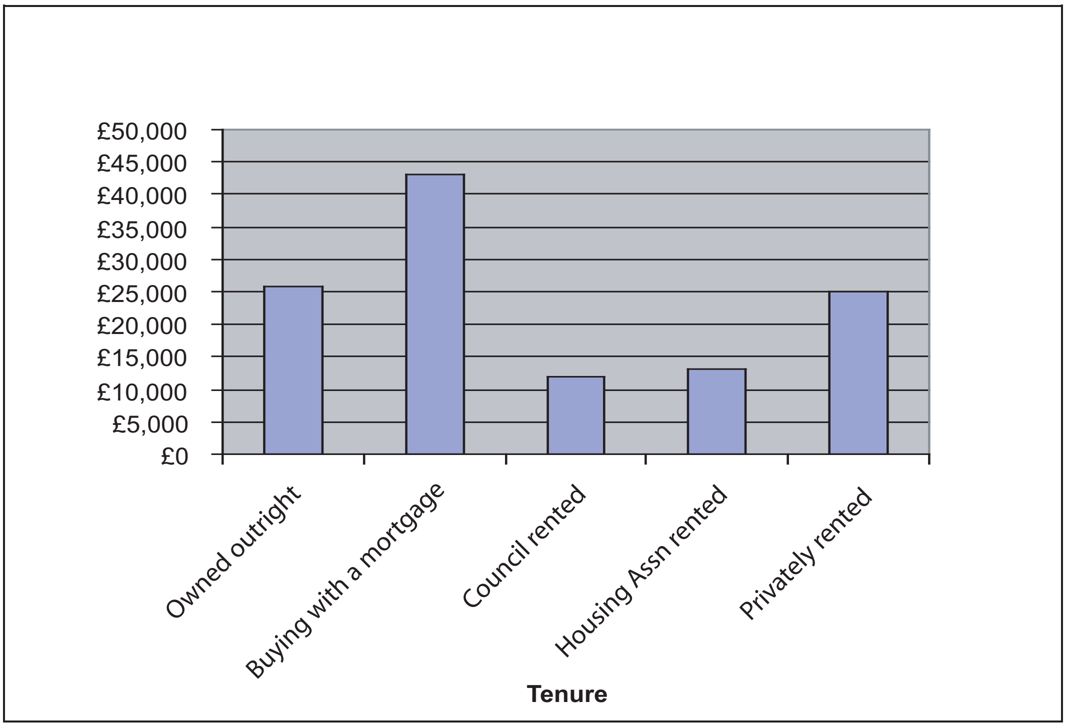
Because housing has been the subject of so much government intervention, the analysis of whether the poor pay more is centrally an analysis of the extent to which government policy has been effective in ensuring that poorer households both achieve adequate housing and are able to pay for that housing, while still able to afford other basic necessities (Whitehead, 1983; Hancock, 1984). It is that issue which mainly concerns this paper. However, to set this analysis within a broader context, we first clarify the economic reasons why we might expect the poor to pay more than the average household.

## Section 4: Poverty and Housing Costs

### 4.1 Income by tenure

The starting point must be an analysis of incomes and housing costs by tenure, simply because government assistance with housing costs is so tenure specific. As we have noted throughout this paper, the vast majority of poorer households pay less for their housing than average. The next question is, therefore, whether taking account of their low incomes they still pay more as a proportion of that income. Overall mean gross incomes were not far short of £30,000 in 2007, but social tenants have average incomes around or just above 40 per cent of that level. Average incomes of private rental sector tenants' incomes are around 80 per cent of the overall average, and outright owners at 87 per cent of the average both appear relatively well off (figure 4.1).

**Figure 4.1 Mean gross annual income of HRP (and partner) by tenure, England 2006/07**




Source: *Survey of English Housing 2006/07*

Figure 4.1 gives more detail on how incomes are distributed within each tenure. It shows clearly that those buying with a mortgage are generally more affluent and that there are significant numbers of private tenants who also have relatively high incomes.

Table 4.1 shows the distribution of households by tenure and income category and shows that while 46 per cent of all households have incomes below £20,000, 84 per cent of social tenants have incomes below that level. This was followed by private tenants and those who own outright at 55 per cent and 54 per cent of households with incomes below £20k respectively. Moreover, 55 per cent of social tenants have gross incomes below £10,000 p.a. followed by private tenants at 29 per cent below this figure.

These figures make it clear that poverty is heavily concentrated in social renting, but that there are significant proportions of private tenants and outright owners who have incomes that are less than one third of the overall average.

**Table 4.1: Gross Income by Tenure (Household Representative Plus Partner) England 2006/07 (%)**

| | Under £5k | £5k but under £10k | £10k but under £20k | £20k but under £30k | £30k but under £50k | £50k and over | Total (m) (%) |
|---|---|---|---|---|---|---|---|
| Owned outright | 3 | 19 | 32 | 19 | 15 | 10 | 4.8 (27.6) |
| Buying with a mortgage | 1 | 3 | 14 | 20 | 35 | 27 | 6.9 (39.7) |
| All owner-occupation | 2 | 10 | 22 | 20 | 27 | 20 | 11.7 (67.9) |
| Rented from social landlords | 14 | 41 | 29 | 9 | 6 | 1 | 3.5 (20.1) |
| Rented privately | 9 | 20 | 26 | 19 | 18 | 8 | 2.2 (12.6) |
| All tenures | 5 | 17 | 24 | 17 | 22 | 15 | 17.4 |

Source: *Survey of English Housing 2006/07*

When we look at the numbers of households affected, the picture appears rather different because owner-occupation is so much the dominant tenure. Table 4.2 shows the numbers in the lowest income groups (below £10,000 p.a. and below £20,000). These figures should be treated with particular care because of non-response on the income questions.

**Table 4.2: The Numbers of Households in Poverty by Tenure**

| | Under £10k | | Under £20k | | Total | |
|---|---|---|---|---|---|---|
| | Number (000) | % | Number (000) | % | Number (m) | % |
| **Owned outright** | 1,090 | 28 | 879 | 38 | 4.8 | 28 |
| **Buying with mortgage** | 274 | 7 | 418 | 18 | 6.4 | 40 |
| **All owner-occupiers** | 1,365 | 35 | 1,297 | 56 | 11.7 | 68 |
| **Rents from social landlord** | 1,914 | 49 | 697 | 30 | 3.5 | 20 |
| **Rented privately** | 628 | 16 | 317 | 14 | 2.2 | 13 |
| **All tenures** | 3,907 | 100 | 2,311 | 100 | 17.4 | 100 |

Source: *Survey of English Housing 2006/07*

Even in numbers terms social tenants clearly still dominate among the very poor followed by outright owners, most of whom are elderly. Owner-occupiers dominate among those with incomes between £10k and £20k

## 4.2 Vulnerable households by tenure

The next step is to relate tenure to the attributes of poorer households.

