UNIVERSITY OF BIRMINGHAM
Housing and Communities Research Group

# SOCIAL HOUSING AND THE GOOD SOCIETY

## POLICY FUTURES REPORT

## FOR WEBB MEMORIAL TRUST

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# Social Housing and the Good Society

## About Housing and Communities Research Group

Led by Professor David Mullins, the Housing and Communities Research Group undertakes leading edge research and teaching as part of the School of Social Policy at the University of Birmingham. Housing and Communities has long been a key area of interest of research and teaching at the University of Birmingham, both in the School of Social Policy, and building on the 40-year tradition of housing research in the Centre for Urban and Regional Studies.

Housing and Communities is an important arena for current policy and practice challenges in relation to housing policy, welfare reform, public expenditure reductions, homelessness, housing supply shortages, financial inclusion, Localism, and the role of third sector in service delivery. Research and knowledge transfer on these topics plays a key role in the University's civic engagement agenda.

For this project on the Future of Social Housing, commissioned by the Webb Memorial Trust, Dr James Gregory and Professor David Mullins were joined by Pete Redman of Traderisks and Emeritus Professor Alan Murie from the Housing and Communities Research Group.

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## Executive Summary

This Policy Futures Report calls for the reform and extension of the social housing system in England, with a variety of delivery agencies including housing associations, local authorities and local community based organisations and the active participation of tenants. It also suggests a broader and more socially inclusive vision of social housing in which social landlords extend their housing offer into the private rental and owner-occupied sectors. In this report we argue that this is both necessary and possible – and without sacrificing the core values of social housing.

We present this a part of the Webb Memorial Trust's broader enquiry on the nature of a good society today, free of poverty and based upon mutual respect for people of all social and economic backgrounds. The terms of reference for this Policy Futures Report was to investigate the ways in which social housing can prevent poverty and to develop innovative new policy to ensure that it continues to do so. The authors have approached this remit through a broad approach to housing and poverty, going beyond social housing to look at poverty and unmet needs in other tenures.

Our terms of reference also pointed us towards action rather than further description of the facts of housing and poverty. This Policy Futures Report is aimed at policy makers and practitioners with the capacity and appetite to take forward our recommendations in a way that will have a clear impact on poverty and housing provision in England.

### A note on methodology

This report has used different methodologies to address different issues. We describe the main data sources below. Where more technical issues arise we address these in the text at the most salient point in our analysis. Our analysis is inspired by the concept of hybridity and its increasing application to understand the mixing of state, market and community logics especially in third sector organisations such as housing associations (Billis 2010, Mullins, D. Czischke, D. and Van Bortel, G. (2013).

In addressing the state of poverty and housing need in England we have drawn on secondary data from the Department for Work and Pensions' Households Below Average Income Survey. We have also gone into greater depth with original modelling of household spending power and housing costs. This is based on analysis of several large scale surveys including Family Spending Survey (ONS 2015a), English Housing Survey (DCLG 2015a), Effect of Tax and Benefits (ONS 2015b), ONS Wealth and Assets Survey (ONS 2015c), DWP statistics including Households below Average Incomes (DWP 2015), combined with market values of housing from Land Registry Price Paid Data (LR 2015) and Council Tax base data (DCLG 2015b). The latter ensures coverage of the whole housing stock and, supplemented by rent data and tenure statistics from DCLG Live Tables (DCLG 2015c), provides some surprising results for 2014.

Our financial modelling is based on the following sources: Global Accounts of Housing Providers 2012, 2013, and 2014, HCA; Affordable Housing Supply 2013-14, DCLG; Private Registered Provider Social Housing Stock in England: Statistical Data Return dataset 2014, HCA; The Incidence, Value and Delivery of Planning Obligations in England in 2007-08, and, Section 106 Planning Obligations in England 2011-12, DCLG; Anonymous sample of Private Registered Provider Accounts to March 2014, 2015 Summer Budget, 2015 November Spending Review Announcements, Office For Budget Responsibility Economic and Fiscal Outlook November 2015 (especially Annex B). We also draw on interviews with sector stakeholders and policy makers including two Delphi surveys of housing association senior staff (Mullins and Jones 2015, Mullins and Sacranie 2016).

## Outline of Report

Section 1 reviews the current state of social housing, with a focus on recent policy changes as well as longer-term trends. We argue that recent policy changes – most notably the new emphasis on starter homes and the forced sale of high value properties – represent a serious risk for the future of social housing. Current policies are likely to further reduce the role of social housing, making it an insecure sector for households in crisis rather than a sector of choice, security and stable communities.

Section 2 makes the case for a new approach to social housing. We call for a return to the principles that drove early post-war public housing. This was based most famously on Bevan's vision of a 'living tapestry' of a wide range of different types of households in the same tenure. Less well recognised is that, at this stage, different types of funding mechanism (including rent pooling) were used for council housing and local authorities also played a role in the private market: the system was diverse and generated a mixture of housing and housing tenures. Our proposed direction is for a diverse system capable of responding to changing household circumstances. Such a system would cross tenure boundaries to respond to the social needs, rights and duties of all households in a good society.

Section 2 also presents new evidence on housing need and poverty before and after housing costs. An innovative financial analysis shows that a full 60% of households in England today would not be able to meet their housing costs at current prices. The owner-occupiers in this category currently have insufficient income to be able to afford to buy the property they live in. Taking these home owners out leaves 24.8% of households needing financial support for their housing – a total of £5.8m households who rent their housing and could not meet market housing costs without help from the state. Providing social rented housing is a more effective and cost efficient way of subsidising these households than subsidising market rents through housing benefit. We argue that this analysis presents a compelling case for a more comprehensive and more flexible approach to social housing provision in the future.

Section 2 ends with our first elaboration of policy futures in which we argue that there is now an opportunity to build on the diversity that has, historically, been a hallmark of social housing. There is scope to sustain different organisations and strategies and to develop a positive vision of social housing that brings state, market and community together in different ways – including ways that address the root causes of housing poverty rather than simply moving from the state to the market in a neo-liberal trajectory.

In Section 3 we describe this vision in terms of a 'hybrid' approach to mixing state, market and community inputs and explain the ways in which we use the concept of hybridity to inform our analysis. We describe the trade-offs which hybridity implies between social and commercial objectives and how these play out between and within organisations. We give greater importance to the role of community influence than analysts working with binary categories of state and market. We also recognise the potential hybridity of private bodies in promoting social purposes alongside their financial bottom line, considering examples of social lettings agencies, social investors and philanthropy in meeting housing need and the state levers that draw out social value.

In section 3 we also show that hybridity has a long pedigree in the organisation of public and social housing, exemplified by Bevan's 'living tapestry' but also by the diversity of roles local authorities played in the home ownership and private rental markets and in providing rental housing for a range of income groups. Housing associations are shown to be the epitome of a hybrid sector, having grown from different origins, including community based initiatives, to harness over £50 billion of public subsidy from 1974 and over £60 billion of private borrowing from 1988. In this way the sector has accumulated a formidable asset base and a capacity to operate counter-cyclically, as evidenced by the 'housing market package' of the early 1990s and the 'kick-start programme' of 2008-9.

In considering future directions for social housing we argue that positive forms of hybridity could form the basis for a purposeful and viable financial future for social housing. This is more than a call for more cross-subsidy of social housing and refers to the promotion of social mix, overcoming the stigma of segregated social housing responding to housing needs across all tenures.

We consider ways in which private landlords and investors may adopt more social aims and the kinds of regulatory and policy measures that could encourage greater positive hybridity in the for-profit sector. We consider positive ways in which the planning system had been used until recently to provide an element of social and affordable rented housing as part of market sale schemes by private developers. We argue that such mechanisms should be strengthened rather than withdrawn in the future. They can provide a good basis for cross-subsidy and social mix and are one of the few mechanisms providing new homes for low income households in high cost areas.

Finally, we argue the importance of 'community' as a key potential driver of future hybridity by widening the scope for tenant and community participation within the management of social housing, extending the range of agencies meeting housing needs to include Community Land Trusts, co-operatives, cohousing, self-help and tenant management organisations. This will help to restore civil society roles in housing and allow a greater emphasis on community stewardship (for example in relation to disposal of housing assets by housing associations to locally based social purpose organisations rather than to private landlords).

Section 4 moves onto the financial fundamentals of the social housing sector. In the first section it answers the key question of how new housing investment is financed by drawing on a bespoke analysis of the surpluses of housing associations. It shows the growing complexity of scheme financing invoked by a form of hybridisation that has been driven by government through reduced grant. The analysis shows that the important role that the planning system (under Section 106 of the Town and Country Planning Act 1990, as amended) had played in substituting for grant is now in decline. In aggregate, diversification through non-housing activities does not cross subsidise core social rented housing. But in hot housing markets internal cross subsidy through tenure diversification and increased density within schemes is a major source of finance for the development of lower rent homes. Surpluses from historically subsidised social rented housing shine through as the most important source of finance despite recent rent reduction policies.

Indeed this is the good news story for the future of social housing. In section 4.3 we show how these historic surpluses are the foundation for the future. We present new financial analysis that shows that housing associations are in a strong position to continue to flourish. At present there are large surpluses. Even with the recent policy changes and threats to revenue (for example the 1% rent reduction) many housing associations are on course to ultimately become self-financing.

Retained stock Local authorities are in a more difficult position. Our analysis shows that the Housing Revenue Account Settlement in 2012 left local authorities very little room for manoeuvre, but the situation became worse with several adverse policies culminating in the 2016 Housing and Planning Act, which envisaged stock retaining councils selling off significant parts of their high value stock as it becomes vacant, in order to fund extended Right to Buy measures in the housing association sector.

However, we also offer more positive scenarios for local authorities. We suggest new ‘hybrid’ ways in which local authorities could develop outside current policy and funding constraints; building new homes for rent and sale and using council land as a key input for joint venture partnerships to build new homes.

In the final part of Section 4 we propose a new flexible rent model that would allow social landlords to vary rent by income in ways that are fairer and more efficient than current Pay to Stay proposals.

Section 5 concludes the report. We offer final reflections on the positive case for a ‘hybrid’ future social housing system. We have six specific policy proposals, supported by our theoretical framing and financial analysis:

- **Social housing has a viable future.** Low rent accommodation is a major social asset supporting people to move into employment. It serves a vital need and is financially viable. It also offers better value than private rent on housing benefit for households with a long term housing need. But we need a more comprehensive and flexible approach to build on social housing and to meet a wider range of needs.

- **Hybridity is the key to the future of social housing**. We can do more with better outcomes for households and communities. Social landlords should build new social rent housing alongside other market and sub-market rental and home ownership options. The Government should restore the use of Section 106 of the Town and Country Planning Act 1990, as amended, to enable local authorities to require new social rented housing in every market housing development. Tenure diversification of social housing estates should not be about displacement and gentrification but about producing more housing for rent alongside other products. Increasing density can enable social mix, viability and preservation of social rent. Tenants and communities should have an important influence in this form of hybridity.

- **We need to broaden the focus of social housing.** The idea of social housing as a niche need is both factually incorrect and socially divisive. Different types of household need different types of subsidy. Our analysis tells us that we need more social housing let at sub-market rents and thus more ‘object’ subsidy, but also that for many households it is more effective to use an income subsidy to help with housing costs. We also argue that it is both possible and desirable for social landlords to operate in the private rental and ownership market without sacrificing core social values – indeed, allowing the extension of their mission driven social values beyond traditional social housing.

- **We need a more flexible approach to social rent and ownership.** As incomes rise households should be able to stay in social housing but make a higher rental contribution. Where income falls they should be able to revert to lower rents. Similarly we propose flexibility to enable households to move between tenures as their income and circumstances change without having to move house.

- **The private rental sector needs to become more 'social'.** 1 million low income families who would have previously have been housed in the social sector have moved into the private rental sector in the last 10 years. We need a series of measures to reform the low income parts of the PRS (bottom 40%). This needs to go beyond regulation (such as selective licencing schemes) and enforcement measures and should include social lettings agencies, allowing access to quality privately rented homes. Alongside this there should be reforms to increase security and avoid frequent forced moves of private renters that disrupt employment, education and family life.

- **It is time to take community stewardship seriously.** We need to support a range of agencies to deliver social housing – LAs and HAs but also grass roots community agencies such as co-housing schemes, Community Land Trusts, cooperatives, and self-help housing projects to bring empty homes into use. We should extend opportunities for tenant management organisations across the social rented sector (not just local authority housing). Tenants should have a greater role in the governance of their homes and communities and tenant participation should be regarded as an investment not a cost. Instead of disposing of unwanted assets to the market by auction HAs should offer them to community based organisations who can provide local stewardship and social value.

# 1 Where we are starting from

The UK has a distinctive tradition of housing provision. Public housing developed rapidly after 1919 and was largely provided by local authorities as an alternative to private renting that had formed the largest tenure at that time and through to the 1950s. A small, longer established charitable housing sector grew rapidly from the 1960s onwards into the modern housing association sector - with political and financial support from successive governments. Public housing played a critical role in the development of British cities and towns, increasing the volume and quality of the housing stock and improving the opportunities of successive generations: some 10% of dwellings were in the public sector by the 1940s, with the high point coming in 1978, of just over a third of all households, if the small housing association sector is added to the 31.7% in council tenancies in 1978.

From the outset public housing was attractive to younger, affluent working class and white collar family households. It provided a secure, high quality alternative to other tenures for those who could afford the rents. However, in spite of exchequer subsidies, and without a system of rebates, rents were beyond the reach of many lower income households. The obligations to rehouse those displaced by slum clearance, the development of rent pooling from 1935 and of local rent rebate and differential rent schemes all affected the ability of lower income households to access council housing but the tenure still largely catered for more affluent working households, while lower income households continued to rely on a private rented sector that was declining in size and quality. By the mid-1960s this decline influenced government to support the development of a new generation of housing associations and to support investment in new housing and improvement of the older, previously private rented, stock (Mullins and Murie 2006).

By the 1970s the capacity of the private rented sector to provide housing had diminished while both public housing and home ownership had expanded and matured, providing for a greater mix of households, including lower income households. The decline of private renting, with fewer homes available to rent, was associated in part with increasing homelessness, and this in turn influenced local decisions and then national legislation over council housing allocation; notably, giving increased priority to homeless families.

