

# BSHF Submission to the Spending Review 2010

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# Summary of proposals

This submission contains significant contextual information on the proposals we are submitting as part of the Spending Review process, as well as appendices developing some of the ideas further. Whilst the proposals are gathered together here for ease of reference, for full understanding, including details of the evidence and analysis that have led to the development of the proposals, they should be read in conjunction with the rest of the submission.

## Section 1: Support with housing costs

- Steps should be taken to neutralise the advantageous tax treatment of owner occupation, in relation to private renting. The foregone income from this benefit to owner occupiers represents a substantial cost to the government (£15.9 billion to £28.4 billion per year), which cannot be justified in a period where the government is seeking to quickly cut the budget deficit. This could take the form of the reintroduction of Schedule A taxation on imputed rents combined with a restructuring of property and land taxes, with the effect of taxing capital value on an annual, rather than transactional, basis.
- In general, housing benefit expenditure should not be cut significantly in the short term, as resulting problems (including increased homelessness and other poor housing outcomes) will be created elsewhere, the economic consequences of which are likely to outweigh any savings achieved. The majority of the recent increase in housing benefit expenditure is due to increasing number of claimants which in turn is likely to be due to increased unemployment. A reduction in claimant numbers through lower levels of unemployment provides the most effective option for reducing housing benefit expenditure in the short term.
- Some of the negative impact of the alterations to the housing benefit system proposed in the emergency budget of June 2010 could be reduced by adopting a more nuanced approach. For example, if the government wishes to restrict housing benefit claimants to the lower end of the private rented sector in a given area, the percentile cap should be set differentially according to the claimant rate in an area. Capping the local housing allowance at the 30<sup>th</sup> percentile of rents in an area where 35 or 40 per cent of private renters are claiming housing benefit will inevitably result in a proportion of

claimants being unable to find accommodation within their benefit entitlement.

- An alternative method of mitigating at least some of the harmful effects of the proposed changes to the housing benefit system would be to have a phased introduction. The proposed caps will have a significant impact on affordability of housing in many areas, particularly in central London, which will affect both individual households and the wider social infrastructure. A phased introduction would not resolve all of the problems but would at least give local areas (including schools, healthcare and other public services) the chance to adjust over a period of time, as they experience significant changes to the makeup of the area.
- The proposed increase to the non-dependant deductions to housing benefit should be reconsidered due to their potential cost to the government. It could encourage the non-dependants (typically grown up children) to leave home; if they are also entitled to housing benefit the state may end up paying housing benefit in respect of the rent on extra properties, and see its expenditure rise rather than fall.
- Both the purpose and operation of the housing benefit system should be simplified. In simplifying the operation some savings could be made in the administration of the benefit. Details of the basis for a simplified **purpose** for housing benefit are contained in Appendix A. A draft proposal for simplifying its **operation** is contained in Appendix B.
- One saving that should be examined relating to housing benefit relates to repealing earlier housing benefit systems. This would not only increase the equity of the system but also generate savings with the removal of more generous older systems. A period of transition and/or forewarning would be advisable to give claimants chance to adjust to the changes, with a clear timetable to ensure that within a limited and known period all claimants would be on one system.
- Revenue support with housing costs for owner occupiers losing employment should be enhanced through the introduction of SHOP for all new borrowers and re-mortgagers.

## Section 2: Housing supply

- Amend the Right to Buy scheme to ensure that most or all of the receipts from sales are recycled into providing new social rented housing stock.

- 
- Rebalance capital and revenue subsidies, to provide greater investment in the development of a long-term social housing asset for the nation.
  - Revisit 'best consideration' rules to ensure they are not preventing public bodies from making innovative use of their land assets as subsidy during a period when other sources of subsidy are constrained.
  - Increase the provision of desirable accommodation purpose built for older households, to free up family homes and make better use of the existing stock. Where appropriate, these properties should be located in or near to existing communities to give those downsizing the option of doing so without moving out of the area. Work to increase this provision should feature delivery of homes in a range of tenures, including investment in provision of social rented homes of this type.
  - Switch the UK to the GGFD system of accounting in a phased manner, to better reflect the status of local authorities' landlord functions and safeguard the status of housing association debt as off-balance-sheet.
  - Conclude the reform of the housing revenue account.
  - Consider the merits of existing innovative structures that housing associations and local authorities have established to deliver housing for communities, and if appropriate support their wider adoption.
  - Support the establishment of a housing innovation agency, to conduct experiments into housing provision.
  - Provide support for housing delivery mechanisms that harness the efforts of members of communities, such as self-help housing, as part of the Big Society programme.
  - Ensure adequate investment in the provision of Gypsy and Traveller accommodation to avoid the unnecessary expense that would be incurred as a result of under-provision.

### **Section 3: Environmental measures**

- Investigate the potential to move from the poorly-targeted system of Winter Fuel Payments to methods of tackling fuel poverty that seek to address the root cause by improving the energy performance of properties, and consequently aid environmental performance as well. The cost of a retrofitting programme for households in fuel poverty would be similar to

that of the Winter Fuel Payments, and in the longer term, once the properties were retrofitted, actual savings would accrue.