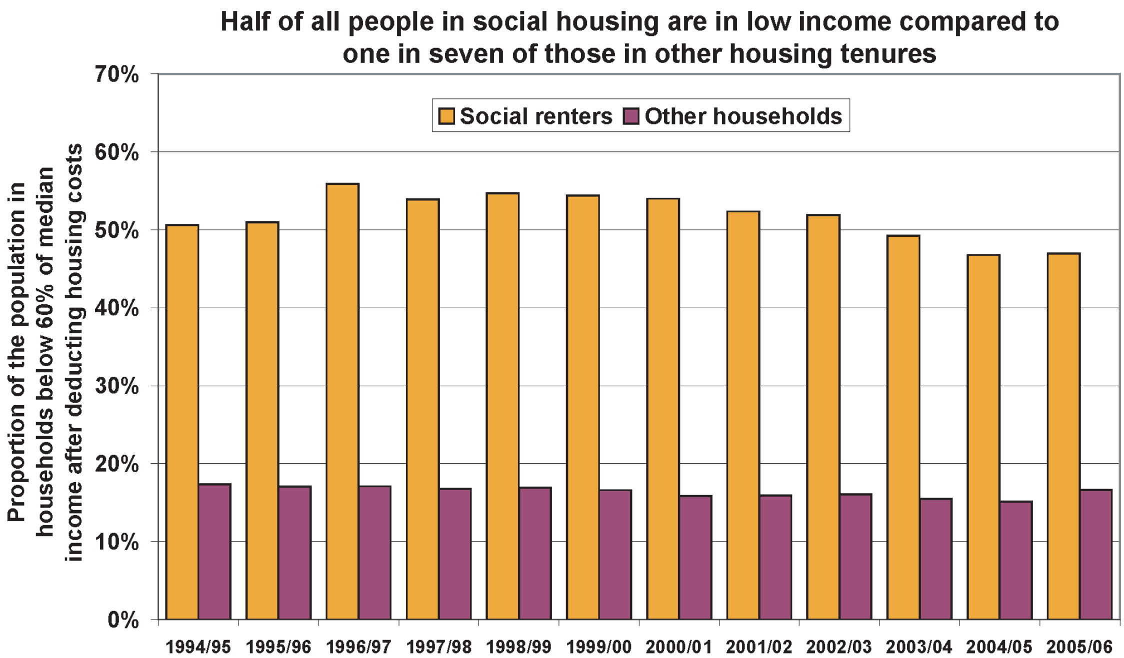
| Table 4.3: Household Attributes by Tenure (%) | | | | | |
|---|---|---|---|---|---|
| **Ethnicity** | **Owned outright** | **Buying with mortgage** | **Social Renting** | **Private Renting** | **Total (%)** |
| All BME | 15 | 35 | 27 | 23 | 8.6 |
| Unemployed | 1 | 1 | 6 | 4 | 2 |
| Retired | 57 | 3 | 32 | ? | 26 |
| Lone parents with dependent children | 6 | 28 | 46 | 19 | 7 |
| One person households | 38 | 23 | 26 | 13 | 28.9 |
| Proportion with no working member | 57 | 6 | 62 | 27 | 34 |
| Tenure | 31 | 39 | 18 | 12 | 20.8m |

Source: *Survey of English Housing 2006/07*

Table 4.3 gives some statistics on the attributes of households in the different tenures. They reflect the extent to which government policy and the market together lead to very different concentrations of vulnerable groups in the different tenures. Again it shows that much higher proportions of vulnerable households are to be found in the social rented sector, but that there are also concentrations of certain types of vulnerability, notably unemployed, lone parents and minority households in the private rented sector, as well as concentrations of elderly outright owners in the owner-occupied sector.

Further evidence from the Department of Work and Pensions helps to show the extent to which those on low incomes (Figure 4.2) and without employment (Figure 4.3) are concentrated in the social sector. This also shows that the problems associated with the lack of employment for those over 25 (below this age many are students) increase with age. This is important in the context of housing requirements which tend also to increase with age.

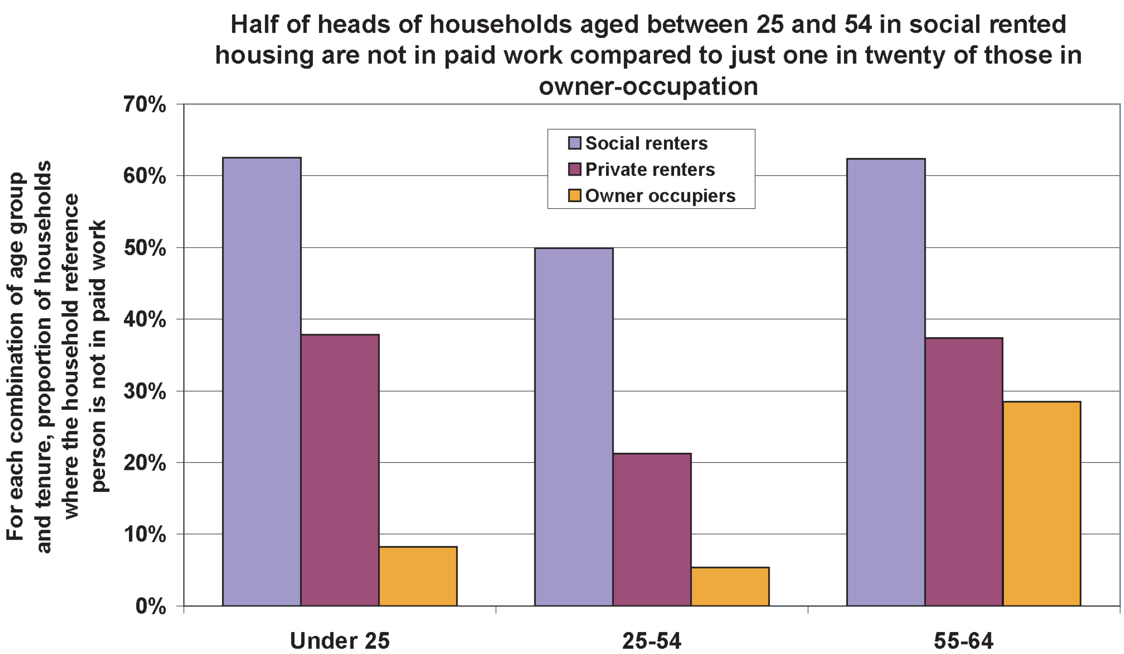
## Figure 4.2



Source: Households Below Average Income, DWP; UK; updated June 2007

In these Department of Work and Pension figures, income is defined as disposable household income after deducting housing costs, and the low income threshold is determined at 60 per cent median household income. All data had been adjusted to account for differences in household size and composition and the self-employed are included in the calculations. They are, therefore, much more directly related to more widely used definitions of poverty.

## Figure 4.3



Source: Labour Force Survey, ONS; the data is for 2007; UK; updated April 2008

*Housing Poverty among the elderly*

Poverty is heavily concentrated among older households, of which the largest numbers are to be found in social housing and among owner-occupiers who own outright. Among these owner-occupiers, many older homeowners are financially or physically unable to maintain their properties. Owner occupier households that own their property outright, who are single (with or without children and divorced or separated), originate from a black or minority ethnic background, are female or headed by someone from a manual socio-economic background, are most likely to be classified as being in poverty.

In the first instance, owner-occupiers are expected to fund repairs and maintenance costs from savings or, for larger schemes, through equity release. The Survey of English Housing suggests that 12 per cent of older home owner households aged 70 years or over, and 7 per cent of those aged 60-69 years, would not be able to pay for major repairs. Only 1 per cent of home owners aged 60 and over would draw on flexible mortgage equity. Handyperson schemes may be beneficial, but older homeowners have a unique need for larger scale affordable, quality repairs. The Regulatory Reform Order 2002 allows local authorities more discretion related to assistance with renovations and repairs but this is limited.

It should also be noted that census data from 2001 records the fact that approximately 40,000 older households live in park homes, caravans or other mobile or temporary structures – many of these households are thought to be poor, although there is no detailed statistical evidence.

Age Concern (2006) report that at least 4 per cent of older people live in private rented accommodation in some of the worst housing conditions and 11 per cent of those are aged 65 and over. Thirty five per cent of aged renters have regulated tenancies, but 24 per cent of older private renters have assured shorthold tenancies that are relatively insecure.

One quarter of all homeless people are aged over 50 (St Mungo's, 2004). Age Concern note that homeless agencies are less effective at dealing with and permanently placing older clients and suggests that greater homelessness prevention measures are needed for this group.

Poor people living in different housing tenures report a range of detrimental factors relating to housing, health and social exclusion, though the figures are suggestive rather than definitive.

Poor people in rented accommodation are more likely than poor home-owners to be dissatisfied with their neighbourhoods and to experience social exclusion on all dimensions considered by the survey: they smoke more, report that their general health is not good, lack adequate social support, and vote less. Poor home-owners, on the other hand, are more likely than poor people living in rented accommodation to report a physical problem with their accommodation and to experience poor mental health.