But this was also a time of housing pluralism – with a mixed approach to the provision of housing. Councils and housing associations favoured 'hybrid' approaches to tenure, actively enabling home ownership as well as expanding what we now call 'social' housing. [1] Local authorities used urban renewal policies to reinvigorate mixed housing markets, providing new routes into home ownership. The policies included: local authority mortgage lending, building for sale, homesteading, improvement for sale, shared ownership and, long before the 1980 right to buy, council house sales to tenants. (Mullins and Murie, 2006).

Nevertheless, this is still a story of the growth and success of public sector housing. An increasing proportion of lower income households were public sector tenants and the tenure redistributed resources and access - the quality of most of the housing in the sector, and the security it provided were greater than many tenants could have afforded through the market. Although the sector was

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[1] A new term invented in the 1980s to cover rented housing provided public both by local authorities and housing associations.

changing, its sheer size meant that it housed middle as well as low income households: it was marked by social mix and provided more than welfare housing (Murie, 2006; Hills, 2007).

Prior to the 1980s successive policy developments had favoured home ownership and the social base of public housing had narrowed. And from 1980 the public housing sector declined rapidly because of the lack of new investment and the Right to Buy but also because of transfers to housing associations (Jones and Murie, 2008, Pawson and Mullins 2010). The housing provided outside the market was restructured with housing associations growing at the expense of councils and benefitting from access to private finance, protection from the Right to Buy, a favourable capital grant regime and government support for stock transfers from local authorities.

The Right to Buy speeded up the existing process of 'residualisation', in which lower-income tenants grew as a proportion of all tenants (Forrest and Murie, 1990; Pearce and Vine, 2014). With more affluent tenants buying their council homes, and the continuing absence of alternative affordable and accessible good quality housing in the private rental sector, lower-income households were increasingly channelled towards councils and housing associations providing 'social rented' housing.

The consequent changes in the social profile of tenants have made it easy to equate social housing with 'welfare dependency' and to argue that it was part of the problem of poverty, rather than part of the solution. Increasing reference to 'social' housing, by government and others, symbolised a shift in the role and perception of non-market housing. Rather than providing housing for a wide social mix or affluent working class households, it was increasingly represented as similar to American welfare housing – catering for households with no choice or for those dependent on benefits. In some cases the adoption of the terms 'social' or 'welfare' housing were accompanied by the assumption of associated ideas of welfare dependency or cultures of poverty that were contested in the American context, and unsupported by evidence from the UK.

By 2008 housing associations were the major providers of social rented housing in England. The residual social rented sector (council and housing association) was more concentrated spatially, had less social mix and less mix of property types than its precursors. While new investment to modernise dwellings under the Decent Homes policy and continuing innovation through regeneration initiatives and forms of shared ownership maintained the quality of the sector and some variety in what it offered, other changes reduced its attractiveness compared with other tenures.

For affluent households tenures other than social housing had become even more attractive following the steady decline in the status of social housing. In England, the key focus of our analysis in this Policy Futures report, social housing, now accounts for less than 18 percent of all homes,[2] and its role in housing middle and higher income groups has been radically reduced. By 2009 private renting housed more households than the social rented sector in England – a situation that last existed in the 1960s – and this trend is set to continue. Taking the UK as a whole the changes are even more marked: in 1978 over a third of all dwellings were social rented, falling to 17.6% in 2014. [3]

[2] https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants

[3] DCLG, Live Table 101, https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants

This raises new worries for those concerned for the future of housing provision. There are affordability pressures across all tenures but particularly in the private rental market, and there has been no effective policy for those who rent (Centre for Social Justice 2015). The increasing reliance on private renting and housing benefit payments to enable households to meet market rents involves increasing and continuing costs to the exchequer - costs which outstrip those involved in providing social housing (Dolphin, Cooke and Hull, 2011).

## 1.1 Social housing under the Coalition Government

The central political narrative of the coalition government formed in 2010 was of 'austerity' and welfare cuts (Tunstall, 2015). This had an immediate impact on social housing. The Emergency Budget of 2010 cut central government subsidy for new building very substantially and diverted funds from 'social' housing to 'affordable' housing. The new offer was subsidised housing let at up to 80 percent of the full market rate (rather than an average of 57 to 59 percent for social housing across England in the 24 months up to March 2015), with some new tenants of new properties having to pay this higher rate. In practice this has been mitigated by housing association development plans, and rents have on average not risen above 65% of full market rates.

Changes to the capital subsidy conditions for new social housing also came with very significant changes in the way in which tenants themselves were helped with housing costs. The most notable was the cap on Housing Benefit and the Local Housing Allowance set in 2011. Whilst there had previously been a cap (set at the median rent in a given area) the new cap was significantly lower (the 30$^{th}$ percentile). The Local Housing Allowance was also capped at a maximum of £400 a week, regardless of type of dwelling or size of family. On top of this the Welfare Act of 2012 placed overall caps on the total welfare income a household could receive (£26k per year in London and £23k outside, with further reductions in 2016). The 2012 Welfare Act also introduced the 'spare room subsidy' or 'bedroom tax', which reduced the housing benefit entitlements for working age tenants deemed to have spare rooms. In time the freezing and indexing of Local Housing Allowance levels and caps will become the largest of all these welfare cuts even added together.

Another important change was to the rules governing the allocation of social housing. The Localism Act 2011 enabled local authorities to widen their allocations criteria, moving away from a system that prioritized those in greatest housing need. They were able to set new conditions in addition to housing need, such as evidence of contributing to the community, or evidence that a household has 'done the right thing'; typically through demonstrating continuous employment (DCLG, 2012). These changes were in part a response to the concerns that some politicians have about the consequences of a needs-based allocations system and the 'residualisation' of social housing, which was (in some quarters) interpreted as a cause of welfare dependency (Centre for Social Justice, 2008; the Conservative Party, 2009; Morton, 2010).

Other provisions in the Localism Act had the potential to further change the nature of social housing provision. Prior to the Act local authorities could offer eligible homeless applicants a home in the private rental sector - although the applicant could refuse this offer and wait for the offer of a secure social housing tenancy. The Localism Act allowed local authorities to discharge their homelessness duties through the private rental sector without this consent from the applicant. This option was not immediately taken up by all local authorities, but it does represent a significant shift in the principles of social housing allocation and, given the insecurity and poor quality of some of the private rental sector, there is a risk that some households won't be provided with the support they need. The suitability of short term private rentals for the growing numbers of households with children in the sector has also been questioned by those on the right as well as the left (Centre for Social Justice 2015).

The budget of 2013 announced Treasury support for first-time homeowners through the Help to Buy scheme (in which the government either provides a 20 percent equity loan or guarantees a mortgage), and this has formed part of a continuing emphasis on owner-occupation, with the Conservative Manifesto[4] of 2015 referring explicitly to a 'property-owning democracy'. In Sepember 2016 the new Prime Minister, Theresa May, announced that the help to buy mortgage scheme would be ended. This was described as 'another significant break with David Cameron's legacy (Telegraph 29 September 2016).

## 1.2 Housing policy since 2015

However, more generally the new government formed in 2015 continued the broad direction for policy adopted since 2010. It sought to reduce the cost of social housing to the state, while continuing to identify social housing as a cause of welfare dependency and social breakdown. It changed the approach to rents paid by existing social tenants, with a mandatory 1 percent annual rent reduction for social landlords for four years in England. Whilst this potentially has a favourable (if minor) impact on tenants, it had an adverse impact on the capacity of social landlords to finance new housing and make long term investment plans. We return to this issue in section 4.

The new Conservative government introduced five measures affecting social housing. The first diverted central government subsidy from new social housing to starter homes intended to be sold to first time buyers at 20 percent below the market value. The second changed the 'planning gain' obligations (so-called 'section 106' agreements) making it harder for local authorities to insist on social rented housing  as a condition of granting planning permission to developers. Developers' obligations could instead be discharged by providing starter homes or community infrastructure. The third measure involved the negotiation of an agreement under which housing associations operated a Voluntary Right to Buy (VRTB) for most of their tenants. Associated with this a fourth measure, introduced in the Housing and Planning Act 2016, required councils to sell off high value vacant dwellings in order to finance the VRTB and making it likely that the more expensive housing in council ownership will decline over time.

A fifth measure in the Housing and Planning Act 2016, Pay to Stay, was designed to make social tenants pay higher rents if they have higher household incomes: if their income exceeds £40k in London and £31k elsewhere outside. The principle underlying Pay to Stay - that those who need less support receive less, so that more people can be helped – has merit but the policy detail is deeply flawed. The broad consensus is that the income thresholds are set too low, that there is too little flexibility, that it fails to respond to fluctuating income, and that it comes with the implied threat that by increasing your income you could affect your continuing occupation of your home.

[4] http://press.conservatives.com/post/116374071635/david-cameron-speech-conservative-party-manifesto

The most recent phase of policy since 2010 has more than sustained the direction of change established since the 1980s. Some of the security of tenure for council tenants introduced at that stage has been removed, capital grants for new social housing have been further reduced and changes to housing benefit have impacted particularly on tenants aged under 35 and on those deemed to have spare rooms. Younger tenants have fewer rights and social housing is coming to be associated with providing short term crisis housing than a secure and long-term home. Thus the community roots and aspirations of social housing are being undermined by other policy drivers.

Since the relaunch of Right to Buy in England after 2012, larger discounts have further increased the sale of local authority housing, with long term consequences for access to social housing. More importantly the extension of the RTB, in England in 2016, to most housing association tenants, alongside the sale of high value council housing designed to fund the VRTB, will undoubtedly have a short term effect on access to social renting and will further increase the geographical concentration of social housing (Murie, 2016). Given the track record to date, the assumption that in the longer term there will be at least one for one replacement of sold stock remains unconvincing (especially 'like for like' replacements). There now seems to be a predisposition against enabling low income people to live in high cost areas, which arguably was one of the key historical achievements of public and social housing. From a social mix perspective the need to maintain social housing in high cost locations like central London and rural villages in the south is increasingly being framed in relation to the 'right to place' by opponents of its demise (Mullins and Sacranie 2016).

New government policies on rents will affect both local authorities' and housing associations' capacity to plan and build new homes. These changes have presented significant financial and management challenges for social landlords, some of which may respond by excluding vulnerable households and switching to providing market and affordable renting. However, many social landlords are responding more robustly to these challenges. Our analysis of the finances of the social housing sector shows that losses are to be expected, primarily from an anticipated decline in cross-subsidy from private development, but also from the long term effects of four years of 1 percent rent reductions. Yet, as a whole, the sector is in rude financial health. Housing association surpluses shows that we are not far off the point at which the sector as a whole could be self-financing, using rental income to finance new development. This would potentially take us back to an older model of social housing in England, one which had a far more flexible approach to finance and development and a more inclusive approach to social mix.

Where does this leave us? The working through of the recent changes we have outlined will mean that the social rented sector in England is less likely to provide opportunities and choices for households whose circumstances change, and for whom social housing has, for many years, been a valuable option. The policies in place at the present time are likely to further reduce the role of social housing, making it an insecure sector for households in crisis rather than a sector of choice, security and stable communities. Social rented housing will provide less choice of property types, sizes and locations: it will be less socially and spatially diverse and less likely to provide the platform for successful family life. We have, in short, witnessed a systemic attempt to reduce social housing to a temporary welfare safety net, with all the deficiencies that come with this narrow view of welfare.

# 2 Where do we want to go?

## 2.1 The importance of diversity

The social housing sector in England has a long history, during which a succession of social, economic and policy changes have altered its character and its tenants. Most recently there has been a concerted redesign that has restructured the sector and reduced its size. Historically, public and social landlords in England have provided and sustained a variety of housing including a variety of tenures, defying the simple sector categories (and implicit social hierarchies) that are taken for granted in contemporary policy debate. And in the more diverse housing world of the first three post-war decades, public housing was not considered inferior or 'residual'. The post-war vision of Bevan and others was of a sector accommodating a wide range of household types; and the housing built by councils and new towns in the early post war period was not welfare housing. Subsequent Post-War governments under MacMillan continued to support large scale council house building but there had already been a move away from social mix and from the late 1950s the promotion of home ownership took over as the primary policy goal. While the council stock continued to grow until the late 1970s, over subsequent decades the vision and identity of council housing was weakened by underinvestment, residualisation and sales of the best stock under the Right to Buy. Today social housing providers face a range of political and financial challenges, but many still have the ambition and resources to renew the Bevanite vision.

Although council housing providers are not the dominant players in rented housing that they once were, some 50% of local authorities still have a retained housing stock. In these areas there are also a variety of other social landlords adopting different strategies, albeit shaped by a common policy framework. There are recent examples of innovation by local authorities, including Birmingham and Wolverhampton[5], building new council housing and of municipal companies providing a mix of housing for sale and for market rent as an income generating activities. Birmingham Municipal Housing Trust has built over 900 new homes since 2009, 494 for rent and 438 for sale using municipal land holdings. These models could offer a good basis for increasing diversity linked to coherent local strategies.

But there are also trends that continue to lead us away from diversity. In the absence of council housing in some areas in England, we have sometimes seen a growth in size of some housing associations, driven by mergers and the logic of scale (Mullins 2006). This has since been accentuated by changes in funding structures and the need for financial strength and good credit ratings to support bond issues; leading to spate of 'mega-mergers' in 2015-16[6]. Some housing associations are now larger than local authorities ever were and issues of choice and accountability have taken on a new dimension.

Nevertheless, there is still great diversity within the sector, with the bulk of the 1200 active associations being small. Social landlords are not all the same in their governance or finances or their approach to neighbourhood and community. They continue to operate with different stocks and to adopt different investment strategies, including in some cases the provision of starter homes and

[5] http://birminghamnewsroom.com/tag/birmingham-municipal-housing-trust/
http://www.wolverhampton.gov.uk/article/9024/First-sites-earmarked-for-council-owned-housing-company

[6] Inside Housing July 6 2016 http://www.insidehousing.co.uk/mega-mergers/7015920.article

shared ownership as well as rented housing. In the terms developed in this report, the social rented sector – despite a considerable amount of 'consolidation' - has not been restricted to one type of landlord, property or location. It has been a hybrid sector and innovations among landlords have introduced different approaches and strategies. These relate to governance, management and relationships with tenants and communities and to the mix of social and commercial aims, all which are important elements when thinking about the future health and value of social housing in England.