- Establish Pay As You Save schemes. Limited state investment in creating the frameworks to make such schemes viable is likely to be more than offset by the savings from reduced unemployment as people find jobs to undertake the retrofitting work, funded by private investment by householders and financed by loans.

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# Background

In June 2010 the Chancellor of the Exchequer announced details of a Spending Review, reporting in autumn 2010 (SR 2010). The government provided an outline for spending plans in the emergency budget of June 2010; it has made clear that it intends to significantly cut public expenditure, stating that “Reducing the budget deficit is the most urgent issue facing Britain”<sup>1</sup>.

BSHF is an independent housing research charity committed to ensuring that everyone has access to decent and affordable housing and holds Special Consultative Status with the United Nations Economic and Social Council. Since 1994 BSHF has organised an annual series of Consultations at St George’s House, Windsor Castle, on a range of housing issues, bringing together diverse ranges of experts for in-depth discussion and consideration of an important housing issue of the day. Several of these Consultations have informed our thinking in this submission, most notably our Consultation in June 2010 on support with housing costs and the 2009 Consultation on The Future of Housing<sup>2</sup>, both of which were chaired by Lord Richard Best.

The work of BSHF covers housing in its broadest sense. Although much housing responsibility falls under the Department for Communities and Local Government (CLG), some areas are covered by other government departments. In relation to BSHF’s recent work on support with housing costs, the Department for Work and Pensions (DWP) is particularly relevant with its responsibility for housing benefit and support for mortgage interest. Therefore:

- Section 1 is most relevant to the work of the **Department for Work and Pensions**
- Section 2 is most relevant to the work of **Communities and Local Government**
- Section 3 is most relevant to the work of the **Department for Energy and Climate Change**

# Section 1: Support with housing costs

## 1.1 Context

The current housing support system was described in the Hills Review of the roles of social housing which stated that: “In principle, there is a wide range of different forms that housing support can take, of which provision of housing by not-for-profit landlords at sub-market rents is only one. However, the system in England is dominated by just three:

- means-tested housing benefit;
- provision of social housing at below-market rents;
- and favourable taxation of owner-occupiers.”<sup>3</sup>

The Hills Review refers elsewhere to income support for mortgage interest (ISMI), now called support for mortgage interest (SMI); it is excluded from the list of dominant support as the overall bill for SMI is significantly smaller than the other forms of support.

Although the remit of the Hills Review related to England only, the broad description of the types of housing support holds true across other parts of the UK.

Capital subsidies and the provision of social rental housing at below-market rents are addressed separately in Section 2 of this submission, which is focused on housing supply.

### 1.1.1 Favourable taxation of owner occupation

The third of the forms of housing support identified by Professor Hills is notable for the limited attention it receives in policy-making discussions. The amount of income that is foregone by the favourable taxation treatment of owner occupation is comparable in scale to the total housing benefit bill. The tax reliefs to owner occupiers have been estimated at between £23.7 billion and £28.4 billion per year for the years from 2002/03 to 2007/08, although with the recent economic downturn the estimate has fallen to £15.9 billion for 2008/09<sup>4</sup>. The specific tax advantages included within those estimates are the

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absence of a tax on imputed rents (the old Schedule A tax) and the fact that principal residences are exempt from Capital Gains Tax (CGT).

It should be noted that there would be unintended consequences in applying CGT to principal residences. Briefly, applying CGT without any roll over relief would significantly hinder mobility; however introducing CGT with roll over relief would mean it would typically only be paid by households that were downsizing, which would create a disincentive to moves that free up larger homes. Consequently, we are not proposing the imposition of CGT on principal residences. Harmonising the taxation treatment of the tenures whilst avoiding these negative consequences might instead require a more substantial restructuring of property taxation, for example along the lines of a property or land value tax that would apply across tenures, and could perhaps replace both CGT and Council Tax.

Reintroducing Schedule A taxation would not create the same perverse incentives that CGT on principal residences would. Consequently, the reintroduction of a tax on imputed rents, such as Schedule A, is worthy of careful consideration.

A tax on imputed rents reflects the fact that in owner occupation the landlord and tenant are effectively conflated into one individual. This can be understood by way of an example: consider two people, A and B, who each own a property. If A lives in B's property, and B lives in A's, each would pay rent to the other (and that rent would be taxable income). But if A and B are both owner occupiers, no money changes hands; there are still two owners and two occupiers, but there are no actual transactions. The equivalent transactions are A paying rent to A and B paying rent to B. The amount that would have been paid had the owner and occupier been different people is the imputed rent.

Figure 1 summarises some of the key taxation treatment that applies to private sector housing, including owner occupation and the private rented sector. It includes taxation that applies across the sectors, irrespective of the party that is charged it: for the private rented sector it includes both taxes that are paid by landlords and those paid by tenants, for best comparison with owner occupation, where effectively the owner occupier fills both roles. It should be noted that the ultimate incidence of taxation does not necessarily fall on those who are charged it: tenants may end up effectively paying for a tax levied on landlords if it is passed on in higher rents, or landlords may end up bearing the cost of a tax paid by tenants if it acts to force rents down. Consequently it makes sense to consider the taxation of the private rented sector as a whole.