## 4.3 How Much do Households Pay for their Housing?

We have already noted how difficult it is to compare like for like in the context of housing costs. Here we look further at the main costs – rents and mortgages - and then at more detailed evidence for poorer households. Table 4.4 shows two main expenditures – rent (gross and after Housing Benefit) and mortgage by income deciles. It shows clearly that both rents and mortgages generally rise with income. It also shows that those in the two lowest income groups among renters are on average very well protected by Housing Benefit, while the housing they live in if anything has higher rents than that in the next two deciles.

| Table 4.4: Main housing expenditures by income deciles (£s per week) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **All** |
| **Rents by renters** | 92.20 | 94.00 | 92.00 | 84.70 | 90.20 | 95.90 | 106.50 | 121.40 | 138.10 | 226.40 | 100.10 |
| Gross rent | 92.20 | 94.00 | 92.00 | 84.70 | 90.20 | 95.90 | 106.50 | 121.40 | 138.10 | 226.40 | 100.10 |
| Less housing benefit, rebates and allowances received | 69.50 | 65.00 | 44.80 | 30.50 | 16.30 | 7.90 | [9.80] | [4.10] | [1.50] | [4.40] | 40.20 |
| Net rent | 26.60 | 28.90 | 47.20 | 54.20 | 73.90 | 88.00 | 96.60 | 117.30 | 136.60 | 221.90 | 60.00 |
| **Mortgage by mortgage holders** | 82.80 | 82.30 | 74.10 | 85.60 | 94.00 | 100.10 | 114.10 | 126.70 | 149.30 | 218.70 | 131.50 |
| Mortgage interest payments | 61.00 | 52.40 | 50.30 | 55.50 | 60.80 | 64.80 | 72.00 | 78.90 | 94.20 | 130.80 | 82.40 |
| Mortgage protection premiums | [1.20] | 2.70 | 3.10 | 3.10 | 4.00 | 4.80 | 4.40 | 4.30 | 5.20 | 5.40 | 4.50 |
| Capital repayment of mortgage | 20.60 | 27.20 | 20.70 | 27.10 | 29.30 | 30.50 | 37.70 | 43.60 | 49.90 | 82.50 | 44.70 |

Source: *Table 2.10 Family Spending 2007*

Turning particularly to poorer households, Figure 4 compares rents in the social sector, rents in the private sector and weekly outgoings for buyers in the lower quartile of the housing market (Dataspring, 2007). It shows clearly that:

(i) those in the market sector have to pay very much higher housing costs than those in social renting; *and*

(ii) owner-occupation costs have risen particularly rapidly over the last few years.

As a result, there is an affordability gap between those who have gained access to social housing and those who have to find their housing in the market sector.

Table 4.5 relates these housing costs to income, distinguishing between London and England as a whole, because London is the only region that stands out as different. The first column shows rents for new entrants into social housing against actual incomes including Housing Benefit as income. At between 30-35 per cent, rent is accounting for a significant proportion of total income including benefits. The other three columns show the ratio of rents and housing costs against lower quartile earnings and clearly reflect how difficult it is for those in the lowest quartile to afford housing, if they are not in receipt of benefits. It also shows how much greater the gap has become between renting and owning and the particular difficulties faced by low income households in London (Banks & Whitehead, forthcoming).

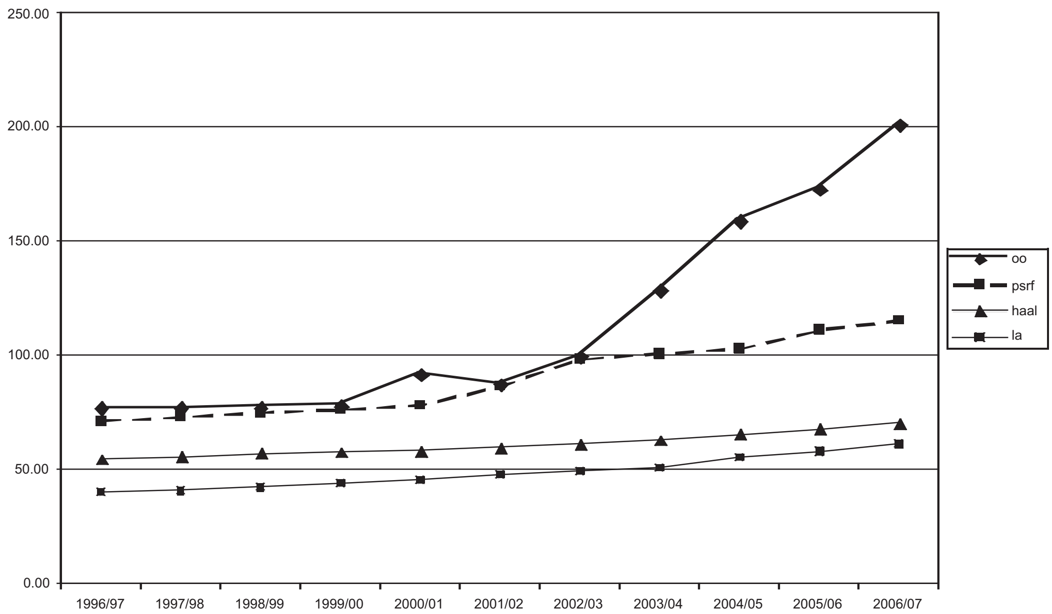
| Table 4.5: Rent and Housing Costs/Income (London and England) | | | | |
|---|---|---|---|---|
| | CORE HA rent CORE income plus Housing Benefit | CORE rent LQ ASHE | PRS/ LQ ASHE | OO/LQ ASHE |
| **2002/03** | | | | |
| London | 0.35 | 0.27 | 0.56 | 0.67 |
| England | 0 31 | 0.29 | 0.47 | 0.47 |
| **2006/07** | | | | |
| London | 0.036 | 0.31 | 0.57 | 0.98 |
| England | 0.031 | 0.31 | 0.51 | 0.89 |

Source: *Banks & Whitehead, forthcoming*

Key

| | |
|---|---|
| CORE | Continuous Recording System |
| HA | housing association |
| PRS | private rented sector |
| LQ | lower quartile |
| OO | owner occupation |
| ASHE | annual series of homes and earnings |

**Figure 4.4: A comparison of the user costs of owning, renting privately, renting through a social landlord and renting from a local authority, £ per week, England 1996- 2006**




Source: *Dataspring*

Key

| | |
|---|---|
| oo: | user cost of owner occupation |
| psrf: | private sector referred rents |
| haal: | housing association all lets (from CORE) |
| la: | local authority rents |

## 4.4 Particular issues

### 1: Housing benefit

Table 4.6 gives some general definition on the numbers of households assisted by Housing Benefit. At over 4 million claimants it is available to around 1 in 6 of all households. Moreover, the average amount of assistance is very large both in absolute terms and as a proportion of incomes.

**Table 4.6: Housing Benefits**

| | 1991/92 | 1996/97 | 2001/02 | 2006/07 |
|---|---|---|---|---|
| **Number of claimants (000s)** | | | | |
| Rent rebates | 2891 | 2887 | 2103 | 1684 |
| Rent allowances | 1219 | 1875 | 0764 | 2341 |
| **Average payment (£ per annum)** | | | | |
| Rent rebates | 1184 | 1880 | 2293 | 3047 |
| Rent allowances | 1694 | 2735 | 3156 | 3840 |

Table 4.7 clarifies the incomes at which particular groups of households become ineligible for Housing Benefit at different rent levels. Different types of household not only have different Housing Benefit allowances but also are allowed to earn different amounts of income, which is disregarded for benefit purposes. Many low income tenants with children in London, for instance, will be living in housing with rents at or above £120 per week. Such households will have incomes of over £20k per annum before they cease to be eligible for benefit.

**Table 4.7: Gross Weekly Earning levels at which Housing Benefit Entitlement Ceases (examples)**

| | Housing benefit allowances £ per week | Income disregard | Rent level per week | | |
|---|---|---|---|---|---|
| | | | £70 | £100 | £120 |
| **Household type** | | | | | |
| Single person >25 | 59.15 | 5.00 | 217.88 | 291.44 | 337.36 |
| Lone parent plus one child | 124.03 | 25.00 | 179.01 | 349.12 | 395.05 |
| Couple plus two children | 214.13 | 10.00 | 271.04 | 424.89 | 515.47 |

Source: *Wilcox 2008, Table 119*

Tables 4.8 and 4.9 look at the other side of the coin: take-up rates. They suggest that fewer than 10 per cent of local authority tenants and a slightly higher proportion of private tenants do not take up benefits. The amounts unclaimed are also on average relatively small but not insignificant for those on low incomes. Table 4.9 shows that those least likely to claim are couples and other households. It is these groups, especially in private renting, that pay the full cost of their housing.