## 2.2 Responding to changing circumstances

The kind of hybrid approach we have outlined is needed now more than ever. New research in this report demonstrates that without any form of housing subsidy 60 % of all households in England would be unable to meet the current market cost of their housing. Soaring housing costs and changes in access to mortgages have meant that a wide range of people are priced out of both owner-occupation and good quality private renting. For those who already own their home, many would find that they would no longer have this opportunity if they had to start again in today's housing market.

Popularly referred to as 'generation rent', there is a cohort of younger people who do not have the housing opportunities enjoyed by previous generations. In many respects the plight of generation rent is well documented. While the political and policy debate has been preoccupied with the shifting boundary between ownership and rent, our main focus is in the shifting boundary between social rent and private rent. This crucial dimension must not be neglected. Indeed, the growth of the private rental sector is potentially one of the most important aspects of what we might call the 'new social housing'; housing for low income households with little choice and paid for (in part at least) by housing benefit, but without the quality, stability and security of a social tenancy.

If we are to meet housing need in a way that fits the diverse demands and needs of today's households, we need to think about the relationship between state, market and community differently.

This will include a new approach to the private rental sector, with local authorities playing a more active role in helping to make the market work, and with social landlords potentially offering a greater variety of rental housing alongside social rented housing. To this end we suggest a model in which social landlords operate in the private rental sector and home ownership markets in a way that does not sacrifice their core social values, and promotes a model of good stewardship of private as well as public property. This will help ensure social landlords dispose of unwanted property responsibly, whilst also encouraging a greater say for local residents in deciding how they want their community to be managed.

We also argue that it is both fair and necessary that those who can reasonably pay more do so, but in a more flexible system that prevents them from constant changes in their status as their incomes and other circumstances fluctuate. This report proposes a new flexible rent system that does not threaten security of tenure but allows social landlords greater financial freedom to build new homes and to tackle unmet, housing need particularly in the private rented sector. This model is not a move away from the principles of security and the right to a decent home. Rather, is part of a new ‘housing contract’ that crosses tenure boundaries and highlights the social needs, rights and duties of all households in a good society.

## 2.3 Update on housing need

Given the great financial pressures currently facing a very wide range of households, it is unsurprising that housing need is largely viewed through the lens of affordability. Whilst this report also places a significant emphasis on affordability for households (and the financial viability for social landlords), we stress that space, quality and location are also crucial dimensions of need. In this section, however, we concentrate on affordability.

There are widely available facts and figures on the relationship between housing costs and poverty. What is striking is the difference in poverty rates before and after housing costs are taken into account. The most commonly used data comes from the Department for Work and Pension’s Households Below Average Income (HBAI) survey, which surveys the UK as a whole.

**Table 1: Poverty before and after housing costs**

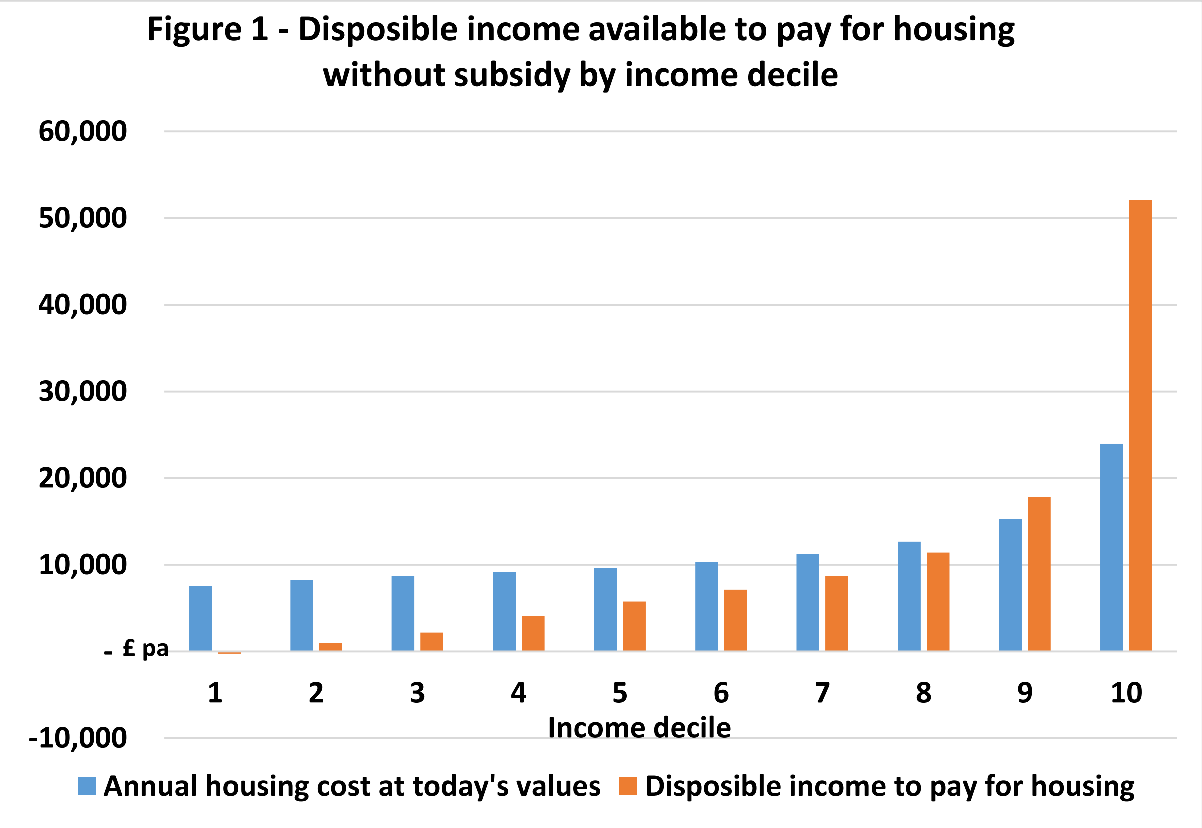
| **In relative poverty (below 60% of median incomes)** | **Before housing costs** | **After housing costs** | **Before housing costs** | **After housing costs** |
|---|---|---|---|---|
| | % of individuals in each tenure | | No. of individuals in each tenure | |
| **Tenure** | % | % | millions | millions |
| Owned outright | 16 | 11 | 1.93 | 2.98 |
| Buying with a mortgage | 9 | 11 | 2.54 | 3.47 |
| Social rented sector tenants | 28 | 43 | 4.52 | 6.20 |
| All rented privately | 18 | 36 | 4.43 | 5.66 |

Source: The Authors based on Households Below Average Income Survey

The data in Table 1 illustrate the impact that housing costs have on poverty and quality of life. Significantly, the difference between BHC and AHC poverty really stands out in the private rental sector. We also see the continued phenomenon of owner-occupier poverty (Burrows, 2003). But in some important respects we do not see the full picture of the relationship between housing and poverty. As an income measure the HBAI does not indicate the lived experience of poverty, of what it feels like and what its impact on quality of life and social exclusion is. More recent attempts measure housing poverty in terms of a basket of goods (social and material) that are needed for a reasonable quality of life (Tunstall, 2013).

In this section we are concerned with two specific shortcomings in the HBAI data. The first is that the housing data in the HBAI describes the UK as a whole, when the recommendations in this report are for England. Secondly, and more significantly, the HBAI data does not give the full picture of the challenge of housing affordability in England. It doesn’t show the extent to which the current market has outstripped income, or that many households that are not currently in poverty would be if they were not already protected through fixed housing costs. This applies most notably to tenants in the social rented sector. It also applies to owner-occupiers who are able to afford their housing because they bought before the dramatic rise in housing costs over the last 15 years and whose housing costs relate to historic rather than current values.

As part of our financial analysis we considered all households' ability to pay for their housing, and show this for each decile of English household income. All forms of housing support are deducted from household income. This support mainly consists of Housing Benefit, Direct Rent Subsidy (the difference between sub-market and market rents for the dwelling) and Support for Mortgage Interest, leaving the disposable income that households would have to meet their housing costs without support. This is compared with the current market rental value of the whole housing stock by decile. Figure 1 shows that approximately 60% of households could not afford the current market price of their housing.




Source: The Authors based on HBAI, Effect of Tax and Benefits on Household income, Land Registry Price Paid data 2014, Right to Buy sales values, and valuations in social landlords' accounts.

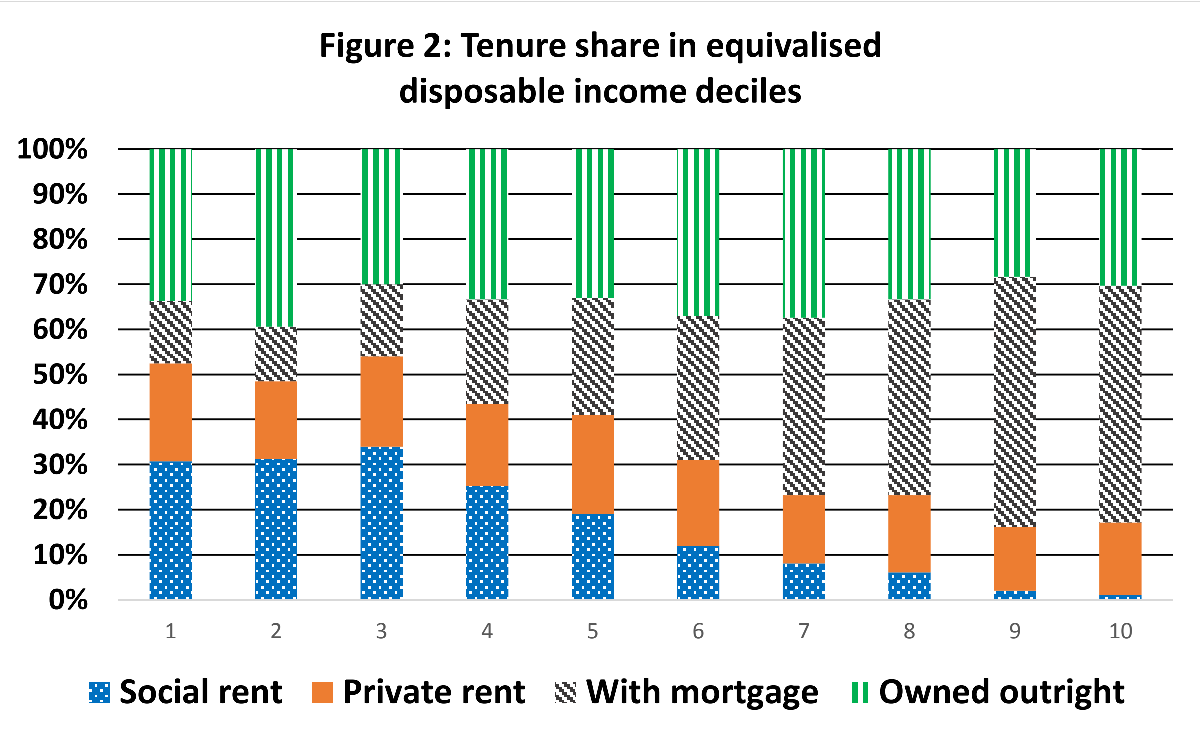
But many of these households have actual housing costs that are much lower than current values. These include households which have paid off their mortgage in full or were cash buyers, or took out their mortgages some years ago and now have low payments, and there are a few that have rent free accommodation. Taking these home owners out leaves 24.8% (£5.8million households) who are renting their housing and could not afford to pay market rents for their housing.

There are two ways of providing support for these households: either to subsidise the dwelling (primarily the building cost) so that the cost is passed on to the household is below the market cost (object subsidy), and/or to subsidise household income so that they can afford their housing costs (subject subsidy).

In Section 4 we show that object subsidy, through councils and housing associations, is more efficient for government where the household is not economically active or is rarely so, and that subject subsidy is more efficient for those households that are mostly or fully economically active. The main reason for this is that the full housing cost over the life of a dwelling is lower for councils and housing associations than it is for market providers. The benefits of the lower cost-base can be passed on to the tenant and to the taxpayer and surpluses can be used to meet housing objectives - whereas market providers need to extract surpluses to pay dividends.

But this advantage can be eroded. A fixed amount of object subsidy may offer more financial support to a household than it needs if it is mostly or fully economically active, thus creating inefficiencies. In purely financial terms, the financial advantages of social providers may not be passed on to those who most need it, and instead of this excess being used to build more homes and house more people, it becomes ‘dead’ money. At this stage of the report we do not offer a normative judgement on this outcome, but simply seek to draw out the cost implications.

In order to do this we further refined the household income analysis presented in Figure 1 to show the distribution of households by tenure as well as income. And then for each tenure in each decile band (See figure 2 below) an estimate was made of the share of households that were not economically active compared with those that were. From this we can compare the current provision, of both object and subject subsidy, with the need for subsidy.




Source: The Authors based on HBAI, Effect of Tax and Benefits on Household Income, English Housing Survey

The result is that object subsidy, with some subject subsidy top-up, would be best for 19.2% of households, whereas it is currently provided for 18.2%; and that subject subsidy on its own would be best for 5.6% of households whereas it is currently provided for 5.1%. The figures of need include

0.6% of all households who are owners that need, but currently do not get support for their housing costs and who do not have savings or equity that could be used to recover the support.

A total of 23.3% of all households are receiving support compared with 24.8% that we estimate require support. Taking this into account the difference between measured aggregate need and actual provision is surprisingly small. The implication of this is that the housing system plays an important role in addressing income inequalities: and if income distribution inequality does not materially change and existing support grows in proportion to household growth plus a small real increase, then it will continue to do so.

But hidden within these aggregate figures is a significant distributional problem. Some 1million households (4.3%) are living in social housing but do not need some or all of the object subsidy they benefit from. However they do benefit from the quality and security of their homes and themselves contribute to social mix within the social housing sector. Thus, later we do not argue for restricting eligibility for these better off households, but to adjust subsidy and rent to a more equitable basis. And almost as many households with low incomes only receive subject subsidy in the private rented sector when it would be better for them, and for government, if they were assisted by object subsidy instead. Here we do argue the need for a programme of new social housing to better meet these needs.

## 2.4 Policy Futures

Although social landlords must work in the political environment of the day policy should not be accepted without question. There has been debate about how the social housing sector can adopt policies that are better for their tenants (Mullins and Jones 2015) and some landlords have been flexible in how they deal with new challenges, especially the challenge of building new social homes without significant capital subsidy. In the following sections we analyse these challenges in detail and suggest a series of policy recommendations that allow social landlords to build and prosper, without sacrificing their core principles or weakening the rights and life-chances of social tenants.