**Figure 1 – Summary of taxation treatment of private tenures**

Key

Tenure is favoured	Neutral	Tenure is disadvantaged
--------------------	---------	-------------------------

Tax	Owner occupation	Private rented sector
Capital Gains Tax	No. (Primary residences exempted.)	Yes.
Taxation on rent	No. (This was the Schedule A tax on imputed rent, which was removed in 1963.)	Yes.
Offset expenditure against income tax	No. (But as owner-occupiers are not being charged income tax on imputed rent there is nothing to offset against.)	Yes – mortgage interest as well as repairs and maintenance.
Stamp duty land tax (SDLT)	Yes.	Yes. (The rules relating to linked purchases mean that one landlord buying several properties may have to pay SDLT at a higher rate than several owner occupiers each buying one property. <sup>5</sup> )
Council tax (not a housing tax, but loosely related to property prices)	Yes.	Yes.
VAT on new construction	No.	No.
VAT on repairs	Yes. (Reduced rate for some conversions, renovations and installations.)	Yes. (Reduced rate for some conversions, renovations and installations.)

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Detailed proposals for a property or land value taxation charged to owners would need to consider the impact on the social rented sector. As a not-for-profit sector it would, of course, be possible to consider a different taxation treatment for social landlords to the one harmonised for owners in the market sectors.

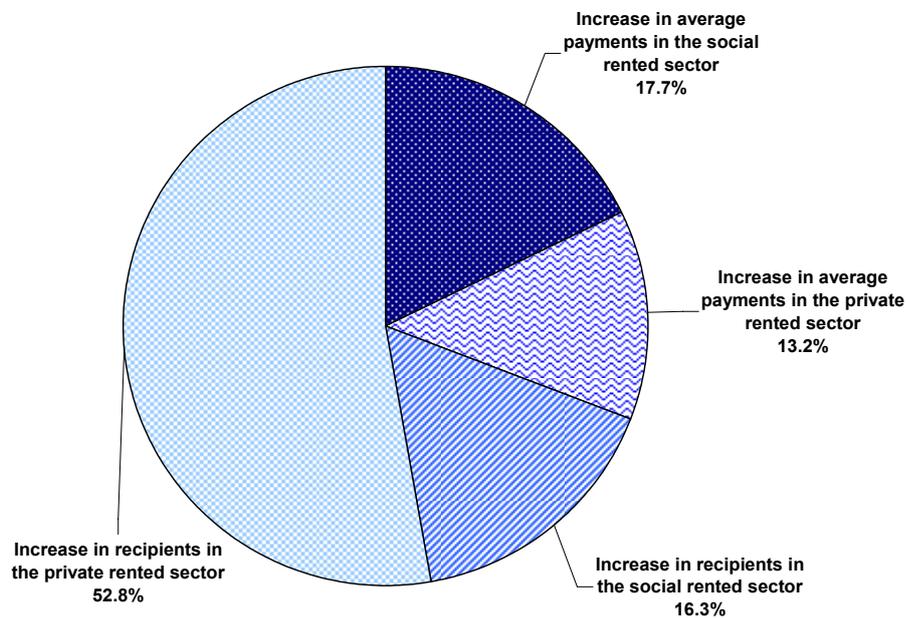
An alternative housing taxation system could also help to address the long term issue of house price volatility, addressed elsewhere in this paper. The Housing Market Taskforce<sup>6</sup>, coordinated by the Joseph Rowntree Foundation is considering these issues and their findings will be worthy of careful consideration.

## **1.1.2 Housing benefit – revenue support in the private and social rented sectors**

### **1.1.2.1 Why is the cost of housing benefit increasing?**

The housing benefit bill has increased in recent years. Prior to the recession the bulk of this increase was due to increases in rents; in the decade to 2006, for example, the number of recipients in the private rented sector fell by 21 per cent from 1,066,000 to 838,000, while their average weekly housing benefit increased by 47 per cent, from £58 to £85<sup>7</sup>. More recently, however, the majority of the increase has been due to the increasing number of recipients, as shown in Figure 2 below.

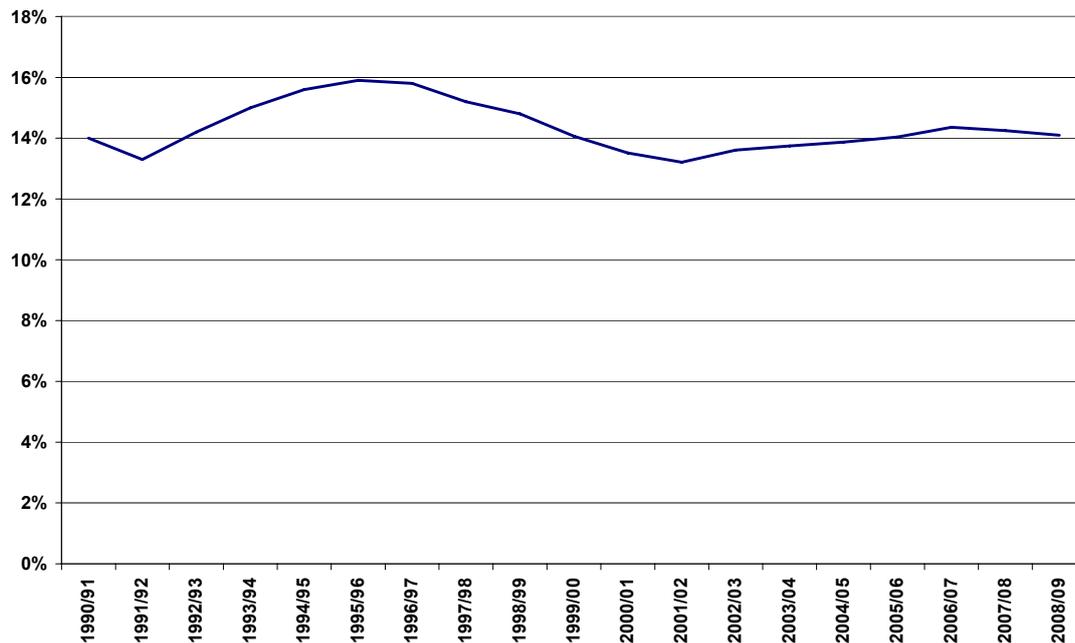
**Figure 2 – Proportion of the increase in the housing benefit bill due to different factors, November 2008 to April 2010<sup>8</sup>**