**Table 4.8: Housing Benefit: Take-up Rates by Tenure (estimates 2004/05)**

| | Number (000s) | Take-up ranges | Median unclaimed amount £m[2] |
|---|---|---|---|
| Local authority tenants | 1860 | 89:95 | 300 |
| Private renters | 2060 | 80:88 | 950 |

Source: *DWP in Wilcox, 2008, Table 117a*

**Table 4.9: Housing Benefit: Take-up Rates by Household Type**

| | Number (000s) | Take-up ranges | Median unclaimed amount £m |
|---|---|---|---|
| Couples plus children | 180 | 77:84 | 95 |
| Lone parents | 880 | 93:100 | 90 |
| Other non pensions | 1240 | 82:91 | 495 |
| Pensioners | 1610 | 81:87 | 858 |
| **All** | **3910** | **84:91** | **1225** |

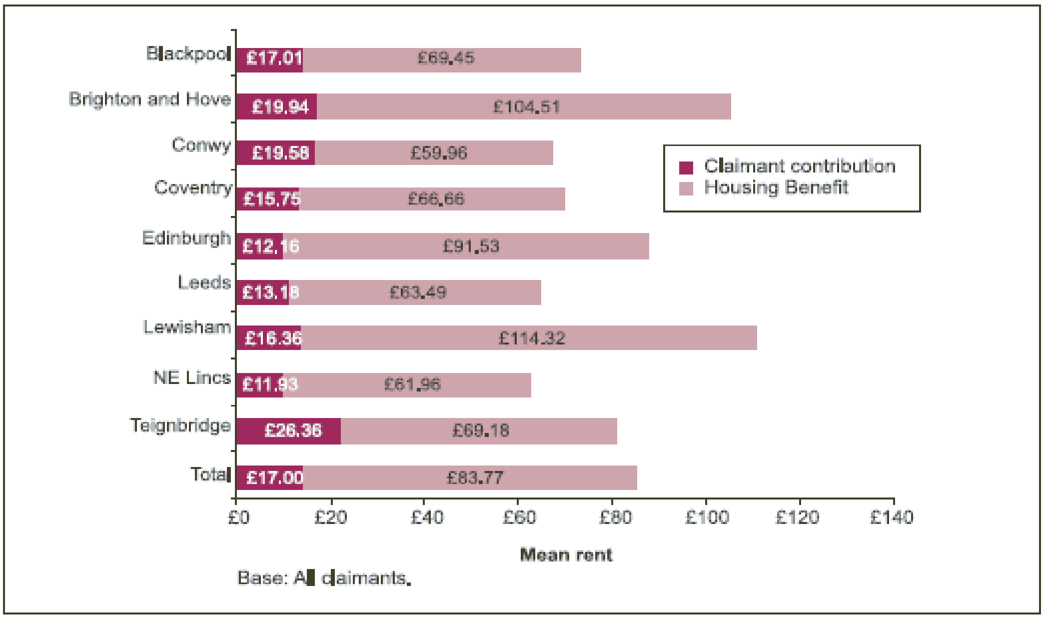
Source: *DWP in Wilcox, 2008, Table 117b*

A final issue and in many ways the most important is the extent to which Housing Benefit does not cover the full rent that private tenants have to pay. A Department of Work and Pensions report (2005) showed that Housing Benefit did not cover the full cost of the rent for almost 60 per cent of all claimants. Figure 4.5 provides some examples. There were regional variations from 41 per cent in Edinburgh to 82 per cent in Teignbridge and 77 per cent in North East Lincolnshire, where only about one in five claimants received Housing Benefit that covered the full rent. A combination of local housing market factors, claimant characteristics and incomes, and the application of Housing Benefit regulations, all affect these differences.

On average, Housing Benefit recipients were required to top up this payment with around £17 per week of their own funds, and there are significant variations in the amounts claimants are required to pay towards their rent, from £26.36 per week in Teignbridge to £11.93 in North East Lincolnshire. Those aged between 25 and 49 years or living in detached or semi-detached houses were most likely to experience this shortfall.

[2] The median is the mid point of the ranges of total unclaimed benefits estimated by DWP.

## Figure 4.5 Amount of rent paid by claimant and by Housing Benefit, by Pathfinder area




Source: *Department of Work and Pensions (2005)*

## 2: Homelessness

The groups that face the worst difficulties are those who are homeless. They pay more, not in direct financial terms, but in the difficulties they face, and there is significant evidence that homeless households suffer especially in terms of health and education.

The definition of homeless includes all those that government recognises they have a legal commitment to house. Rough sleepers are a tiny proportion of the total, currently running at less than 1,000 at any given time. Numbers of those homeless officially recognised as homeless reached their maximum in 2003 at over 200,000. Since then numbers have fallen sharply until, in 2007, there were around 100,000. The big change has been in the numbers of those deemed 'not in priority need' as acceptance procedures have been tightened up. Those in priority need, which include all households with dependent children, rose slowly to their peak in 2003 at around 70,000 in 2003 and have now fallen to around 40,000 households.

### i) Health

It is generally accepted that housing impacts on health. Whitehead (1998) notes how the risk of domestic accidents, fire related deaths and susceptibility to infectious diseases increases significantly for those living in temporary accommodation and bedsits. The cold is cited as the most significant risk, both to those unable to afford to heat their homes and those sleeping on the street, with hypothermia or heart attacks leading to 40,000 more deaths per annum during the colder months.

Although direct risks have yet to be quantified, a report published by Shelter (Harker, 2006) quotes research from the US that reports that: 'Homeless children have four times as many respiratory infections, five times as many stomach and diarrhoeal infections, twice as many emergency hospitalisations, six times as many speech and stammering problems, and four times the rate of asthma.' Harker estimates that lack of adequate housing increases the likelihood of a child becoming seriously ill or disabled by 25 per cent. However, ill health in homeless children can often start before they are born, as pregnant mothers are more likely to deliver babies of low birth weight which is linked to other serious health conditions.

### ii) Education

A lack of permanent, good housing impacts the educational aspirations and abilities of both adults and children. Children who are forced to move home and thus change school regularly can quickly fall behind and may be susceptible to bullying. Shelter estimates that 8 per cent of children living in substandard accommodation lose out on a quarter of their schooling, with transport problems and lack of school places accounting for 55 per cent of reasons cited for children missing school (Mitchell et al., 2004). In addition to this, dilapidated accommodation and estates, potential physical and mental health problems and truancy compound low achievement and examination results. Whitehead (1998) found that this experience is not limited to one generation but that there is a 'continuing cycle of low incomes, including low educational attainment for the next generation'.

Table 4.10 below shows the numbers of households in the different groups that are typically rehoused in social housing in any one year:

**Table 4.10: Lettings to new tenant and numbers of homeless rehoused 2005/06: all social housing**

| All social housing | 1 bedroom | 2+ bedroom | Total |
|---|---|---|---|
| Not homeless | 119512 | 90865 | 210377 |
| Homeless: priority due to children/pregnancy | 120 | 42695 | 42815 |
| Homeless: priority due to vulnerability | 32640 | 1616 | 34256 |
| Homeless: non priority | 29795 | 5831 | 35626 |
| **Total** | **182067** | **141007** | **323074** |

Source: *Housing Corporation (2007)*

By providing over 100,000 lettings to homeless households, the social sector is making a major contribution to ensuring that this particular group of disadvantaged households no longer pay more.

Table 4.10 shows that the majority of homeless households that are in priority need due to their vulnerability, and the majority of non-priority homeless, are rehoused in one bedroom accommodation. The table also shows that the majority (56 per cent) of all lettings in social housing are in one bedroom properties rather than in family accommodation. This reflects the fact that so many homeless households are vulnerable adults.

# Section 5: Quality, Energy Efficiency and Poverty

## 5.1 Housing quality

One way in which the poor pay more relates to the quantity and quality of housing that they obtain for their money. The evidence is, as always, piecemeal and here we present data on only three aspects: age of and condition of housing, energy efficiency and fuel poverty. Table 5.1 shows that older dwellings are heavily concentrated in the private rented sector, while social housing is disproportionately post war. On a wide range of more qualitative evidence, we can say with some certainty that on average older units are less energy efficient and therefore occupiers obtain worse value for money.