In the next phase of policy there is an opportunity to build on the diversity that has been a hallmark of social housing. There is scope to sustain different organisations and strategies and to develop a positive vision of social housing that brings state, market and community together in different ways – including ways that address the root causes of housing poverty rather than simply moving from the state to the market in a neo-liberal trajectory.

This cannot be a remedial solution, targeting only those 'most' in need. Whilst social housing in recent years has done a lot to help those in the very greatest need, its scope and purpose could and should be more ambitious and more socially inclusive - closer to Nye Bevan's post-war vison of a 'living tapestry' of life within social housing. In practical terms, this means a more 'hybrid' approach to housing provision; mixing social housing with market housing, using market housing to part-finance social housing and, more fundamentally, breaking down the binary social distinction between social and market housing; and by recognising the third key element of hybridity - the role of communities. Meeting the changing needs of a wider range of people, from a wider range of backgrounds, is not just a social ideal, but a very real public policy priority. It is a priority, we argue, that can only be met with a more flexible approach to how we think about and deliver social housing.

# 3 Hybridity and the Housing System

Against the earlier background this section of the paper introduces a distinctive way of viewing social housing systems and organisations, applies this to an analysis of recent policy and organisational change and advocates new approaches to address current system failures. The following section (4) provides a robust financial analysis on which policy choices can be made leading on to a final section of the report (5) in which our policy recommendations are set out. First we explain the core ideas underpinning our analysis.

## 3.1 What is hybridity and why is it relevant?

The idea of hybridity has increasingly been used to understand what happens when third sector organisations like housing associations become involved in delivering public services (Billis, 2010). Usually there is a reduction in autonomy as financial and regulatory obligations to the state take over organisational missions. Often there is a further shift to more commercial ways of working where less public funding is available to deliver social purposes. This can lead to trade-offs between commercial and social objectives. Sometimes these trade-offs may take us too far from social purpose. But they are inevitable; and, we argue, in some respects desirable.

There are different views on the likely outcomes of those trade-offs. On the one hand commercial income can be seen as a means of cross-subsidising social purpose and 'doing more with less' or, more radically, as a means of strengthening social mix and solidarity by providing for better off households alongside the poorest through a single organisation and in the same neighbourhoods. On the other hand a move to the market can be seen as being at the expense of the original social purposes of social housing, with fears that mission drift may result in less positive outcomes for the poor.

Fuller hybridity frameworks consider not only the state and market influences on priorities but also the influence of community and civil society interests, groups that were often involved in founding third sector organisations like housing associations, and which some commentators and practitioners feel should be at the heart of social housing today (Pawson and Mullins 2010). Thus the third dimension of hybridity within our analysis: 'community' must sit in the same framework as 'state' and 'market'.

'Community' in this context has often referred to social tenants' participation in management and decision making to give a sense of 'ownership'. Through the 1990s state housing policies looked for 'tenants to be at the heart' of stock transfer and regeneration decisions and the then Office of the Deputy Prime Minister and Housing Corporation and later the Tenant Services Agency institutionalised this focus (Beider et al 2004). However, in many organisations consultation with tenants at the outset of new initiatives was rarely sustained subsequently – or not sufficiently to leave tenants feeling continuing ownership. It has been argued that social housing would have been less vulnerable to attack had more tenants had greater control and a sense of ownership of their organisations.

There is also a wider 'community' of residents comprising the population of the neighbourhoods in which they live. We therefore need to think about what is 'social' more broadly, encompassing a wider range of residents – and types of household – in the community dimension of hybridity. In section 3.6.4 we set out some actions that we feel are important to keep the community involved.

Two main forms of hybridity have been important in the housing system. First, hybridity within organisations, as social and commercial aims play out in strategy and service provision decisions. For example, organisations make choices on whether to provide social housing on high cost sites or to use those sites to realise a higher return from market housing or disposal. Second, at the inter-organisational level where public, private and third sector organisations interact to generate system outcomes; for example, through delivery of social housing as part of the obligations placed on private housebuilders under the planning system (Section 106 of the Town and Country Planning Act 1990, as amended).

A final introductory point to consider about hybridity is that it is not just third sector organisations that are being hybridised. Privatisation and marketization of a range of public services has progressed significantly over the past 40 years, and key policies including the right to buy, stock transfer and indeed the growth of housing associations have changed the nature of the state's involvement in housing. However, a less recognised feature is the increasingly hybrid identity of private profit making companies, which may have social as well as commercial aims, short term or long term orientations to profit and may adopt corporate social responsibility initiatives. Salient housing examples might include the provision of high quality housing by employers (Port Sunlight, Bournville, York), the philanthropic origins of housing associations such as Guinness and Peabody and the more recent role of 'social investors' in seeking social as well as financial returns (Malpass 2000). Regulatory measures can be important in this context, in stimulating a greater emphasis on social goals by private companies.

## 3.2 Hybridity past

Thinking back to the heyday of council housing it is tempting to see this as pure state provision unaffected by the types of hybrid influences outlined above. However, closer examination suggests that private builders, engineers and architects always played key roles in determining the nature of the housing provided alongside subsidy systems determined by national legislation. Thus, inter-organisational hybridity was always an important driver for council housing.

Organisational hybridity may also be observed in the broad social mix that council housing once catered for, as depicted by Bevan's 'living tapestry of the mixed community", in which "the doctor, the grocer, the butcher and the farm labourer all lived in the same street". Hybridity also emerged through the different subsidy systems under which council housing was built. Rent pooling enabled councils to use the rent from stock that had lower outstanding debt, and lower charges for interest on debt, to cross-subside the rents of newer dwellings that had higher debt charges. Councils also acquired properties from the private sector in anticipation of clearance and improvement and for continuing use. They also sold properties to sitting tenants and initiated building for sale and shared ownership - reinforcing the diverity of council housing. A final feature is that councils can and did charge different levels of rent for households with different incomes. Differential rent schemes and locally administered rent rebate schemes were adopted by many councils before the 1970s and other examples include higher rent tenant management cooperatives established within council housing in London in the 1970s and 80s. For those with objections to flexible rents (for example, the ill-concieved Pay to Stay), there can be little recourse to arguments about the 'original purpose' of social housing – though there can and must be efforts to design and lobby for a fair and efficient way of making it work. Since 1980 both local authorities and housing associations have become increasingly involved in the management of leasehold properties where there are a variety of private owners and this now represents a substantial cross tenure responsibility.

By looking to the past we can see positive possibilities for social housing in the present. Nevertheless it is important not to romanticise the council housing of the past. We need to recognise that the poor were not always fully included, particularly in the early days when rents were set to cover individual scheme costs; with, for example the first London County Council estate, the Boundary, failing to rehouse any of the 5,000 inhabitants displaced from the notorious slum 'the old Nichol' that the estate was intended to replace (Bullman et al 2012).

## 3.3 State driven hybridisation

The housing association sector has evolved from a marginal complementary provider of specialist housing (for example, for older people) and improver of dilapidated older housing to become the mainstream provider of social housing. This was a rapid development after 1980 when the powers of local authorities were depleted, the right to buy and stock transfers reduced the size of the public sector and their access to private finance made housing associations government's preferred vehicle for the provision of new social housing. There is a tendency to depict these changes either as a process of privatisation/transition from state to market, or to an 'independent' social rented sector in which housing associations filled part of the gap left by a retreating state. But the reality is more complex. Housing associations came to rely on a mix of funding, with ever decreasing government 'grant', significant amounts of private finance, and some cross-subsidy from private developers.

The increased contribution that housing associations have made to meeting housing needs should be a source of pride for the housing association sector. As a force for social good that has harnessed the power of both state and market, England can boast a success story that should be acknowledged and built upon. Recent research finds that 'since 1974, housing associations have received over £45bn of public subsidy in the form of grants for new construction. This has provided HAs with a platform for hybridisation unique in the third sector in England' (Mullins 2016). In 2014 the largest 336 HAs (each with over 1,000 properties) had assets valued at £133 billion, an annual turnover of £15.6 billion and a net surplus after tax of £2.35 billion (HCA, 2015). This asset and balance sheet strength has placed the sector in a qualitatively different place than other third sector organisations that do not have this unique level of assets to borrow against and are dependent on year on year revenue funding, grants and trading (Mullins 2016).

Within parts of the housing association sector a narrative of growing independence from the state has developed with the cultivation of a 'social enterprise' identity as 'businesses for social purpose'. But closer examination again highlights the continued importance of the state in constructing new forms of inter-organisational hybridity. Despite its more limited financial investment in recent years, the state has still played an active role in shaping the relationships between sectors (as in the case of Section 106 agreements). Another aspect of inter-organisational hybridity is that, despite a general tendency to favour market provision, and particularly home ownership, there have been important examples of counter-cyclical investment through housing associations at times of market weakness. For example, both the 'housing market package' of the early 1990s and the 'kickstart programme' in 2009 used social housing providers to stimulate housebuilders and revive a flagging market.

Since 2010, the switch of the grant funded programme away from low rent social housing to affordable rent (at up to 80% of market rents), shared ownership and home ownership has steered housing associations into new zones of hybridisation. The limited availability of new grant funding has influenced moves to develop new housing without grant, using new forms of cross-subsidy. In this environment the amount of new affordable rented housing depends on the ability to cross-subsidise from commercial development of sites for home ownership, market rent and shared ownership. Some social housing estates are being restructured with a new mix of affordable rent, shared ownership and housing for sale as traditional social housing retreats. In this development context crucial trade-offs are made, either leading to fewer fully social homes with the level of subsidy associated with social housing before the introduction of Affordable Rent, or higher housing densities in mixed developments. We would make a strong distinction between those forms of estate regeneration that change social mix but preserve low rent social housing and those that maximise investment returns by replacing social housing with market housing. (Mullins and Sacranie, 2016; Hanna and Redman 2016). These are the kinds of trade-offs we find within hybridity that show the essential requirement of a value base (3.4) and community anchorage (3.6.4).

## 3.4 The role of values in hybridisation

Mullins and Jones (2015) have suggested that the state has played a key role in stimulating these hybridisation processes and state influence has remained strong despite much lower levels of public subsidy. Furthermore the independence of housing associations has been diminished by a raft of policies, separate from finance, yet transforming the relationships between housing associations and their tenants. These include the adoption of tenancy agreements that include more conditions relating to tenants' behaviour (Fitzpatrick, Watts, and Johnsen, 2014), deeper embedding of housing within migration control, weakening of security, 'pay to stay' and the introduction of a voluntary housing association right to buy (as set out in section 1).

A key challenge to associations is posed where these policies conflict with core social housing aims such as quality, security and affordability of housing to address housing poverty. The types of hybridisation these organisations take is partly dependent on the stance taken by associations to the policies and to the mix of state, market and community influences on their priorities.

Mullins and Jones identify three types of stance found within the sector: 'contractors of the state', 'independent social entrepreneurs' and 'protectors of public value'. The first stance has been common during the long period of state subsidy since 1974 during which, as Purkis (2010) has argued, housing associations have "*lost their civil society heart beat"* and been unwilling to challenge governments. The second stance has grown in importance as state subsidy was reduced. This made more commercial approaches seem essential, with some associations signalling that they might withdraw from building new affordable rented housing altogether. The third stance is confined to a small but now visible group of associations committed to greater resident involvement and, latterly, supporting residents and communities in responses to austerity. Our vision of positive hybridity would involve a shift towards the stance of this third group to provide a better balance between state, market and civil society poles of hybridity.

## 3.5 Where is the cross-subsidy?

In the context of declining state subsidy one of the most compelling drivers for hybridisation of housing associations is the idea of cross-subsidising social and affordable housing from commercial activities. For many years housing associations' adventures into property development, home ownership and market rent activities were predicated upon generating profits for reinvestment into the 'core' business and social purposes of providing social rented housing. Despite some notable business failures the logic of such cross-subsidy has rarely been challenged.

Financial analysis undertaken for this project provides new evidence on cross subsidy of social housing from commercial and other activities. Perhaps the most surprising conclusion emerging is that, taken in aggregate, diversification activities beyond housing are not making sufficient surpluses to cross-subsidise social housing. The long term viability of social renting is based on historic subsidies and the maturation of housing assets. These provide the surpluses that underpin a viable future social housing sector. There is, however, increasing debate over who owns the surpluses from historically subsidised stock; recent reductions of rents for five years may be seen as part of a contest between central and local government and between the state and 'independent' associations over how surpluses should be used. This is a story that we return to in Section 4, where we offer a detailed analysis of the need for object subsidy, sources of subsidy, and principle trends.

The picture of increased hybridity involves a mix of support from central government (grants and surpluses from previously grant aided dwellings), community (benefits of planning obligations) and the private sector (loans from banks and capital markets). Some of these are clearly defined, others (like the implied subsidy in a transfer of council dwellings, to a housing association, local community group or development trust, at below open market vacant possession value) are hard to quantify if only because the passage of time has made it hard to assess the current value of historic inputs.

It can be complex to run a hybrid organisation, balancing priorities between commercial and social aims and between the state, the community, private investors, and the share that rightfully belongs to the organisation itself (Sacranie, 2013). In this context the relaxation of disposal consents, which were previously required when housing associations sold stock with historic public subsidy, to allow unwanted assets to be sold on the market is particularly worrying. While the debate tends to focus on a failure to protect historic public subsidy there is a largely unrecognised danger of failure to protect future community purpose by disposals at auction to private landlords, who may not have the capacity or inclination to maintain the building and protect against neighbourhood decline. Local communities understandably fear that disposals could mean a return to the neighbourhood conditions that first spurred housing associations to acquire street properties between the 1960s and 1980s.

## 3.6 Future Directions for hybridity

We have already seen a range of practical examples of how a hybrid approach has brought positive advantages to the housing system:

- Section 106 market developers delivering social housing through state leverage
- Housing provided by enlightened employers such as Lever Brothers at Port Sunlight, Rowntree in York and Cadbury at Bournville
- Leasehold management of home owners properties by LAs and HAs
- Cross subsidy for social and affordable housing from market rent and housing for sale
- Tenants on boards of housing associations
- Community stewardship of local housing assets

We have also recognised that not all hybridity is positive and there is a need for a careful balance between state, market and community drivers. In this section we outline how more positive forms of hybridity could support a purposeful and viable financial future for social housing. The main contrast between our recommendations and current policies lies in the intention to preserve social housing options within a more hybrid mix, rather than seeing hybridisation as about destruction of the social housing model and moving towards market forms of provision whether or not these meet community needs.