In the period covered by the figure, November 2008 to April 2010, the number of housing benefit recipients increased by 579,000.

It is important to note that, despite the increase in the cost of housing benefit, as a proportion of government expenditure on benefits and tax credits housing benefit has remained relatively stable at around 14 per cent of the total for the last twenty years (see Figure 3 below).

**Figure 3 – Housing benefit as a percentage of total benefits and tax credits, Great Britain<sup>9</sup>**



As currently structured, housing benefit is inherently responsive to the economic cycle: as expected, the cost has risen in a downturn. This does not represent a flaw in the system, it represents an element of the country's welfare provision responding to an increasing number of people needing support in tough economic times.

### **1.1.2.2 The impact of the housing benefit changes announced in the emergency budget**

The emergency budget of June 2010 included a number of measures intended to reduce spending on housing benefit. BSHF has previously published a more detailed analysis of the likely impact of those measures.<sup>10</sup> In summary, whilst the government's aspirations to undertake the important task of reforming the UK's unduly complex system for support with housing costs are commendable, several of the mechanisms adopted in the budget give cause for concern. There is a risk they will:

- Have unintended consequences that act to negate the public expenditure savings that are expected;
- Fail to meet one of the stated aims of the budget which was to support the most vulnerable;
- Undermine the core purposes of housing benefit, of providing access to affordable housing and protecting residual income (the amount of money people have left to live on);

- In the longer term, concerns will centre on the potential for the creation of Parisian-style *banlieues*, areas on the outskirts of the city with concentrations of deprivation, while the city centre becomes exclusively for the very well off.

The possibility that the changes may have unintended consequences that act to minimise the public expenditure savings deserves particular attention. If the changes merely shift public expenditure from one budget (housing benefit) to others (e.g. homelessness prevention or healthcare) then they will be difficult to justify. For example, if changes lead to households being made homeless, local authorities will see increased homelessness workloads, and hence expenditure. As well as the social costs of this, there are clear economic costs: a report for Business Action on Homelessness found that the annual cost to the state of a homeless person is £26,000<sup>11</sup>; this estimate is likely to be on the low end of the scale, as the study used conservative estimates, including studying a subset of the homeless population that was likely to be ready for work. More generally, various studies have identified substantial costs to society and the state resulting from poor housing. Most recently Roys et al's analysis<sup>12</sup> estimated that the cost to society of issues related to housing failing to meet the statutory minimum standard for housing in England may be greater than £1.5 billion per year, while Friedman<sup>13</sup> examined several costs related to the impact of poor housing, and concluded:

- Costs assessed for a basic police response to crimes related to poor housing conditions, plus the costs of burglary and criminal damage in these cases amount to **£1.8 billion per annum**;
- The cost of treating medical conditions associated with poor housing conditions (excluding loss of earnings and any other related forms of treatment or therapy) is **nearly £2.5 billion per annum**;
- There is strong evidence that poor housing conditions result in educational underachievement. Purely based on differences in GCSE results, lost earnings of **£14.8 billion pounds** were forecast for the current generation in poor housing.

### 1.1.2.3 Simplification of the purpose and function of housing benefit

In general, there are opportunities to simplify the housing benefit system, both in terms of its purpose and its operation.

The **purpose** of housing benefit is ill-defined and there is a myriad of beliefs about what the purpose of the scheme is or could be. The following have all seriously been proposed as existing or potential functions of housing benefit:

- 
- Improve access to decent, affordable housing for households on low incomes;
  - Provide a safety net for low income households experiencing increases in housing expenditure or decreases in income;
  - Improve the standard of accommodation in the private rented sector;
  - Act as a key tool for incentivising work, by making the benefit more conditional on seeking work;
  - Provide support to social landlords' balance sheets by providing a known income stream from government, effectively providing guarantees to lenders;
  - Stimulate the continuing supply of homes in the private rented sector;
  - Encourage savings;
  - Encourage home ownership;
  - Encourage reform of the social rented sector;
  - Provide sustainable employment in the construction sector through the production of additional homes, especially for lower qualified workers.