**Table 5.1**

| | Year property built | | | |
|---|---|---|---|---|
| | **Before 1919** | **1919-1944** | **1945-1984** | **1985 or Later** |
| Owner-occupiers | 20 | 20 | 45 | 15 |
| Rented social landlords | 6 | 15 | 65 | 14 |
| Rented privately | 37 | 19 | 28 | 16 |
| All tenures | 20 | 19 | 47 | 15 |
| Total (m) | 4.1 | 3.9 | 9.6 | 3.1 |

Source: *DCLG, English House Condition Survey, 2006*

Most of the data on quality comes from the English House Condition Survey, a regular survey which now concentrates on examining the extent to which dwellings meet the Decent Homes requirements in the social sector, among 'vulnerable households' in the private sector and in deprived neighbourhoods, as well as on liveability in the immediate area. All of these variables can be seen as surrogates for poverty and all show a concentration of poor conditions.

The government's commitment to ensuring that all social sector housing should meet the Decent Homes standard by 2010 and targeting vulnerable households in the private sector was first set out in the 2003 Communities Plan (Sustainable Communities: Building for the Future). The definition of decent home was updated in April 2006 when the Housing Health and Safety Rating system (HHSRS) came into force replacing the statutory fitness standard (A Decent Home Definitions and guidance for implications June 2006 updates).

A decent home is one that meets the following four criteria:

a) It meets the current **statutory minimum** standard for housing. From April 2006 the fitness standard was replaced by the Housing Health and Safety Rating System (HHSRS). Currently, there is insufficient data to report change since 1996 on decent homes incorporating the HHSRS. Trends and assessment of progress are, therefore, based on decent homes incorporating fitness as the statutory standard, which provides consistency in the measure.

b) It is in a reasonable state of **repair** (related to the age and condition of a range of building components including walls, roofs, windows, doors, chimneys, electrics and heating systems).

c) It has reasonably **modern facilities and services** (related to age, size and layout/location of the kitchen, bathroom and WC and any common areas for blocks of flats, and to noise insulation).

d) It provides a reasonable degree of **thermal comfort** (related to insulation and heating efficiency).

Vulnerable households are households in receipt of at least one of the principal means tested or disability related benefits.

The definition of vulnerable households, therefore, includes households in receipt of Income Support, Housing Benefit, Council Tax Benefit, Job Seekers Allowance, Attendance Allowance, Disability Living Allowance, Industrial Injuries Disablement benefit, War Disablement Pension, Pension Credit, Child Tax Credit and Working Tax Credit. For Child Tax Credit and Working Tax Credit, the household is only considered vulnerable if the household has a relevant income of less than around £15,050.

**Table 5.2: Housing conditions by tenure: 2005**

| Tenure | % in this group that: | | |
|---|---|---|---|
| | Are non-decent homes | Fail thermal comfort only | Those failing fitness, repair or modernisation |
| Owner-occupied | 24.9 | 15.2 | 9.7 |
| Private rented | 40.6 | 19.4 | 21.2 |
| Local authority | 33.7 | 19.1 | 14.6 |
| Registered social landlord | 23.88 | 16.5 | 7.4 |

Source: *DCLG, English House Condition Survey 2006: Annual Report 2007*

The evidence shows that there has been consistent improvement in terms of the numbers and percentages of households living in decent homes since 2003. In 2003 some 6.7 million homes were defined as non-decent, of which 5.3 million were in the private sector. In proportional terms, 35 per cent of social sector dwellings and 30 per cent of private sector dwellings were in this category based on the fitness definition. Seventy-three per cent of these dwellings defined as below the decent homes standard failed the thermal comfort element. By 2006 these figures had fallen to 5.9 million in total, of which 4.8 million were in the private sector, accounting for 26.4 per cent of all private sector homes and 28.7 per cent in the social sector respectively. Thus (i) total numbers of non-decent homes had declined significantly and (ii) the gap between social and private had narrowed.

Using the updated definition of decent homes incorporating the HHSRS, in 2006 3.2 million 'vulnerable' households[3] live in the private sector and of these 1.8 million (57%) live in non-decent homes (Table 5.3). Those vulnerable households who are private tenants tend to be living in worse housing conditions compared to their counterparts in the owner occupied sector; just 42 per cent of vulnerable private tenants live in decent homes compared to 62 per cent of vulnerable owner occupiers.

[3] Vulnerable household are households in receipt of at least one of the principal means tested or disability related benefits.

The problems at the bottom end of the private rented sector are not confined to condition. Statistics gathered from Shelter's work with clients found that, from approximately 50,000 issues relating to the private rented sector logged for the year ending 31 March 2006, the most common problem for tenants from the sector was homelessness (due to eviction), with a total of 9,559 instances. The other principal issues listed were landlord possession (6,786), landlord/tenant (other) (6,396), damp/disrepair (3,208), rent arrears (2,977) and Housing Benefit issues (2,615).

**Table 5.3: Private sector vulnerable households living in non-decent homes (using HHSRS as the statutory standards), 2006**

| | Decent | non decent | all homes | decent percentage; | non-decent | all homes |
|---|---|---|---|---|---|---|
| **Numbers ('000s):** | | | | | | |
| non vulnerable private | 9,182 | 5,24 | 14,306 | 64.21 | 35.8 | 100.0 |
| vulnerable private | 1,827 | 1,362 | 3,189 | 57.3 | 42.7 | 100.00 |
| **all households** | **13,513** | **7,706** | **21,219** | **63.7** | **36.3** | **100.0** |

Base: *all private sector vulnerable, private sector non-vulnerable and social sector households*
Note: *Decent Homes incorporating the HHSRS as the statutory component.*

Overall, therefore, the evidence suggests that the worst conditions are to be found in the private rented sector where tenants without subsidy are paying some of the highest housing costs. This is the main area where the poor do indeed pay more.

## 5.2 Energy efficiency in the home

The English House Condition Survey also shows how energy efficiency is distributed between tenures.

In 2006, over two thirds of homes (70%) have an energy performance rating of band D or E according to the Energy Performance Certificate (EPC) bands, Table 5.4. Less than 10 per cent of homes (1.7 million) achieve an energy rating of band C or higher. A fifth of homes (3.7 million) are in the most energy efficient bands (F or G) although less than 5 per cent of homes (900 thousand) are in band G.

Social sector homes tend to be much more energy efficient than those in the private sector. Some 65 per cent (2.6 million) are in bands D or higher, compared to 36 per cent of privately rented and only 32 per cent of owner occupied homes.

| Table 5.4: Energy Performance Certificate (EPC) bands by tenure, 2006 | | | | |
|---|---|---|---|---|
| | whole stock | owner occupied | private rented | social sector |
| Band B and C (69-91) | 7.9 | 4.1 | 10.1 | 21.5 |
| Band D (55-68) | 30.4 | 27.6 | 26.4 | 43.9 |
| Band E (39-54) | 40.9 | 45.0 | 36.9 | 27.7 |
| Band F and G (1-38) | 20.7 | 23.3 | 20.6 | 7.0 |
| Total (numbers) | 21,989 | 15,442 | 2,611 | 3,936 |