The preceding analysis suggests a number of specific policy proposals for the future of social housing and housing organisations in England. These proposals build on and seek to further strengthen the viability of social housing retaining distinctive features of low rent, high quality and a greater degree of security than is found in private rental (3.6.1). Part of the recipe for this is to seek more positive synergies between social renting and the other tenure offers made by social landlords. Not only will social mix be used as a way to cross-subsidise social housing, where this is feasible, but also to build greater social solidarity and flexibility between tenures (3.6.2). Next we consider the less widely recognised perspective that market providers may also have hybrid identities, rather than an unwavering focus on a short term bottom line. We thus consider ways in which private landlords and investors may adopt more social aims and the kinds of regulatory and policy measures that could achieve greater positive hybridity in the for-profit sector. Given the direction of policy change over the past 25 years under a succession of governments this could prove to be one of the most promising ways to address poverty in the housing system (3.6.3).

Next we make the case for greater emphasis on community as the neglected pole of hybridity. There is a strong case for greater tenant influence on the decisions that affect their homes and on strengthening community ownership and stewardship of housing in order to provide more locally based alternatives to the current offer from most large scale social housing providers (3.6.4).

However, our research has made clear the need for a nuanced approach to hybridity, and we recognise that there are several dangers to be avoided (Mullins, Czischke and van Bortel 2013) . The recent Dutch experience highlights the risks associated with provider independence, financialisation commercial risk and neglect of the community pole of hybridity[7]. From the English and Australian

[7] See 'Learning from the Dutch Experience' interview with Rudy de Jong in Housing and Communities Newsletter Spring 2016 http://www.birmingham.ac.uk/research/activity/social-policy/housing-communities/publications/housing-newsletters.aspx

experience we are aware of the dangers of too much state directed hybridisation, again to the neglect of the community (Milligan et al 2013).

### 3.6.1 A viable future for social housing

The very positive news from the financial analysis of social housing is that historic public subsidy and the asset legacy from social housing has the potential to provide continued secure social rental housing into the future. This legacy could be used in a number of ways. Since the early 1980s policies have followed a route in which these assets are exploited to reduce public expenditure, but in a way that will erode that legacy for future generations – 'selling the family silver' (Forrest and Murie, 1990; Morrison, 2016).

Enforced sale of high value council stock when it becomes vacant at the end of tenancies is designed to finance the VRTB and policies to sell high value HA properties and reinvest in lower cost neighbourhoods all represent serious risks to the positive legacy of social housing.

Alternative strategies need to find a balance between the interests of Government and those of councils and housing associations: who owns and benefits from surpluses based on long term historic subsidy. We also suggest that a third set of interests need to be included in the mix here, those of local communities and local authorities responsible for meeting future housing needs.

### 3.6.2 Social Mix and Positive Hybridity

Another strong argument for a hybrid model is to reduce social segregation and the stigma that has been a major downside of developments in social housing over the past 40 years. Scheme level mix between tenures, dwelling types and sizes and values could have advantages, not just for cross subsidy and scheme viability, but also to promote positive relations between residents and opportunities for households to trade up and down as their circumstances change (Mullins and Sacranie, 2016).

This approach contrasts markedly with those current policies and practices that tend to partition and divide neighbourhoods. For example, the Right to Buy has disproportionately been taken up by better off tenants living in more popular dwellings and locations; and current Pay to Stay policy seeks to drive out better off tenants. Both policies threaten social mix. In terms of housing association practice, some market rent strategies have developed and promoted different and distinctive brands, often on different sites, effectively maintaining tenure differences. This is a lost opportunity to meet changing household circumstances flexibly within geographical communities, maintaining housing communities that meet a wide range of needs and aspirations.

Our recent research on social mix, undertaken for London and Quadrant Housing Association, has found there is a strong appetite for the kind of hybridity we describe in this report, with a recognition that 'mix' must mean more than mixed modes of finance. There are clear challenges, most notably the government's new emphasis on 'starter homes', rather than social housing in Section 106 agreements, but also a growing sense that social mix is both a core social purpose, and a good business strategy (Mullins and Sacranie, 2016). As we have stressed throughout this Policy Futures Report, it is not all doom and gloom in the brave new world of social housing.

### 3.6.3 Hybridising the private sector?

A new direction for our analysis and policy recommendations is set by the much larger role taken by the private rented sector in providing housing for more families with children and for households with low incomes and with social disadvantages. With over a million low income households added to private renters in the past ten years there has been a change in the role and nature of the private rented sector, fuelled by a growth in buy-to-let mortgages and housing benefit expenditure on private renting (albeit subject to caps on individual eligibility).

In our baseline research for Webb Memorial Trust (Chapter 3) we asked whether the PRS could constitute 'the new social housing' and highlighted why this is not currently the case because of differences in security, quality and affordability. Our third application of hybridity is to consider the extent to which private profit distributing actors can take on social as well as commercial aims. Interventions like Social Lettings Agencies are designed to enable the PRS to act in a more social way. We saw that such approaches attracted some private landlords who valued social purposes or regarded the closer interaction with the local state as advantageous for their business (e.g. in enhanced security of a housing benefit income stream, in bonds or guarantees and in help with managing anti-social behaviour).

Regulatory interventions including selective licencing schemes, enforcement of health and safety regulations and policies to create a greater degree of security for private tenants, could play a part in moving private rental towards a more 'social' model. This would be a welcome departure from the trend to reduce security in the social sector to move towards the PRS model. Albeit small increases in security of the PRS could begin to address the disadvantages of this tenure as a long-term housing solution for low income households moving in and out of employment, helping to replicate one of the key advantages (a stable base from which to seek work) that has been an advantage of social housing.

These types of changes could also be important in promoting new institutional investment in larger scale private rental. Current research within the Reinvest project at the University of Birmingham is exploring the case for regulatory models similar to the US Community Reinvestment Act. The US Community Reinvestment Act is recognised as incentivising banks to reinvest in their local communities, for example through low income housing tax credits (Blessing and Gilmour 2011). A new balance between market and state and civil society may be needed to generate forms of institutional investment that provide social as well as financial returns. Part of this may be about creating a regulatory climate which acknowledges the importance of social returns. Part may also involve a degree of hybridisation within private finance institutions whereby corporate social responsibility aims to become more than a respectable veneer and begin to shape institutional logics and investment decisions (Blessing and Mullins, forthcoming). Learning from the US case may help to identify mechanisms that can encourage financial institutions to work with local communities and authorities to develop affordable housing.

### 3.6.4 Keeping the community involved

There is scope for much wider tenant and community participation in the management of social housing, with potential business benefits for landlords and tenants and for the promotion of the good society.

Indeed, had social housing as a sector had a greater sense of tenant and community ownership it might have been far harder for governments to undermine its vision and purpose. Recent research has highlighted the business benefits of tenant involvement in decision making in large social housing organisations (Bliss et al 2015). There are a number of internationally recognized models of the value added by tenant involvement in governance, for example through board membership, resident scrutiny, estate audits, local management boards, tenant management organisations and annual performance assessments (Mullins and Shanks 2017 forthcoming). The benefits of mutually governed organisations are also currently being explored (Bliss 2017 forthcoming).
Alongside the housing association and local authority sectors the last few years have seen the re-emergence of a more grass roots community-led housing sector comprising the well-established housing cooperatives and tenant management organisations and newer organisational forms including Community Land Trusts, co-housing, self build and self-help housing groups bringing empty homes back into use (Heywood, 2016). Now totalling over 1,400 organisations with over 200,000 homes in use[8] (most of these in the co-operative sector and tenant management organisations) and 1000 in development (mostly in the Community Land Trust and co-housing sectors). These organisations now provide an alternative to large scale housing models. In some cases, especially self-help housing, they have moved into niches abandoned by housing associations as they have grown away from renovating street properties and engaging with local communities (Mullins 2016). First through the Mutual Housing Group and more recently through a 'community-led housing alliance' these organisations are beginning to work together to provide real alternatives for more people let down by state and market failures to address housing needs (Lang and Mullins 2015). While still small in scale we would argue that these organisations are important to 'the good society' since they provide more tangible links with civil society than do most current social housing models and thereby fill the gap in the community pole of the hybrid triangle. Countries such as Denmark and Austria have significant involvement by cooperative organisations in mainstream social housing, belying the common argument that this will always be a marginal form. Moreover, the co-operative housing sector could contribute far more than an alternative form of social housing, with cooperative home ownership far more important internationally, providing a significant tenure option in countries including Norway (CCMH, 2009).

The role of local authorities could also be considerably strengthened as part of new forms of inter-organisational hybridity. For example, in the regulation and promotion of the private rented sector as a form of social housing many local authority roles are essential (inspecting Houses in Multiple Occupation, selective or wider licencing schemes, social lettings agencies, bond schemes and housing advice).

Community stewardship could play a key role at the neighbourhood level to address the negative consequences for neighbourhoods of the disposal of assets by housing associations to private landlords who lack the resources or motivation to sufficiently maintain properties or provide acceptable conditions and security for tenants. Disposals tend to be proposed when a social landlord considers that a particular property is no longer worth the cost of repair and maintenance. We recommend that, because of the way in which these disposals can feed into the creation of a very poor PRS as a substitute for social housing, the Homes and Communities Agency should place restrictions on disposals; and support socially responsible stewardship for such assets from the community-led housing sector or locally based registered providers. Recent changes in the consents

[8] We have added to the table in Heywood (2015) to include the 200 Tenant Management Organisations operating in the local authority sector which have over 25,000 rented homes in management in London alone .

regime to ensure the independence of associations from Government control are moving things in precisely the opposite direction by ignoring the role of government in promoting the long term stewardship of social housing assets and the neighbourhoods in which they are located.[9]

Generally we suggest that community led housing should be subject to same subsidy based 'rules' on rents as private sector housing – e.g. Local Housing Allowance limits set effective constraints on rents that can be charged. However there may be certain rules that it is not appropriate to apply to community-led housing to avoid destroying their unique advantages. This appears to have been recognized in relation to the Housing Association Right to Buy where exemptions for smaller community-led schemes (stock up to 1000 and meeting a legal definition of community led have been accepted[10].

In conclusion we see 'community' as a key potential driver of future hybridity, and add the promotion of community involvement to our normative goals of housing policy. This has important implications for the future of social housing and the boundaries around it. Whilst real tenant involvement is too rare and community-led housing is still small, both have been highly effective and have the potential for a much wider reach than recently achieved by other forms of social housing. This could be a key part of a wider Bevanite vision, offering new options to households who are poorly served by both state and market solutions. For example, 'generation rent', excluded from home ownership and the one million low income renters currently excluded from social housing.

[9] Examples such as the recent sale by Accent Housing Association of properties in the North Ormesby Big Local area of Middlesbrough into the North Ormesby Development Trust as part of a new Community Land Trust provide a model that other large housing associations could follow when disposing of street properties.

[10] A legal definition of community-led providers was developed by Anthony Collins Solicitors in 2015 to protect small and community led groups (under 1000 homes) against the challenges of the housing association right to buy. This definition as amended as recognised in the drafting of the Housing and Planning Act 2016.

# 4 Financial Analysis

This section focusses on the financing of social housing providers, long-term trends, and proposals for a more sustainable funding structure for subsidised housing. It does not take into account the non-financial benefits of social housing, the stability that it can bring to households and to many neighbourhoods, nor the social impact of non-housing services of associations and local authorities. These on their own make a powerful argument for supporting hybrid organisations that contribute to a good society. Here we concentrate on the finances that enable an object subsidy – a subsidy of the product so that rents to the occupier are lower than they would be if charged at current market rates. The difference is often called the Direct Rent Subsidy, in contrast to the subsidy to the household (subject subsidy), usually Housing Benefit, to help them meet their housing costs whether at market level or sub-market.

This focus on finance is timely. It could be said that this decade sees a tipping point after many decades of substantial direct state aid to councils and housing associations to provide affordable housing. We look at this change and the long term prospects. It is important to note that we also assume that the cost per housing remains fairly constant in real terms over terms. We explain this assumption in the end notes. [i]

Throughout this paper we consider the national picture for England. We take a focussed view of housing costs concentrating on rents, market values (which are close to the cost of buying or building), the cost of management, maintenance and long-term renewal. We do not consider services charges (which can be substantial in apartment blocks but do not have a significant impact on national averages), Council Tax (for local services), fuel or water services.

First we look at the trends in object subsidy and the increasing diversity of sources for housing associations, and compare this with the heavily indebted position of local authorities. Then we look at the balance between subject and object subsidy – is it better to have a low rent with lower amounts of subject subsidy and corresponding higher amounts of object subsidy, or is it more efficient for government to reduce object subsidy but accept a higher subject subsidy? The trend towards Affordable Rent away from low-rent social-rent is at the core of this debate. We propose a flexible rent as the future direction.

## 4.1 Surpluses of housing associations

Not many years ago the funding of new social housing by housing associations was straightforward. Net rent after operating costs supported private finance and central government grant made up the difference. However, our analysis of Global Accounts [11] (which covers all large housing associations in England) compiled by the Homes and Communities Agency (HCA) shows how complicated we can make things and how dependent new investment is now on surpluses generated from core business and other activities.

The dataset covers all housing associations in England with over 1,000 dwellings. The 336 associations manage 2,551,000 dwellings, over 95% of the total HA stock. The HCA explain that the dramatic 30% rise in surplus generated by these larger HAs (to £2.4bn) is mainly due to the low interest rate environment and that most stock transfer associations, which tend to have early year

[11] https://www.gov.uk/government/publications/2014-global-accounts-of-housing-providers

deficits, are now moving into surplus. As we have already stressed, in many ways the housing association sector is in rude health.

However, there is also less good news. HCA forecast the possible impact of increased interest rates, reduced rent inflation, increases in operating costs, impact of welfare reform, and a housing market downturn. They show that a combination of these could easily pare surpluses right back to the minimum for lenders' covenants, reducing the borrowing capacity of housing associations, in addition to eating into a surplus that could instead be used for more housing development.