The housing benefit system is attempting to achieve too many objectives. A simplified purpose for housing benefit would make it easier to assess whether any given proposal helps or hinders its aims. Given the list above, it is clear that any proposal made to alter the housing benefit system could simultaneously improve its function in some respects and worsen it in others. One proposal for a simplified purpose for housing benefit is that it should improve access to decent, affordable housing for all households on low incomes and to function as a safety net for these households against increases in housing expenditure or decreases in income. More detailed discussion of this issue can be found in Appendix A.

Simplifying the **operation** of the housing benefit system could have advantages for claimants and the state alike. A simpler system could be devised that would be more readily understandable by claimants and their advisers, simpler to administer and less sensitive to small changes in circumstances. It might also help to address some of the problems of housing benefit as an in-work benefit: only 38 to 51 per cent of those in employment who are entitled to claim housing benefit do so, compared to 90 to 96 per cent of those not in employment<sup>14</sup>. More detailed discussion of simplifying the operation of housing benefit can be found in Appendix B.

One option for simplifying the system would be to unify all claimants under one system, rather than operating on a variety of historical rules. A series of older systems remain in place for housing benefit claimants whose claim was in effect when the system changed – the earliest of these dates back to pre-January 1989, but other significant changes include those made in January and October 1996

and the 2008 move to the local housing allowance system. As well as creating greater equality between tenants' payments and hugely simplifying the system this move would also save money, as the older systems were typically more generous.

One option for keeping levels of housing benefit down, that would avoid many of the adverse impacts, would be for local authorities to improve their private rented sector leasing arrangements. Particularly in low demand areas, local authorities may be able to negotiate deals for longer term lets of properties, reflecting the landlord's reduced exposure to void periods. This has been attempted in Ireland, with local authorities in areas with relatively weak market demand reporting some success in negotiating reduced rents<sup>15</sup>.

### 1.1.3 Revenue support for owner occupiers

Owner occupiers are not entitled to claim housing benefit. At present, support for mortgage interest (SMI) is available to owner occupiers experiencing loss of income, with constraints on the amount that can be claimed and the times at which it can be claimed. Given that current government policy is to reduce spending rapidly, there is little chance that housing benefit will be extended to owner occupiers in the near future.

In any event, there are significant differences between owner occupation and renting; as well as the favourable taxation treatment of owner occupation, the tenure provides both consumption and investment opportunities. Although support systems can be designed that seek to address these issues (for example by only providing support for the interest component of mortgage payment, not the capital repayment), these differences warrant the continued distinct treatment of owner occupation in the housing support system, certainly until and unless the taxation treatment is harmonised, and potentially in the longer term.

That does not mean, however, that the current very limited support with housing costs that is available to owner occupiers experiencing difficulties (aside from their existing beneficial taxation treatment) should be left unaltered.

An alternative proposal that merits close attention is the Sustainable Home Ownership Partnership (SHOP), designed by a team at the University of York for the Joseph Rowntree Foundation<sup>16</sup>. In brief, participation in SHOP would be compulsory for all new and remortgaging borrowers, with contributions providing insurance against loss of employment. Three parties would contribute

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to the scheme – the borrower would pay 50 per cent of the cost, and the lender and government would pay 25 per cent each.

One option for less fundamental reform of SMI would be to introduce geographical variation into the rates paid. At present SMI is based on actual eligible mortgage levels, subject to a single national limit of £200,000. In a forthcoming paper for the Joseph Rowntree Foundation, Professor Steve Wilcox will argue that “[given] the extent to which mortgage costs vary across the country it is difficult to see the rationale for a single national limit. While that limit might bear in on households in London (with limited options to trade down unless they move out of London); it would be relatively generous in other parts of the country.”<sup>17</sup>

## 1.2 Proposals

- Steps should be taken to neutralise the advantageous tax treatment of owner occupation, in relation to private renting. The foregone income from this benefit to owner occupiers represents a substantial cost to the government (£15.9 billion to £28.4 billion per year), which cannot be justified in a period where the government is seeking to quickly cut the budget deficit. This could take the form of the reintroduction of Schedule A taxation on imputed rents combined with a restructuring of property and land taxes, with the effect of taxing capital value on an annual, rather than transactional, basis.
- In general, housing benefit expenditure should not be cut significantly in the short term, as resulting problems (including increased homelessness and other poor housing outcomes) will be created elsewhere, the economic consequences of which are likely to outweigh any savings achieved. The majority of the recent increase in housing benefit expenditure is due to increasing number of claimants which in turn is likely to be due to increased unemployment. A reduction in claimant numbers through lower levels of unemployment provides the most effective option for reducing housing benefit expenditure in the short term.
- Some of the negative impact of the alterations to the housing benefit system proposed in the emergency budget of June 2010 could be reduced by adopting a more nuanced approach. For example, if the government wishes to restrict housing benefit claimants to the lower end of the private rented sector in a given area, the percentile cap should be set differentially according to the claimant rate in an area. Capping the local housing allowance at the 30<sup>th</sup> percentile of rents in an area where 35 or 40 per cent of private renters are claiming housing benefit will inevitably result in a proportion of

claimants being unable to find accommodation within their benefit entitlement.