Note: *EPC bands are based on SAP rating which are shown in brackets.*

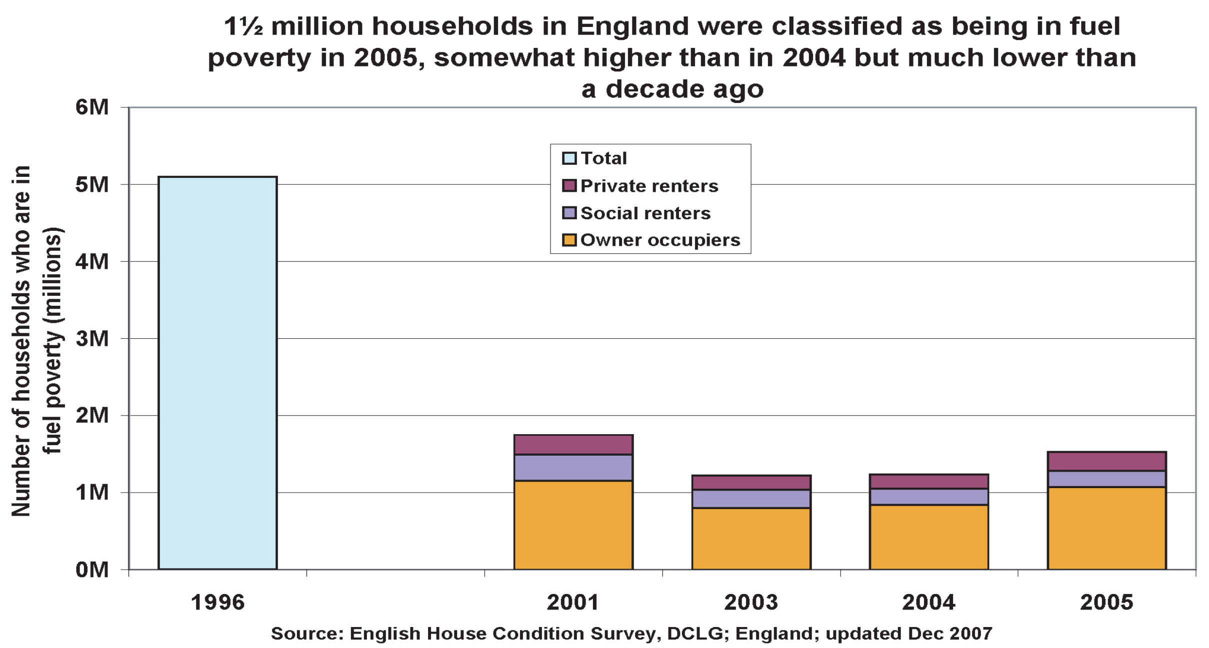
Overall, the picture on energy efficiency relates closely to the aspects of quality and implicitly costs. The groups that pay more for less are concentrated in the private rented sector among those not eligible or not claiming Housing Benefit.

## 5.3 Housing and fuel poverty

The survey also directly examines fuel poverty by tenure and shows that:

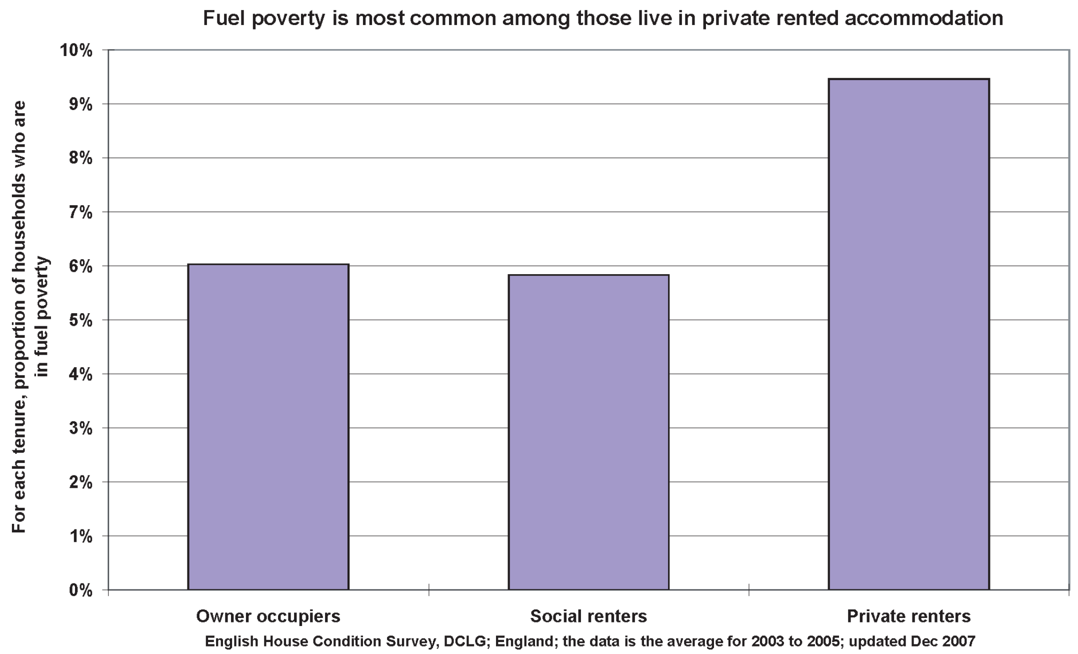
(i) 1.5 million households in England were classified as being in fuel poverty in 2005, somewhat higher than in 2003 and 2004 (reflecting rising costs), but far lower than in 1996 when 5 million households were defined as in fuel poverty (Figure 5.1). At this point the improvement looked impressive. However, current estimates suggest that the numbers may have increased to as much as 5.5m by the end of 2008 as a result of increasing energy costs.

**Figure 5.1: Households by tenure in fuel poverty**



(ii) the vast majority of these households live in the owner occupied sector, but in proportionate terms the problems are concentrated among private tenants (Figure 5.2); and

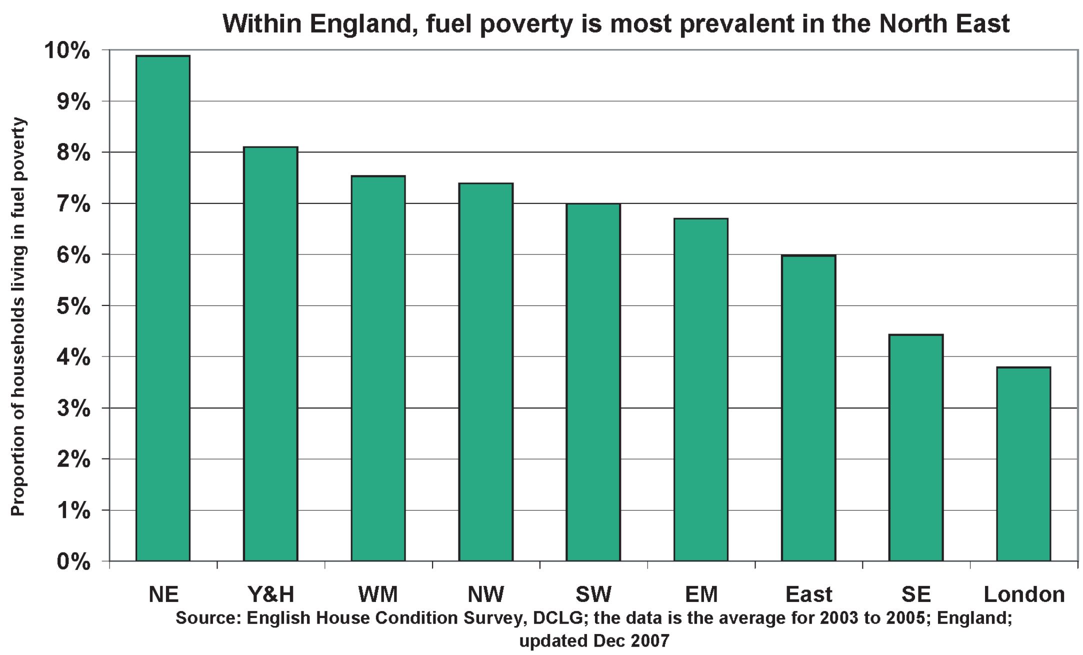
**Figure 5.2: Concentrations of fuel poverty by tenure**




(iii) that fuel poverty is more heavily concentrated in northern regions, and least in London – even though some 30 per cent of the private rented sector is concentrated in London (figure5.3).

The picture on fuel poverty is therefore very similar to that for energy efficiency and the quality of the home. In absolute terms, there are significant problems in the owner-occupied sector, concentrated among elderly outright owners. Proportionately, though, the problems are heavily concentrated among private tenants, the group where housing assistance also tends to be least effective.

**Figure 5.3: Fuel poverty by region**



## Section 6: Conclusions

It has generally been accepted in the UK, and indeed across advanced economies, that the market alone cannot provide adequate housing for all at an affordable price. In part this is because of market failures inherent in the nature of housing. It is also because the distribution of income is too uneven to enable all households to compete effectively in the marketplace. However, especially in Western Europe, it is also because housing is seen as part of the welfare state contract between the state and its citizens.