Unfortunately, the HCA (and GLA) publish much less information than they used to on the funding of new development. However, with the help of other sources shown below[12], we can estimate the current pattern and trends based on actual data from Global Accounts, rather than from the funds that have already been allocated to specific development programmes. We need to take this broader view of finance because HCA allocations no longer tell the full story, as housing associations are increasingly turning away from HCA grant and relying instead on other sources of funding new development. This, notably, includes use of the large surpluses that the sector currently holds.

The estimates that follow are based on the two-year movement in funds and growth in stock from March 2012 to 2014, to smooth out timing effects, and ignore growth in total HA stock in the period from the transfer of about 18,000 council dwellings, as this does not represent new development. New investment includes improvements to existing stock at about £1billion which is primarily funded through rental income surpluses, with some debt and now much reduced capital grant or Decent Homes[13] dowry. These amounts have also been excluded from this growth analysis. Stock growth is not the same thing as the new supply programme, which will only increase net stock of housing if new builds replace lost stock at a fast enough pace. In the two-year period of our analysis, some 17,000 dwellings a year were sold or demolished. We thus compare the net position of growth of about 40,000[14] dwellings a year with the actual receipt of grant and draw-downs of debt. Our conclusion is that total investment in stock growth comes to about £7.4bn[15] a year averaged over the two years to 2014.

The results are listed in Table 2 along with an indicator of trends:

[12] **Sources:** 2012, 2013, and 2014 Global Accounts of Housing Providers, HCA; Affordable Housing Supply 2013-14, DCLG; Private Registered Provider Social Housing Stock in England: Statistical Data Return dataset 2014, HCA; The Incidence, Value and Delivery of Planning Obligations in England in 2007-08, and, Section 106 Planning Obligations in England 2011-12, DCLG; Anonymous sample of Private Registered Provider Accounts to March 2014, 2015 Summer Budget, 2015 November Spending Review Announcements, Office For Budget Responsibility Economic and Fiscal Outlook November 2015 (especially Annex B).

[13] Another reason for the recent increase in surpluses is not mentioned by the HCA and that is the temporary lull in expensed major repairs and renewal costs following 15 years of above average investment in existing stock. The modelling later in this report takes this back to a long term average rate.

[14] This is higher than recorded in HCA/GLA programme data for 2013/4, partly because some investment is made without grant support and knowledge of the agencies, until statistical returns and audited accounts come in.

[15] This is the value of investment rather than the cost.

**Table 2 How associations funded net stock growth in 2014**

| Source of funds and other contributions | £m | % | Trend |
|---|---|---|---|
| Value of planning obligations for affordable housing | 1,250 | 17 | ↓ |
| Value of discounted public land | 100 | 1 | → |
| Social Housing Grant and other public sector grant | 1,000 | 13 | ↓ |
| Debt supported by net rent of new dwellings | 3,260 | 44 | ↑ |
| Debt supported by conversions to Affordable Rent | 410 | 6 | ↑ |
| Surplus from: | | | |
| Shared ownership first tranche | 120 | 2 | → |
| Shared ownership staircasing | 150 | 2 | → |
| Open market sales | 120 | 2 | → |
| Sales of social rent stock | 290 | 4 | → |
| Social rent historic stock | 710 | 10 | ↑ |
| Other activities | negligible | - | ? |
| **Total** | **7,410** | **100** | |

Not all funding sources are used on the same individual dwellings – in fact some are mutually exclusive – and the increased complexity makes it hard to track trends. But one overarching trend stands out: we are moving away from one model of inter-organisational hybridity in finance – based on receipt of Social Housing Grant and cross-subsidy from private developers – towards a new hybridity based on internal cross-subsidy. Social housing finance strategies have needed to look beyond 'grant' and 'planning obligations' in order to continue to thrive.

In 2014 the HCA programme mainly funded Affordable Rent dwellings and Shared Ownership and this represented a shift from the traditional low-rent, high-subsidy Social Rent to lower subsidy products less focused on extreme housing needs. This was a major policy shift in itself and had implications for higher future costs to government through Housing Benefit (Universal Credit). Another overall trend is that these sources include many that are sensitive to housing market conditions and consequently housing associations now face increased risks associated with the economic cycle.

The trends within each source are:

A.	Section 106 planning obligations are a major (non-cash) contribution but there has been a downward trend. We have reached a plateau in terms of more Local Planning Authorities applying policy in this way. The value of the obligation is reducing as lower subsidy products like Affordable Rent are accepted. And planning policy is taking second place to viability challenges by developers.

B.	There is much talk of use of more public land. The reality is that, whilst we would expect the public sector to manage its portfolio efficiently, its suitable land plays a small part and it is unlikely to make a major contribution to affordable housing growth, particularly in trading nomination rights in exchange for lower land transfer prices. Public authorities need to maximise their receipts.

C.	Here we turn to the key trends in grant funding – the level of capital (object) subsidy allocated for new social homes by central government. Table 2 shows that grant per dwelling is reducing , as associations identify and realise other sources of funds. It may well drop below 10% of total added value in the 2015-2018 programme. This excludes grant recycled through the Recycled Capital Grant Fund and the Disposals Proceeds Fund from sales or part sales of assets – it is the net change in total grant received by associations that is shown in Table 2.

Table 3 shows that the future grant allocations included in the November 2015 spending review involve spending growth, mainly for shared ownership. This will make a significant contribution to housing supply needs in later years and is to be welcomed. .

Table 3: Spending Review plans for future housing grant: 2015

| **Central government capital grants to HAs** | | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|---|
| Social sector | £bn | 0.9 | 1.0 | 0.6 | 0.4 | 0.1 | 0.1 | 0.1 |
| Shared-ownership | £bn | 0.1 | 0.0 | 0.1 | 0.2 | 0.9 | 1.0 | 1.5 |
| Build-to-Rent | £bn | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Total | £bn | 1.0 | 1.0 | 0.7 | 0.6 | 1.1 | 1.2 | 1.7 |

Source: HM Treasury 2015

D.	The amount of private finance supported by net rental income from new dwellings, after operating costs, is dependent on many variables. The trends in operating efficiency, low interest rates, and perhaps a return to inflation linked rental growth, are likely to continue in the medium term. But limits will be reached at some stage: in the debt supported per dwelling and from other income sources; and in the ultimate capacity of each association.

E.	Conversion rates from existing low-rent social rent (average £92pw net of service charges) to Affordable Rent (average £117pw net), on a portion of relets, are relatively low at 1% of SR stock a year, and the volume (about 23,000 pa) is controlled by HCA/GLA through programme contracts, but the effect is cumulative and so the trend in ability of these now higher-rent dwellings to support debt for new dwellings is upward.

F.	Surpluses from shared ownership sales and stair-casing receipts are perhaps more significant than many would have expected. There are large variations in surplus generating capacity across the country but, apart from some market hot-spots, it appears as if associations are satisfying demand in many areas. The trick is to keep the unsold stock to a minimum and this is being gently managed downward. In these circumstances a material expansion of activity is unlikely until the programme increases and sales receipts start to flow again from 2020 onwards.

G. A small number of the larger more experienced and financially robust associations are generating significant surplus from open market sales. These tend to be concentrated in London and the South East. Beyond these the picture is mixed with as many holding back because of recent experience, or risk capacity concerns, or even regulatory action, as are entering this field. There may well be scope for growth in this source of funds, especially if associations become more business-like about market timing, market making and speed of reaction, but this is inevitably going to be restricted in terms of numbers of players, parts of the country, and only in the good years. There are signs that 2015 might be one of the good years with activity increasing to about 3,500 dwellings sold but we await further details to see if the surplus generated has increased proportionately.

H. Sales of housing association social rented stock are running at about 12,000 a year through Right to Buy, Preserved Right to Buy, Right to Acquire, asset management strategies, and portfolio management. At 0.5% of stock this is relatively low, yet because of historical low provision costs the surplus gained is significant. This is offset by about 5,000 demolitions a year where value is destroyed. The net amount from asset management and portfolio management is unlikely to change significantly as associations are acutely aware of the sensitivity of stock losses, however small. We do not have sufficient detail of the voluntary agreement to extend the Right to Buy discounts to housing association tenants in traditional stock but the current estimated 4,500 discounted sales per year of transferred stock could increase to 14,000 a year (0.7% of relevant stock) and could with adequate grant compensation allow Affordable Rent or Shared Ownership replacement for each low-rent social rent dwelling sold – not an identical replacement but a significant supply increase for the nation.

I. The core low-rent social rent business has steadily shown growth in surplus, as in the long run rental growth tracks wage inflation (though consumer prices might guide the medium term), operating costs are only partially linked to wage inflation, and historic debt deflates (now more slowly) in value. It is the nature of leveraged funding of cash generating assets that early years' deficits can be followed with steadily increasing surpluses, increasing at a faster rate than the underlying asset replacement cost. This trend is explored in greater detail in the following section. A substantial part of the 2013/14 surplus was ploughed back into supply of affordable housing.

J. Finally we see from Global Accounts and HCA financial surveys that the sum total of all other social housing activity or non-social housing activity, excluding the sources listed above, produce an aggregate surplus that is zero or possibly negative. These activities include housing plus projects, job readiness, community development, high care, shops on estates, private rented sector, student housing. Some of these make surpluses, but many do not, at least not yet. Interestingly the Housing Corporation reported on the 2006 Global accounts (HC 2007) that for non-social housing activities such as community based and regeneration schemes "Of these approximately half record a surplus … and half record a deficit". Some make a tangible social impact and some give indirect financial and social gain (for example, less anti-social behaviour can mean lower vacancy rates). Some now make losses that are causing concern to the regulator. And this is despite the oft quoted strategy for diversifying to increase cross-subsidy into social housing supply. At the moment, nationally in aggregate, there is no such cross-subsidy.

However, this is not to deny the extent to which certain forms of diversification have provided significant surpluses that could be invested in new social housing in certain parts of the country. The gains from sales of 12,000 dwellings of existing stock, 4,000 shared ownership sales and 3,000 developed for market sale are substantial though are mainly in London and the South East. This means that the cross-subsidy generated from sales (especially of historic stock) will mostly be in the areas of greatest current housing need. However, without some residual public subsidy or some form clawback and redistribution an over-reliance on this form of cross-subsidy could starve lower cost areas in the midlands and north of resources required for new build.

Nevertheless the main conclusion of the analysis summarised in Table 2 is that it is the rental surpluses from historic stock which has the greater potential for cross-subsidy in the future. In the next section we discuss the importance of these historic surpluses in more detail as they form a key plank for our proposals on the future for social housing.

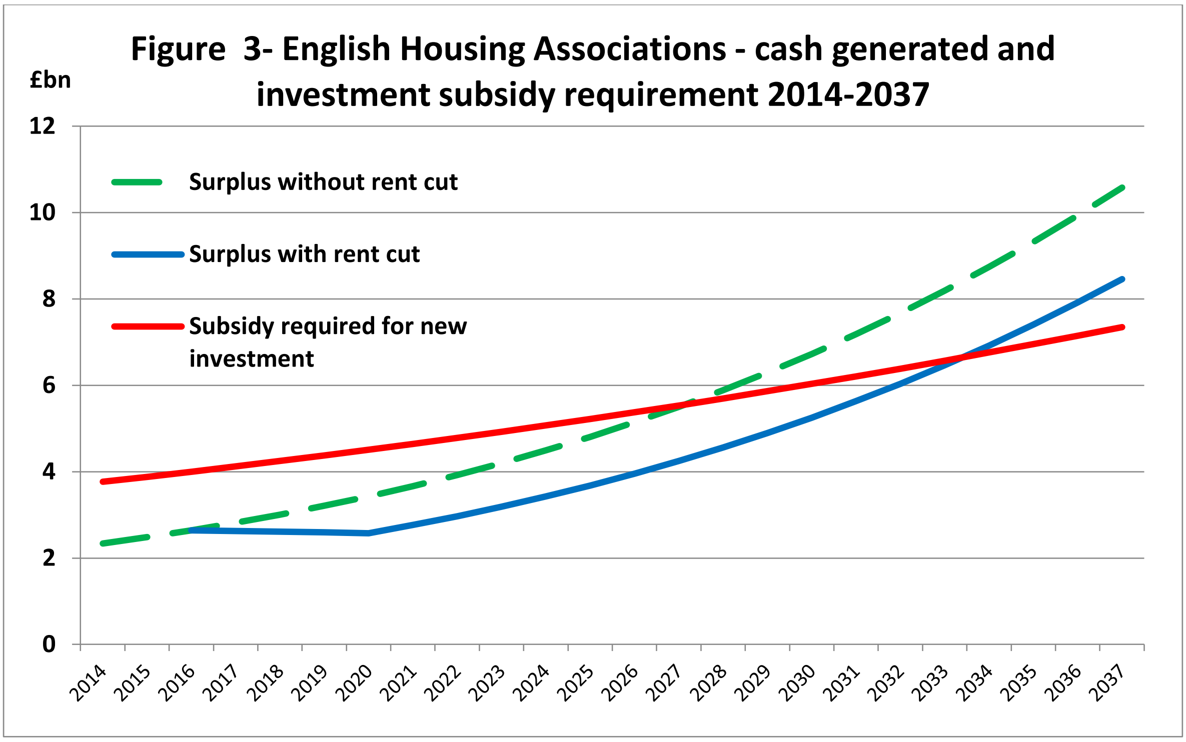
## 4.2 Historic Surpluses – Future Foundations

Section 4.1 has illustrated the complexity of arrangements for funding new social and affordable homes and the varying potential of hybrid forms of finance. But before we develop this in detail there is one source of funding that is too often neglected in current policy debate and is, indeed, threatened by recent reforms. This source is enormously important but quite simple: it is the surplus generated by rental income once the cost of development has been 'paid off'. We turn to this below.

Figure 3 shows how English Housing Associations could generate cash surpluses from current activities. The surplus from the historic stock is by far the fastest growing contributor to overall surplus although the 2015 Summer Budget rent cut deferred further growth until 2020 even allowing for some mitigation through further efficiency gains.

Figure 3 also indicates the cash needed for subsidy of 40,000[16] net additional dwellings a year with a shift from a majority of new Affordable Rent to a majority of new Shared Ownership dwellings. In just over ten years' time, without the rent cut, associations would have been able to generate enough funding internally and support new debt to pay for growth, i.e. without grant, S106, or discounted land. The rent cut has pushed this date back by a further ten years.

[16] 40,000 net additions by housing associations would enable growth of the whole social housing sector, allowing not only for stock losses of associations but also of council retained stock, so that the proportion of social housing to the whole housing stock remains stable.