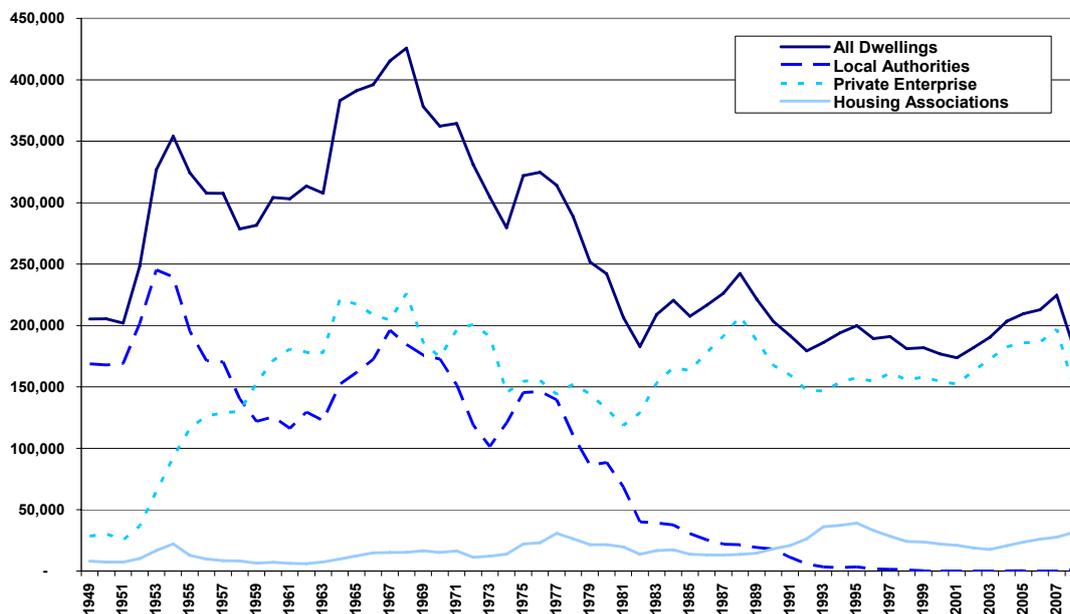
- An alternative method of mitigating at least some of the harmful effects of the proposed changes to the housing benefit system would be to have a phased introduction. The proposed caps will have a significant impact on affordability of housing in many areas, particularly in central London, which will affect both individual households and the wider social infrastructure. A phased introduction would not resolve all of the problems but would at least give local areas (including schools, healthcare and other public services) the chance to adjust over a period of time, as they experience significant changes to the makeup of the area.
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- Both the purpose and operation of the housing benefit system should be simplified. In simplifying the operation some savings could be made in the administration of the benefit. Details of the basis for a simplified **purpose** for housing benefit are contained in Appendix A. A draft proposal for simplifying its **operation** is contained in Appendix B.
- One saving that should be examined relating to housing benefit relates to repealing earlier housing benefit systems. This would not only increase the equity of the system but also generate savings with the removal of more generous older systems. A period of transition and/or forewarning would be advisable to give claimants chance to adjust to the changes, with a clear timetable to ensure that within a limited and known period all claimants would be on one system.
- Revenue support with housing costs for owner occupiers losing employment should be enhanced through the introduction of SHOP for all new borrowers and re-mortgagers.

# Section 2: Housing supply

## 2.1 Context

Under-supply of housing generally in the UK is widely considered to have significant negative social and economic impacts, perhaps most notable of which are high and volatile house prices<sup>18</sup>. There has also been a particular problem producing sufficient social rented housing over the last 30 years (Figure 4), since local authority housing development dropped to close to zero and housing association development failed to replace that lost stream of development. This under-supply has resulted in 1.77 million households on social housing waiting lists<sup>19</sup>, constraining access to the sector and consequently contributing to its residualisation, resulting in what Iain Duncan Smith has referred to as a “housing system [that] has ghettoised poverty, creating broken estates where worklessness, dependency, family breakdown and addiction are endemic”<sup>20</sup>.

**Figure 4 – House building in the UK, permanent dwellings completed, by tenure, 1949 to 2007<sup>21</sup>**



Last year BSHF published *The Future of Housing* which highlighted almost 40 possible options that might contribute to an increase in housing supply<sup>22</sup>. Some of the most well developed and widely supported proposals from that report and elsewhere are outlined below. Further ideas that merit consideration include: efforts to make use of the equity in the balance sheets of non-

developing housing associations; the possibility of social landlords being enabled to take a more flexible approach to asset management (for example selling off some stock at market rates as it becomes vacant and reinvesting in new homes); and the possibility of social landlords participating in the market rental sector to increase the delivery of well-managed housing stock, potentially cross-subsidising their social rented stock.

The limited supply of housing is a major structural issue that requires urgent and sustained attention from both government and other stakeholders from across the UK housing system.