Yet housing also benefits from the choice and range of provision that can be achieved in the market. As a result, housing is seen as archetypal, appropriate for provision and allocation through a mixed economy - ranging from market provision for those who are reasonably well off, subsidy to enable others to obtain adequate housing, and the direct provision and allocation of publicly owned housing. The mix has changed over the decades with far more emphasis on market involvement – and in liberalising these markets. Yet government is still a major player and expects to remain so in the foreseeable future.

The range of policies from direct provision, subsidies to investment in new and regenerated properties, rent control and income related subsides for lower income households - together with a range of regulation on land use, standards of provision and occupancy and financial services - ensures that, in the main, lower income households pay less for their housing than those further up the income scale. Those who fall through the gaps of the comprehensive range of polices to assist poorer households include:

(i) households who are unable to find their own accommodation and are therefore not eligible for housing benefit. Those in priority need within this group will be accommodated, but often the housing they obtain is inadequate and insecure, at least in the short term;

(ii) households in the private rented sector who, while eligible, do not claim housing benefit; who have large housing costs not eligible for subsidy; or who are just above the eligibility level for benefits. These households may pay significant proportions of their income in housing;

(iii) outright owner-occupiers who may be asset rich but who do not have the income to maintain and live comfortably in their homes; and

(iv) those mortgagors who have overstretched themselves and whose circumstances change for the worse.

More generally, the costs of housing across the board have been rising over the last twenty years and can be expected to continue to do so into the future.

Finally, while housing poverty in itself may be well addressed by policy for the vast majority of households, housing related expenditures including property taxes, energy, utilities and other housing related bills are a major concern for many poorer households, especially those who live in older dwellings that are more difficult to maintain. Moreover, these bills are currently rising much faster than incomes, putting additional strain on household budgets.

# Annex 1: Subsidies by region

**Table A.1 Help with Housing Costs in all Tenures - Great Britain (£m)**

| | 1991/92 | 1995/06 | 2001/02 | 2005/06 |
|---|---|---|---|---|
| **Social housing** | | | | |
| Council subsidy | 897 | -484 | -1,184 | 179 |
| Housing association grant | 2,116 | 1,640 | 1,238 | 1,381 |
| Housing benefit (council) | 4,068 | 5,430 | 5,258 | 5,263 |
| Housing benefit (RSLs) | 534 | 1,640 | 3,019 | 4,959 |
| **Total** | **7,615** | **8,226** | **8,331** | **11,782** |
| Private renting | | | | |
| Housing benefit | 1,892 | 3,804 | 2,888 | 3,723 |
| **Homeowners** | | | | |
| ISMI | 925 | 1,016 | 484 | 355 |
| **Total all tenures** | 17,785 | 6,940 | 14,675 | 16,935 |

Source: *Wilcox table 122*

**Table A.2 Housing Benefit spending by region, 2004-05 (2006-07 prices)**

| | Spending per recipient (£ per week) | | |
|---|---|---|---|
| | **Private rented sector** | **Housing association** | **Local authority** |
| Greater London | 131 | 94 | 84 |
| South East | 93 | 70 | 59 |
| East | 81 | 64 | 54 |
| South West | 76 | 61 | 51 |
| West Midlands | 70 | 57 | 50 |
| North West | 66 | 57 | 48 |
| Yorkshire and the Humber | 62 | 58 | 44 |
| East Midlands | 61 | 58 | 46 |
| North East | 60 | 54 | 44 |
| **England** | **78** | **64** | **53** |

Source: *Hills (2007) Figures adjusted by GDP deflator to 2006-07 prices.*

| Table A. 3 Estimated economic rents and net present value of economic subsidy by region, 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital value (£) | PRS rents less M&M1 (%)+ | Economic rent (£/w) | Actual rent (£/w) | Economic subsidy (£/w) | Net present value | |
| | | | | | | 15 years | 20 years |
| **(a) Local authorities** | | | | | | | |
| North East | 58,600 | 2.36 | 55 | 43 | 11 | 9,000 | 11,500 |
| North West | 65,100 | 2.68 | 65 | 47 | 17 | 15,400 | 19,100 |
| Yorkshire & the Humber | 62,200 | 2.99 | 65 | 44 | 20 | 16,700 | 20,600 |
| East Midlands | 77,700 | 2.36 | 67 | 46 | 21 | 17,200 | 21,200 |
| West Midlands | 73,900 | 2.46 | 67 | 49 | 17 | 15,400 | 19,000 |
| East of England | 128,200 | 2.77 | 101 | 55 | 46 | 36,700 | 44,400 |
| London | 165,200 | 2.68 | 138 | 67 | 71 | 55,400 | 66,700 |
| South East | 128,000 | 2.58 | 98 | 59 | 38 | 32,100 | 39,000 |
| South West | 100,800 | 2.32 | 76 | 50 | 26 | 22,700 | 27,700 |
| **England** | **100,700** | **2.66** | **87** | **53** | **34** | **28,000** | **34,100** |
| **(b) Housing associations** | | | | | | | |
| North East | 59,600 | 2.36 | 55 | 49 | 6 | 7,300 | 9,500 |
| North West | 65,500 | 2.68 | 65 | 52 | 13 | 14,600 | 18,200 |
| Yorkshire & the Humber | 66,010 | 2.99 | 67 | 50 | 17 | 18,200 | 22,400 |
| East Midlands | 85,400 | 2.36 | 70 | 53 | 18 | 17,000 | 21,200 |
| West Midlands | 87,300 | 2.46 | 73 | 52 | 20 | 18,100 | 22,400 |
| East of England | 119,200 | 2.77 | 96 | 60 | 35 | 29,800 | 36,300 |
| London | 189,100 | 2.68 | 150 | 70 | 80 | 60,500 | 72,800 |
| South East | 142,400 | 2.58 | 105 | 67 | 38 | 34,200 | 41,700 |
| South West | 117,000 | 2.32 | 83 | 58 | 25 | 24,300 | 29,800 |
| **England** | **111,400** | **2.66** | **93** | **61** | **31** | **29,400** | **35,900** |

Source: *Hills (2007)*

Note: 1. *Private sector rents in region less allowance for management and maintenance in region (based on spending in social sector) as percentage of capital values in private sector.*

## References


Age Concern (2007) Older People in the United Kingdom: Key Facts and Statistics 2007, Age Concern, London.

(2006) Housing Policy Position Paper, Age Concern, London

Banks, D. and Whitehead, C. (forthcoming) Affordability across tenures 2002/03 to 2006/7, Dataspring, Cambridge

Bennett, J. (2008) A Tale of Two Cities: Neighbourhood segregation by income in two urban case studies, Institute for Public Policy Research, London

Bennett, J. (2007) It's All About You. Citizen-centred Welfare, Institute for Public Policy Research, London

Bramley, G., Fitzpatrick, S., Karley, N.K., Monk, S., & Pleace, N. (2005) Evaluation of English Housing Policy 1975–2000 Theme 1: Supply, Need and Access, Office of the Deputy Prime Minister, London

Burrows, R. (2003) Poverty and home ownership in contemporary Britain, The Policy Press, London

Cooke, G., & Lawton, K. (2008) Working out of poverty: A study of the low-paid and the 'working poor', Institute for Public Policy Research

Crook, A.D.H. & Kemp, P.A. (1999) Financial institutions and private rented housing, Joseph Rowntree Foundation, York

Crook, A.D.H. & Kemp, P.A. (1996) Private Landlords in England, London HMS

Crook, A.D.H. & Kemp, P.A. (1996) 'The revival of private rented housing in Britain' in Housing Studies, 11 (1), pp.51 - 68

Department for Business, Enterprise and Regulatory Reform, & Department of Environment, Food and Rural Affairs (2007) Fuel Poverty Monitoring – Indicators, 2007, Department for Business, Enterprise and Regulatory Reform, & Department of Environment, Food and Rural Affairs, London

Department for Communities and Local Government (2007) The English Indices of Deprivation 2007, Department for Communities and Local Government, London

(2006) A Decent Home: Definition and guidance for implementation, June 2006 – Update, Department for Communities and Local Government, London

Department of Environment (1997) Housing Policy: A consultation document Cmnd 6831, London, HMSO