This kind of forward modelling has a high sensitivity to almost all the variables involved and should not be taken as a forecast. But it does illustrate the need for a longer term debate about the sustainable future funding of housing associations.

- Will future governments want to reduce rents each year to control the Housing Benefit bill within the sector? If so, then continuing central government grant will be required for new investment. In that way central government has control over the location and type of investment.
- Will government allow housing associations freedom from rent regulation, allowing social rents to return to growth to maintain their discount to market? Associations would eventually be able to generate all the funding they need for new supply and replacement stock. But the relationship with government will change, perhaps as in the Netherlands which went from mutual dependency to serious conflicts and a subsequent rolling back[17].

Even if all goes well, who will lay claim to the “excess” surpluses from 20 years onwards, more than needed in growth investment? Government capture of some form may be anticipated.

The surpluses listed in 2014, ploughed into new investment, total £1,390m and about £700m of surplus was also invested in the improvement of existing stock. The total of £2,090m compares with the published £2,350m aggregate surplus. The investment into new and existing stock almost completely absorbs the surplus generated from all activities with a small balance retained to maintain interest cover and other lenders’ covenants.

[17] ‘Learning from the Dutch Experience’ interview with Rudy de Jong in Housing and Communities Newsletter Spring 2016 http://www.birmingham.ac.uk/research/activity/social-policy/housing-communities/publications/housing-newsletters.aspx

Apart from new debt, internally generated surpluses now make the largest contribution to growth. In the longer term we need to answer the tricky question of who owns future surpluses generated from historic stock. From the perspective of this report we would argue that the solution to the future of social housing currently lies within the sector unless government chooses to throw this golden opportunity away.

## 4.3 Retained stock councils

The position of council housing finances is very different. In simple terms they have less access to subsidy than housing associations. The latter have significant and growing surpluses on historic stock, higher useable surpluses from sales of existing stock, and cross-subsidy from shared ownership and market sales activity. It might be expected that the maturation of debt described for housing associations would have occurred at an earlier stage for local authorities whose debt is generally more historic. However the Right to Buy and rules governing receipts in effect has meant that central government has already claimed the potential surpluses and prevented their reinvestment in social housing. And the settlement of subsidy for local authorities in 2012 amounted to a preemptive claim made on future subsidies by the Treasury. Without surpluses LAs are left with their own land, receipts from cash in lieu of planning obligations and allowable RTB sales receipts. These are not sufficient, spread over a significant new programme to reduce the amount of outstanding debt per dwelling to a level that can be supported by low social rent levels. Social rent alone simply does not cover the cost of development. This is the real limiting factor at present.

After many years of subsidy from central government for interest costs, for operating deficits, and for major repairs renewals and Decent Homes provision, and in spite of the enormous receipts from council house sales being largely retained by central government, the aggregate account of all council housing was moving into surplus. The surplus was not deemed sufficient to “repay” previous subsidy but brought into question the extent of central government control over council housing finances. After a long campaign[18] a settlement was negotiated which concluded in March 2012.

The 2012 settlement saw a redistribution of £21bn debt between 171 retained stock councils, and an overall increase in debt of £8bn taken on in April 2012 to make a payment to government in lieu of paying back future surpluses. Councils now would have to balance their housing accounts, and future repair and renewal needs, without recourse to central government support. In effect a substantial risk transfer took place from government to councils, leaving councils with, in theory, greater freedom to operate. But the space for freedom was very small and has subsequently been eroded.

The Settlement was based on a calculation in 2011/12 of the maximum debt that councils could support from net income from rents, i.e. after management and maintenance costs. The total came to £29billion. One of the many assumptions and estimates used in the calculation was a low level of RTB sales.

Government, however, increased the RTB discount rates[19] almost immediately and this led to much higher sales rates. We have remodelled the original debt calculation with this new policy change and, using all the other assumptions and estimates used in the Settlement, we calculate that this

[18] See “Daylight Robbery” and Defend Council Housing
[19] Reinvigorating the Right to Buy 2012

change led to a reduction of debt capacity to £28bn. **One billion pounds of borrowing capacity was thereby lost within a few weeks of the settlement.**

The announcement in the 2015 Summer Budget of the four years of rent cuts for social housing further reduced the potential for local authorities to have surpluses to support future social housing construction and management. Using the same original assumptions, **the recalculation from this lost future income shows a further reduction of nearly ten billion pounds in councils' borrowing capacity.**

The proposal to **sell off higher value council housing stock, and pass the proceeds to central government, will reduce capacity by another £200 million pounds.**

**Table 4 Policy reductions on council housing borrowing capacity**

| **Maximum borrowing on existing council housing** | | £bn |
|---|---|---|
| Original HRA settlement March 2012 | March 2012 | 29.2 |
| After Reinvigoration of RTB | April 2012 | 27.9 |
| After rent cuts of Summer Budget 2015 | July 2015 | 18.1 |
| After sales of higher value stock H&P Act 2016 | May 2016 | 17.9 |

Source: The Authors

Savings on operating costs will have to be made, but the combined effect of these changes means that councils are locked into a debt level allocated to their housing account of £29 billion whereas they only have the ability to support £18 billion. This is a vast difference that will not be met by savings. The gap is so large that the overall cap on borrowing, often cited as a reason for no council housing building, is only relevant for a small number of councils. In most cases receipts from RTB sales and other sales are being used to pay down debt and there is no remaining surplus.

The overall Housing Revenue Account of the combined 171 authorities is now in deficit, and will, without restorative policy changes, be in deficit for at least two decades.

New council housing also makes a deficit. The rent less operating costs could support debt, for each new dwelling, on a prudential basis, of about £40,000, compared to a cost of nearly £200,000 if all resources are counted. Unlike housing associations council's surpluses from historic stock are not available to support new, loss making, sub-market rented housing.

Local authority housing providers are facing some unique challenges, compared with the relative advantages enjoyed by housing associations. Some of these challenges could be erased by simple reversals of some recent policy; for example, the obligation to sell off high value stock when it becomes vacant. Others would require a major policy shift such as linking rents to affordable levels for each household, or allowing councils to retain and apply all sales receipts to replacing low-rent social rent dwellings sold with new low-rent social rent dwellings.

But there are also more innovative models being developed which show how the local authority funding gap can be bridged, especially if the new stock is isolated from the historic Housing Revenue Account and all the conditions that go with that such as Right to Buy. A council housing company could focus resources such as this prudential borrowing capacity, with land it already owns, with gains from planning obligations from developers of market housing, and with a long term equity investment from the council, to deliver more affordable housing at low-rents. Joint ventures with commercial developers and housing associations such as that being promoted by Liverpool City Council for the mixed tenure development of city council owned land provide another relevant model[20]. Nevertheless the numbers of additional homes from such innovations will not be large, given the limitations on these resources, but could amount to a total of 5,000 new social housing dwellings a year. This compares to today's output of about 1,700 a year in the face of 12,000 RTB sales.

There also needs to be a mechanism to ensure that the subsidy continues to be used for its purpose, so that it is not ultimately clawed back by the Treasury and taken out of the housing system. Under recycling and grant repayment rules for housing associations, where subsidy held on dwellings that are sold or change use (for example from social rent to shared ownership) is reapplied to new dwellings within three years or repaid to the HCA and GLA for reuse, we already have such a mechanism. With local authorities we do not have explicit grant but there is implied subsidy in the difference between the value supported by tenants' rents and the open market value of the dwelling. Similar mechanisms should be introduced for councils to recycle this substantial implied subsidy according to local need, rather than have to make large repayments to central government.

This ensures that subsidy is not reclaimed at an institutional level, but we also argue that subsidy needs to be used effectively at an individual household level.

## 4.4 Subsidy for the dwelling or the household?

Housing Associations and Councils are not-for profit organisations and are not tax-payers. This places social landlords at a substantial advantage compared with the private providers of the same dwellings. Housing Associations and Councils also have a track record of keeping operating cost (management and maintenance) trends close to consumer inflation whereas the private sector costs tend to track house price inflation. There is some limited evidence that social providers achieve lower absolute operating costs but good comparative data from the private sector is rarely available. Certainly they have much lower operating costs than employing a private sector managing agent. In addition, and related, the growth rates in sub-market rents has been (apart from a few years during the recent recession) lower than the growth in market rents, but this is mostly to do with factors outside the providers' control such as the rent regime, and housing market trends. Finally, social providers can borrow at keen rates of interest. Initially this was because of the protection afforded by the Government statement that grant (and other forms of subsidy) would be subordinated to private debt but increasingly the overall good financial performance of associations and safe level of debt to value, has maintained, and possibly improved, this advantage.

All of these give a 5% to 15% advantage to non-profit and council providers over a pure market model - an amount that can accumulate dramatically over the decades as we saw in figure 3.

[20] 'Liverpool Housing Partnership is a commitment by Liverpool City Council, Redrow Homes and Liverpool Mutual Homes, working together with Willmott Dixon, to deliver 1,500 new properties and bring up to 1,000 empty homes back into using council owned land'. http://liverpoolhousingpartnership.co.uk/

But these advantages are about the institution and not necessarily about the product type. They give us no pointer as to whether a high-subsidy low-rent social rent dwelling is "better" than a low-subsidy high-rent Affordable Rent product.

The capital/revenue equation can be shown in long-term discounted cash flow models and these show similar institutional advantages in present value terms. The problem with these is that they are highly sensitive to critical assumptions on the discount rate applied, and the differential growth rates between sub-market and market rents. Small changes in each can "flip" the result. But these models throw out one crucial dynamic and that is the proportion of higher earners within the social housing stock.

A higher earner can pay a higher rent and have that remain affordable. The more there are households within the sector that could pay a higher rent but have a subsidised rent, the less efficient is the capital (object) subsidy. At current distribution of incomes within the sub-market sector the capital/revenue equation is about balanced, meaning that there is no material fiscal advantage from having sub-market providers.

## 4.5 Future Directions – a Flexible Rent Proposal

Subsidy provided to enable rents to be affordable for the lowest income groups becomes inefficient for the government if those households become higher earners. But we also found that there is a large group of low-income households for whom capital subsidy  is the most efficient use of resources from a fiscal point of view, as well as offering secure and affordable housing for vulnerable households and ordinary families alike needed a secure base . Conversely, we have argued that there is a large group of social renters who could be helped more efficiently with an income (subject) subsidy, that can flex and up down with their changing circumstances.

This is regarded as one of the virtues of the housing benefit system (notwithstanding the escalating bill over the last two decades and the lack of connection between the subsidy paid and the quality and duration of the provision secured). But why should we not seek a similar flexibility in terms of use of capital subsidy? There are practical and principled arguments against a Flexible Rent model, and many of these objections are vindicated when we consider the design and likely impact of the Government's own proposed version, the inaptly named 'Pay to Stay'. But we have argued for the need and desirability of new hybrid approaches to housing, and a well-conceived flexible rent system could and should be part of it. We return to the moral and political argument shortly. But first we outline the mechanics of a more sophisticated model, which builds on previous work by the authors of this report (Gregory and Todd, 2012; Redman, 2013).

We describe below how a Flexible Rent model could enable a higher rent to be paid, that is still affordable to a higher earning household, will not drag them into Housing Benefit, and can provide extra income to the provider for others in need. We argue that this additional income should be treated as a form of repaid subsidy (albeit as a weekly income rather than a lump sum) and be made available for recycling into further housing investment. This is in contrast to the Conversion arrangements introduced by the Coalition Government (2010) whereby a low-rent social rent dwelling is re-let when vacant at Affordable Rent terms (a higher rent), and the extra income is made available to take on higher debt on new investment, thus reducing subsidy requirements. In our view this is a muddle. The extra income should be treated as recycled subsidy (also reducing the need for as much subsidy from government on the new dwelling), with a greater emphasis on reinvestment rather than being seen primarily as a means of reducing debt or allowing Treasury claw-back.

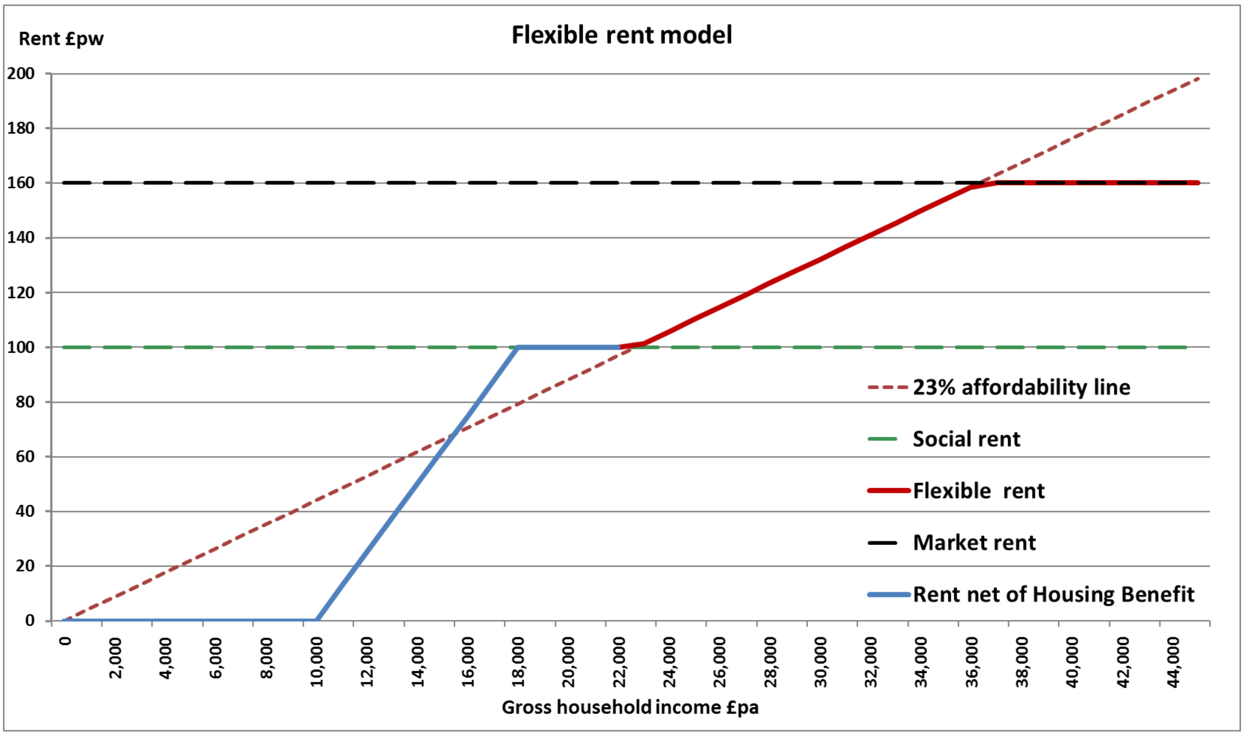
Currently households on very low income can claim full Housing Benefit. In essence this means that they do not pay any rent (though this is arguably will not be the case with the new Universal Credit payments system), until their income rises above the applicable amount to preserve a minimum residual income. When they reach this threshold (which varies depending on the type of household), support starts to be withdrawn through a 65% taper, meaning that the household only receives 35% of the cost of their housing once they've reached the income threshold. In social housing there is, however, also another factor in play: unlike private tenants the rent itself is effectively capped. They therefore benefit from two types of subsidy. We can see this in Figure 4 below, in the dashed green line, which shows the average low-rent social rent dwelling in England.