### 2.1.1 Right to Buy

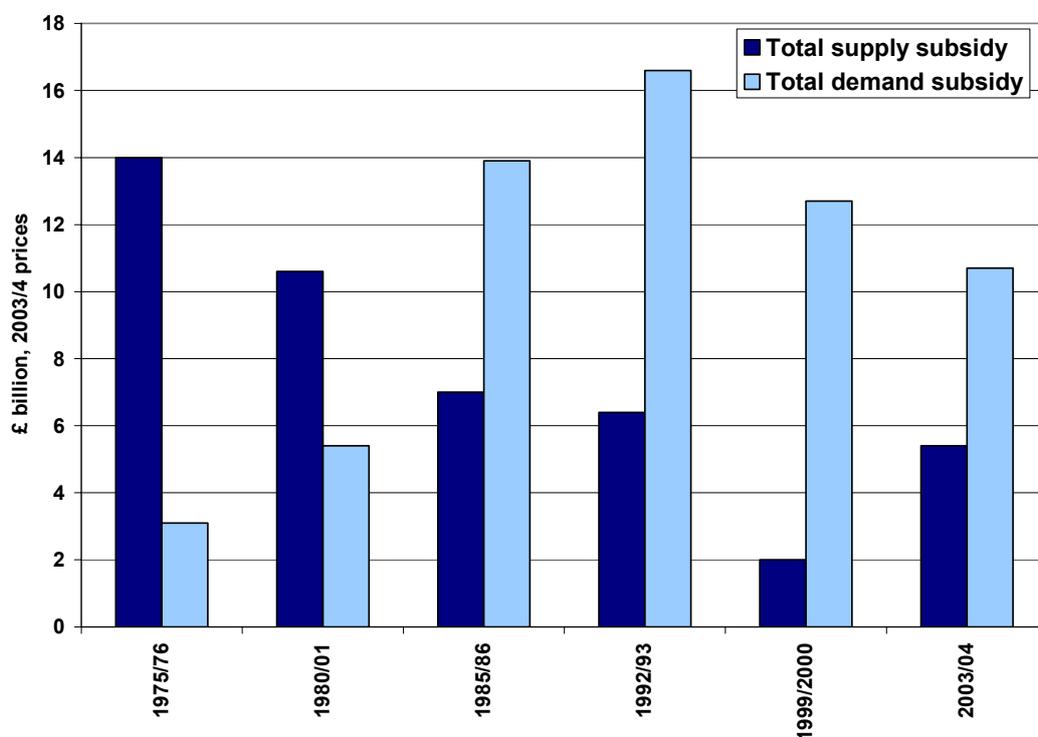
The Right to Buy policy has contributed to local authorities' reluctance to develop housing, as any homes developed and rented would come with a risk attached of a subsequent sale at a discount, with only a fraction of the sale price being received by the local authority. More recently, in the recession we have seen the private housing development sector collapse, with only 83,610 starts in the UK by private enterprise in 2008-09, down from a peak of 204,130 in 2005-06.<sup>23</sup>

Some of the problems associated with the Right to Buy policy could be mitigated if the receipts were recycled into providing new stock, i.e. if local authorities received most or all of the sale price of the home and used it to develop replacement housing stock available for social rent. This would mirror a process already in place in the housing association sector, whereby proceeds from the Right to Acquire must be retained in a ring-fenced Disposal Proceeds Fund<sup>24</sup> the main objective of which is to provide replacement properties for social rent<sup>25</sup>.

### 2.1.2 Capital subsidy

The balance between supply side and demand side subsidies<sup>26</sup> has changed significantly over recent decades. As shown in Figure 5 below, in 1975 more than 85 per cent of housing subsidies were supply-side, and by 2000 more than 85 per cent were demand-side (although this trend reversed somewhat in subsequent years).

**Figure 5 – Housing subsidy (constant prices), England, Selected Years between 1975/6 and 2003/4<sup>27</sup>**



There is a need to reassess the balance of subsidies if the supply of affordable housing is to be increased. In the short-to-medium term, investment in constructing housing would also have broader benefits to the economy, including retaining skills and employment opportunities within the construction industry at a time when private development has contracted significantly.

### 2.1.3 Land as subsidy

Since, at present, the government is seeking to constrain and reduce public expenditure, there are benefits in considering what other resources the state has available to be able to ensure the continued delivery of new housing. Public bodies, including some local authorities and the Homes and Communities Agency (HCA), have substantial land holdings that could be used as a form of subsidy for a project where insufficient cash grants would be available.

The “best consideration” rules place significant restrictions on the ability of public bodies to dispose of land “for less than the best consideration that can reasonably be obtained” (i.e. below market values). These rules could be revisited to allow public bodies to make better use of this important resource at a time when access to financial resources is being constrained.

## 2.1.4 Under-occupation

Under-occupation is the term used to describe households that have homes larger than they would typically need for the number and relationship of people occupying the dwelling (for example, a couple occupying a four bedroom house). An alternative term, over-accommodation, is used to describe the same phenomenon in legislation relating to housing benefit; as an aside, it would generally be helpful if there was more consistency in the terminology adopted between the various fields.

Under-occupation occurs in all tenures. Many of those under-occupying homes are older people whose families have moved out. If levels of under-occupation were reduced, more households would be able to obtain housing suitable to their needs within the existing stock.

Although persuading under-occupying households to move to a smaller house would help to respond to pressing needs for larger homes, any attempt to deal with under-occupation must allow people to make their own choices and be sensitive to people's bonds to the homes that they may have occupied for many years.