Department of the Environment, Transport and the Regions (2001) Guide to Social Rent Reforms, Department of the Environment, Transport and the Regions, London

Department of the Environment, Transport and the Regions and Department of Social Security (2000) Quality and Choice: A Decent Home for All, Department of the Environment, Transport and the Regions, London

Department of Work and Pensions (2005) Claiming Housing Benefit in the Private Rented Sector: the baseline experience of claimants in the nine LHA Pathfinder areas, Department of Work and Pensions, London

Dorling, D., Rigby, J., Wheeler, B., Ballas, D., Thomas, B., Fahmy, E., Gordon, D., & Lupton, R. (2007) Poverty, wealth and place in Britain, 1968 to 2005, Joseph Rowntree Foundation, York

Dunn, J.R. (2000) 'Housing and Health Inequalities: Review and Prospects for Research' in Housing Studies, 15 (3), pp.341-366

Fearn, J. (2004) Too Poor To Move, Too Poor To Stay. A Report On Housing In The Czech Republic, Hungary And Serbia, Open Society Institute, Local Government And Public Service Reform Initiative, Budapest

Goodman, A., Myck, M., & Shephard, A. (2003) Sharing in the Nation's Prosperity? Pensioner Poverty in Britain, Institute for Fiscal Studies, London

Gordon, D., Adelman, L., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P., & Williams, J. (2000) Poverty and social exclusion in Britain, Joseph Rowntree Foundation, York

Hancock, R. (1993) 'Can Pay, Won't Pay: Economic Principles of Affordability' Urban Studies February 1993, vol No. 1

Hancock, R. (1998) 'Can Housing Wealth Alleviate Poverty among Britain's Older Population?' in Fiscal Studies, vol. 19, no. 3, pp. 249–272

Harker, L. (2006) Chance of a Lifetime: The Impact of Bad Housing on Children's Lives, Shelter, London

Hills, J. (2007) Ends and means: The future roles of social housing in England, CASE Report 34, London School of Economics, London

Hills, J. (1991) Unravelling Housing Finance: Subsidies, Benefits and Taxation, Oxford, Clarendon Press

Holmans, A.E. (1987) Housing Policy in Britain: A History, London, Croom Helm

Housing Corporation (2007) Tackling Homelessness: Efficiencies in Letting Functions, Housing Corporation, London

Housing Corporation (2008) Housing Corporation Statement 21/08, London, Housing Corporation

Jones, E. (2008) Shelter's input into the Review of the Private Rented Sector, Shelter, London

Joseph Rowntree Foundation (2002) Britain's Housing In 2022 - More Shortages and Homelessness? A Working Paper for Tackling Disadvantage: A Twenty-Year Enterprise, Joseph Rowntree Foundation, York

Kempson, E., Ford, J., & Quilgars, D. (1991) Unsafe safety-nets, Centre for Housing Policy, University of York, York

Lee, P., & Murie, A. (1997) Poverty, housing tenure and 'social exclusion', Joseph Rowntree Foundation, York

Marsh, A., Gordon, D., Heslop, P., & Pantazis, C. (2000) 'Housing Deprivation and Health: A Longitudinal Analysis' in Housing Studies, 15 (3), pp.411-428

Milbourne, P. (2008) Poverty, Social Exclusion and Welfare in Rural Britain, Institute for Public Policy Research, London

Ministry of Reconstruction (1945) Housing Cd 6609, London, HMSO

Mitchell, F., Neuburger, J., Radebe, D., & Rayne, A. (2004) Living in limbo: Survey of homeless households living in temporary accommodation, Shelter, London

National Energy Action & Energy Action Scotland (2005) Separate and Unequal; Energy Efficiency Standards in Social Housing in the United Kingdom. Third Year Report, National Energy Action, Newcastle upon Tyne

Office of the Deputy Prime Minister (2004) Analysing the Impact of Rent Restructuring: Informing the 3 Year Review, Office of the Deputy Prime Minister, London

Shelter (2008) Shelter's input into the review of the private rented sector, Shelter, London

(2007) Policy discussion paper: Fit for purpose? Options for the future of the private rented sector, Shelter, London

(2006) The path to success? Shelter's research on Housing Benefit reform: the final report, Shelter, London

Raffo, C., Dyson, A., Gunter, H., Hall, D., Jones, L., & Kalambouka, L. (2007) A review of research on the links between education and poverty, Joseph Rowntree Foundation, York

Sodha, S. (2005) Housing-Rich, Income-Poor: The potential of housing wealth in old age. A paper for housing across the lifecycle, Institute for Public Policy Research, London

Solomou, W., Wright, P. & Whitehead, C. (2005) Understanding the rent-restructuring formula for housing association target rents, Rent Briefing paper 4, Dataspring, Cambridge Centre for Housing and Planning Research, Cambridge

Stanley, K., Lohde, L.A. & White, S. (2004) Sanctions and Sweeteners. Rights and Responsibilities in the Benefit System

Stephens, M. (2005) 'An Assessment of the British Housing Benefit System', European Journal of Housing Policy, 5 (2), p. 111-129. Institute for Public Policy Research, London

Stephens, M., Dailly, M. & Wilcox, S. (2008) Developing safety nets for home-owners, Joseph Rowntree Foundation, York

Stephens, M., Whitehead, C., & Munro, M., (2005) Evaluation of English Housing Policy 1975-2000, Office of the Deputy Prime Minister

Stephens, M., Dailly, M. & Wilcox, S. (2008) Developing safety nets for home-owners, Joseph Rowntree Foundation, York

St Mungo's (2004) 50:50 – The big Stat: Big Survey into the Problems and Lives of Homeless People, St Mungo's, London, November

Udagawa, C. (2008) Detailed Analysis of the Pattern of Registered Social Landlord Rents: 2001/02 – 2006/07. Source document for the Dataspring Report to the Housing Corporation, Dataspring, Cambridge Centre for Housing and Planning Research, Cambridge

Udagawa, C. (2007) Housing associations and the movement to target rents, 2006 to 2007, Dataspring, Cambridge Centre for Housing and Planning Research, Cambridge

Udagawa, C., and Whitehead, C. (2007) Comparisons between social sector and private sector rates of return across England: 1998/99 to 2005/06, Cambridge, Dataspring

Whitehead, C. (2003) 'The Economics of Social Housing' in T. O'Sullivan and K Gibbs (Eds) Housing Economics and Public Policy, Oxford, Blackwell

Whitehead, C. (1998) The Benefits of Better Homes, Shelter, London

Whitehead, C. (1991) 'From Need to Affordability: an analysis of UK housing objectives' Housing Studies 28 (6) and 71 – 87

Whitehead, C. (1983) The rationale of government intervention in H. Dunkerley (Ed) Urban Land Policies: Issues and Opportunities, Oxford University Press

Whitehead, C., and Cao, B. (2007) Comparing Rents and User Costs across Tenures 2005/06 and 2001/02, Cambridge, Dataspring

Whitehead, C. with Gaus, K. (2007) At any Cost: Access to housing in a changing financial marketplace, London, Shelter

Whitehead, C. Gibb, K., & Stephens, M. (2005) Evaluation of English Housing Policy 1975-2000 Theme 2: Finance and Affordability, Office of the Deputy Prime Minister: London

Wilcox, S. (2008) UK Housing Review 2007/08, Coventry, CIH/BSA

Electronic Sources

Age Concern http://www.ageconcern.org.uk/

Applied Energy http://www.decenthomesstandard.co.uk/index.php

Department for Business, Enterprise and Regulatory reform
http://www.berr.gov.uk/index.html

Department for Communities and Local Government
http://www.communities.gov.uk/corporate/

Department for Work and Pensions http://www.dwp.gov.uk/

Direct Gov http://www.direct.gov.uk/en/index.htm

Institute for Public Policy Research http://www.ippr.org/

| | |
|---|---|
| Joseph Rowntree Foundation | http://www.jrf.org.uk/ |
| National Energy Action | http://www.nea.org.uk/ |
| Office of National Statistics | http://www.statistics.gov.uk/ |
| Shelter | http://england.shelter.org.uk/ |
| The Poverty Site | http://www.poverty.org.uk/index.htm |
| The Rent Service | http://www.therentservice.gov.uk/index.asp |