Thus, without a flexible element, higher earning social tenants pay the same sub-market rent as those on the lowest income, with an average direct rent subsidy of about £3,500 pa average, no matter how much their income increases.

Our proposed flexible rent element would therefore charge a rent, when income was above the partial Housing Benefit taper, based on an affordability ratio of rent to household gross income of 23%. This is an affordability rate comparable to other tenures at these income levels (EHS 2015b). It also compares favourably with the Joseph Rowntree Foundation's sponsored work on Living Rents which recommended 28% of income net of taxes (JRF 2015).

But we can also see a crucial income buffer, designed to avoid the risk of moderate income fluctuations causing households to go on and off Housing Benefit. This risk of cycling in and out of the benefits system can function as a serious work disincentive. The buffer is represented by the flat blue line above the HB taper but before the flexible rent applies.

**Figure 4: Flexible Rent Model**




Source: The Authors

Figure 4 is based on a household with a medium, but not highest applicable amount. The applicable amount is the income point at which the HB taper starts to take effect. The case illustrated is for a couple with two children with an applicable amount of c£10,000. A small proportion of households will have higher applicable amounts for example, a couple with 4 children and an adult only household a lower applicable amount. Their HB taper start and end points will vary, but the buffer means that the flexible rent grade would still start well after the HB taper ends. The buffer also ensures that the flexible rent does not take effect for those caught by the Benefit cap of £20,000, or £23,000 for London introduced in November 2016. We offer further detail on the ways in which Benefit tapers would differ for social and private renters in the end notes below.[ii]

Our flexible rent proposal has significant advantages over the Governments proposed Pay to Stay model and in particular eliminates the "cliff edge" thresholds of that model. An income change disregard of £1,000pa (equivalent to £5pw rent on the grade) would apply to avoid excessive administration of making frequent rent changes for small income changes. The local Housing Benefit office would be paid a small fee to assess the household income – the association will have all the other information needed to carry out the flexible rent calculation.

The additional rental income generated by the flexible rent should, after an annual administration fee, be treated as subsidy to be recycled, or, if not invested in social housing provision within 3 years, returned to the Homes and Communities Agency for redistribution. We estimate a net additional resource, after administration costs, of £500m a year.

A new priority for use of this recycled subsidy should be to assist no or low income households in the Private Rented Sector who are not likely to be economically active, and for them a sub-market home is in fact the best option for the household and the most cost-effective use of resources. The most straightforward use of the funding would be to enable the household to move and change tenure, However, we would also recommend exploring innovative flexible tenure options that would enable households to change tenure and subsidy without needing to move home.

This represents an important difference between our flexible rent model and Pay to Stay. A higher rent does not mean an end to security of tenure, and in fact it continues to offer security. By introducing a flexible rent system, we can help households to respond to downwards movements in their income, returning them to a fully subsidised rent if need be. This is a very significant advantage over the insecurities of private renting, and it does not force people to move in the same way that the punitive tone of Pay to Stay suggests.

There are further practical issues to be addressed in our policy. Top of the list is the way in which we track tenant income, most likely through a mixture of annual assessment and the tax system. Redman is currently conducting further research on this for the Housing Quality Network. He recommends various procedural improvements, for example using benefits teams to assess household incomes rather than HMRC, ignoring small changes in income mid-year, and providing assistance to households found not to be claiming entitled benefits.

Flexible rent is not a new idea and nor is it intrinsically suspect, but it does require careful explanation and equitable implementation. If the motivations are in line with social purposes and values as discussed in section 3.4 and the detail is worked through as suggested in this section, flexible rent could form part of a progressive social housing policy. It could contribute to mixed communities rather than forcing those on higher incomes to leave and it could also maximise resources to meet housing needs for the long term.

## 5 Conclusions and recommendations

This report has provided a fresh perspective on the role that social housing has played and can play in the building of a good society. We have provided a critical analysis of a recent policy environment that has either deliberately or inadvertently undermined some of the historic legacy of public and social housing in England. We have identified a new direction of travel involving the reform and extension of the social housing system in England to address the needs emerging from new evidence on housing need and poverty before and after housing costs, and an innovative analysis showing that 60% of households in England today would be unable to meet their housing costs at current prices. We have argued for diversity and flexibility to meet the changing needs of a wider range of people, including 'generation rent' as well as 'the left behinds'. Moreover we emphasise the importance of community involvement to build a really good society across social divisions.

The first platform for our conclusions is a conceptual framework that has gained ground in third sector studies in recent years and which appears particularly relevant to housing. The concept of hybridity involving the mixing of state, market and community influences can be applied at both organisational and policy system levels. We have provided examples of its historic relevance from Bevan's 'living tapestry' through the mixed funding of housing associations to the use of the planning system (section 106 of the Town and Country Planning Act 1990, as amended) to deliver low rent housing within new market housing developments. We have shown how hybrid principles could further extend to the socialisation of the private rented sector, which is becoming the main provider of housing for low income households yet lacks the essential social protections associated with social housing. We have also argued for restoration of the community pole of hybridity through greater influence for tenants within social housing organisations, the building of a community-led housing sector and an emphasis on community stewardship in decisions such as disposal of assets by housing associations

The second platform for this report is a new financial analysis of the viability and future prospects of social housing and the logic and limits to the hybrid models being advocated here. The headline conclusion is that social rented housing has long term financial viability, especially in the housing association sector, thanks to the maturation of long term public investment in housing assets. Moreover there is ample evidence of hybrid funding and cross subsidy as a range of financial inputs have been substituted for public grant in more recent years. While there are limits to cross subsidy potential, particularly outside of the hot housing markets of London and the south, and in aggregate diversification has been financially neutral, there is still considerable scope for socially mixed schemes that are also financially viable through cross subsidy.

In terms of the supply of social housing in England, the package of measures we advocate in this report would have a positive effect. In part there would be an increase in the supply of social housing as a side-product of a more sustainable PRS for low income households, in part by a wider range of price points offered by social landlords, and in part through a more effective use of existing stock. The amount of low-rent social rent dwellings would increase to match growth in households with low incomes and of the asset poor in outright owner occupation. In addition social landlords would increase output of intermediate rental products, equity sharing home ownership, a full market rent offer, and shares in equity of privately owned buy to let stock and in some outright ownership stock. Low rent social rent dwellings will increase in numbers but not by as much as would be possible with sustained capital subsidies. The stock of social housing landlords, of all subsidy types, would increase significantly, adding to supply.

In terms of poverty, the analysis and proposals of this Policy Futures Report leave us with four clear messages:

- Housing costs play a major role in pushing households into income poverty, where after housing costs household income is below 60 percent of the national median.
- This is not just a problem for social housing tenants and those most likely to gain access to social housing; housing cost induced poverty is a real problem in the private rental sector and amongst many owner-occupiers.
- New supply at social rents is crucial in preventing poverty: more social rented housing will bring down housing costs and help reduce poverty by enabling them to move from higher rent private tenancies . This is particularly the case where private rents exceed LHA limits or benefit caps.
- It is also important to retain as much of the existing low and affordable rent supply in all tenures and to make the best use of the stock for example by bringing empty private properties back into use and creating training and employment opportunities for local unemployed people in the process.
- Supply also relates to the quality of both new and existing housing: inappropriate, substandard and unhealthy housing contribute to ill health, poor educational attainment and are generators of poverty. The high standards of social rented housing make it more effective than private rentals available at the bottom of the market, within Local Housing Allowance limits, in addressing these wider than income aspects of poverty.
- Finally, it is not all about housing: poverty remains in even the most subsidised housing. This is a function of low income and non-housing element of benefits and income support.

Six key policy directions emerge from this analysis as a logical development of our model of hybridity and, we suggest, in way that chimes with the post-war ideals of Bevan:

- **Social housing has a viable future.** We have demonstrated that the housing association sector is fundamentally sound financially. Were it not for recent threats to revenue, from a 1% rent reduction and welfare reforms that may lead to greater rent arrears, housing associations would soon be able to become self-financing. If central government were to grant similar operating and borrowing freedoms to local authority landlords they would also be in a strong position to develop more housing.

- **Hybridity is the key to the future of social housing.** We can do more with better outcomes for households and communities. Social landlords should build new social rent housing alongside market and sub-market own and rent options. The Government should restore Section 106 of the Town and Country Planning Act 1990, as amended, to enable local authorities to require new social rented housing in every market housing development. Tenure diversification of social housing estates should not be about displacement and gentrification but about producing more housing for rent alongside other products. Increasing density can enable social mix, viability and the preservation of social rent.

- **We need to broaden the focus of social housing.** The idea of social housing as a niche need is both factually incorrect and socially divisive. But different types of household need different types of subsidy. Our analysis tells us that we need more social housing let at sub-market rents and thus more 'object' subsidy, but also that for many households it is more effective to use an income subsidy to help with housing costs. We also argue that it is both possible and desirable for social landlords to operate in the private rental and ownership market without sacrificing core social values – indeed, allowing the extension of social values beyond traditional social housing.

- **We need a more flexible approach to social rent.** We have shown how social landlords could charge a higher rent to some tenants as their income increases, and in a way that does not create the perverse incentives of sharp cliff-edges, or pressure people to leave their home. Our model builds in a buffer period so that tenants can make decisions in the knowledge that they will not be caught out by late benefit payments if they lose their job, and the model is designed to allow landlords to rapidly reduce rent again. This model is not motivated by a belief that social housing should only be for those most in need; rather, the aim is to encourage a social housing system that can fairly and efficiently accommodate a broader range of incomes, bringing back the social diversity of the Bevan vision. Similarly we propose flexibility to enable households to move between tenures as their income and circumstances change without moving house.

- **The private rental sector needs to become more 'social 'through enhanced security, quality and affordability.** We have shown that 1 million low income families who might have previously been housed in the social sector have moved into private rental sector in the last 10 years. With changes to the allocation of social housing since the 2011 Localism Act, we are likely to see more local authorities using the private rental sector to discharge their homelessness duties. We need a series of measures to reform the low income parts of the PRS (bottom 40%). This needs to go beyond regulation (such as selective licencing schemes) and enforcement measures under existing powers that are often hampered by limited local authority staffing which should be restored to an appropriate level. It should also include access and management schemes such as Social Lettings Agencies, allowing access to quality privately rented homes. Alongside these measures we need reforms to increase security and avoid frequent forced moves that disrupt employment, education and family life. We have also recommended that more social landlords should enter the private rental market themselves; not simply as a means of generating profit to cross subsidise social rentals, but as part of an extension of how we think about 'social' housing. This could help bring greater security to the private rental sector and complement current efforts to introduce longer private leases and stronger tenant rights.

- **It is time to take community stewardship seriously.** We have argued that 'hybrid' social housing needs to do more than bring state and market together – community is also a vital component. Traditionally community has tended to refer to tenant participation in management and, to a lesser extent, to community-led housing. There is an important role for both in the future of social housing. Though small-scale, community-led housing can have a positive impact significantly beyond the benefits it brings directly to those who live in it. A number of deprived neighbourhoods across England has benefitted from the wider social impact of community-led organisations. But community stewardship should not be a niche concern. All social landlords need to embed stewardship in the way they manage their assets – and 'community' means all who live in a neighbourhood, not just social tenants.

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Endnotes

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[i] We make the assumption that the share of disposable household income spent on housing (i.e. after other basics such as food and fuel) remains steady. In the last three to four decades this has been broadly true with a long term increase as basic commodities have reduced in real term price (until very recently and possibly made worse by Brexit). The actual cost of housing then become a factor of the cost of money, taxation policy, and recycled equity trends. We make no assumptions about the first two (which may in future help to reduce or dampen house prices) but we do factor in the last, primarily through our projected increase in outright ownership.

Finally we also assume no further change in the distribution of incomes. This is the most heroic assumption as a small change of greater inequality will have a significant effect on financial supported needs for housing costs in the marginal deciles (i.e. those most at risk from changes in market price levels), and vice versa. Essentially greater inequality requires greater distribution from higher income deciles to help meet the housing costs of a greater number of households unable to pay the market price.

Land is in effect a residual element. It is not in the main the driver of final house prices. In some locations land availability is a constraint that has, a small, pricing effect but in national terms this is not material. In fact current data indicates that land supply is not the problem. In these circumstances it is not clear that greater land availability would reduce land costs nor that that would reduce house prices, as in the main these are set by household spending power (of those that are buying). Taxation of land would not reduce the cost of land to the developer but may restrict supply of land for development. If there was a net increase in overall taxation (by introducing a land tax) then that would dampen house prices and provide more resources for object subsidy for social housing, but it can be argued that greater income tax would be a more progressive and reliable method than a land tax.

[ii] In its simplest form the taper for a PRS tenant would be an extension of the HB taper (steep 65%) until market rent, LHA rent cap, or total welfare benefit cap was reached. The tenant placed in PRS with low income would be on a much steeper taper than the flexible rent taper (which we propose at 23%). Our recommendation is that we introduce three solutions, which can operate in parallel. One is for increased supply of flexible rent stock by social landlords so that these households do not move into, or move out of, the traditional PRS sector; another is for social landlords top acquire the PRS dwellings (much like the programmes of the 1970s); and another is for social landlords to acquire a share of the buy to let landlord's equity so that, amongst other conditions, a sub-market rent based on flexible rent, can be offered.