Policy-makers are understandably reluctant to use tools of compulsion to try to force people out of their homes, be they tenants or owner occupiers. A much more acceptable approach to achieve the same ends would be to provide an attractive alternative housing offer so that people under-occupying their homes voluntarily chose to move.

A focus on creating housing that would be appealing to older people currently occupying family homes would be a particularly useful response to issues of under-occupation. An attractive offer might include communal guest flats, as those under-occupying often do so to have space for family to visit. In considering such an offer it is important to remember that the under-occupied property will often be more than just a house – it will be a home, with feelings and memories attached. This implies that the replacement will have to be exceptionally appealing, if it is to prove desirable enough to attract people out of their homes.

Another consideration in the provision of an appealing housing offer for those under-occupying their current homes is the location. A supply of purpose-built accommodation located close to existing residential areas (especially those with significant incidence of under-occupation) would allow people to move into alternative accommodation without having to move neighbourhood and lose important family and social ties. Where the developments are made available

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for social rent, very local lettings policies could be adopted to ensure flexibility of letting.

As under-occupation can occur in all tenures it will be important to ensure that measures designed to address this issue are aimed across the range of tenures. Those downsizing may, however, use the move as an opportunity to change tenure too. The delivery of some of this housing as shared equity or shared ownership could be an important niche offer and may be one where the private sector/institutional investment could be more active.

### **2.1.5 Classification of housing association and local authority housing debt**

The classification of housing associations' debt, and the potential for it to be reclassified as part of the national debt, puts their long-term ability to continue borrowing to finance supply in jeopardy. (Indeed, the reclassification of housing associations' debt onto the public debt creates risk for the nation's finances more generally.) At present housing associations are not classified as public bodies for the purposes of the public accounts, so their borrowing is excluded from the national debt. Housing associations are, however, considered to be public bodies in some senses, for example in the case of Weaver vs. London and Quadrant Housing Trust, it was found that the provision of social housing is a "function of a public nature" for the purposes of the Human Rights Act. If housing associations are increasingly viewed as public bodies for their various functions, there may come a point where it is deemed that they should also be classified as public bodies for accounting purposes.

Fortunately, there is an alternative accounting system that would better reflect the continuing independence of housing associations. At present the UK adopts the public sector net cash requirement (PSNCR) accounting rules (previously known as the public sector borrowing requirement, or PSBR). An alternative accounting method, known as the general government financial deficit (GGFD), is used throughout much of Europe, so its adoption would not be without precedent or be untested. However, it should be acknowledged that a sudden change of accounting standards in the middle of a downturn might create a negative impression, so a phased and pre-announced approach should be adopted to moving over to GGFD. For example, the two methods could be announced as running alongside one another for four years, with figures from each being announced simultaneously; the existing standard could be retained as the official one for the first two years, switching to the new system for the remaining two years. This would make it clear that the change is part of a

genuine desire to better reflect the structure of the economy, rather than a trick to conceal any information.

A move to GGFD accounting would have further benefits as housing provision by local authorities would be considered a trading activity, and consequently also be excluded from the national debt. That would empower local authorities to borrow against their housing assets where appropriate, which could finance additional housing delivery.

### 2.1.6 Innovation in housing delivery

Local Space Housing Association was set up in 2006 with support from the London Borough of Newham and now owns over 1,600 properties<sup>28</sup>. It has adopted an innovative model for providing 'temporary to permanent' housing for homeless people, funded by loans secured against existing stock and the expected income stream from housing benefit. This form of innovation was designed to create a long term stock of property that is available for the public benefit at a cost no higher than simply housing the tenants in the private rented sector. Although BSHF has not reviewed the operations of this organisation in detail, its innovative approach appears worthy of further analysis and wider roll-out should it prove successful.

In the local authority sector, constraints on innovative delivery of housing include the limits on their ability to borrow to fund development and the current structure of the housing revenue account. One response to the current problems of undersupply of housing could be to facilitate local authorities becoming significant players in housing development again.

Experience has demonstrated the potential pitfalls associated with creating large mono-tenure council estates. Encouraging development by local authorities does not necessarily imply a return to this type of development. Local authorities could play a number of different roles in the development process. This might include taking a leading role in organising development in partnership with other stakeholders with some of the stock to be used in the private rented or owner occupied sectors. Local authorities could seek to use the market-priced elements of a development to cross-subsidise social-rented or affordable housing on the site.

Using suitable vehicles, local authorities can own intermediate rental homes (those cheaper than private rents but more expensive than social rents) and even market rental properties. Woking Borough Homes Limited is a company wholly owned by Woking Borough Council through which the Council has a

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programme of purchasing properties to be let at an intermediate rent, currently set at approximately 80 per cent of the open market rent<sup>29</sup>. Woking Borough Homes also reserves the powers to place homes on the open market for either sale or rental<sup>30</sup>.

Whilst in general it would be useful to investigate the possibility of social landlords providing housing at a variety of rental prices as part of their efforts to increase supply, this must not be at the expense of meeting the housing needs of the most vulnerable. Whilst the case can be made for this type of supply meeting the need of those squeezed out of the owner occupied and private rented markets it is also important that a focus on housing need is retained, for example ensuring that nominations of homeless households can still be made.

More generally, if it is felt to be desirable for social landlords to participate in the provision of housing at a variety of rents, there is the potential to remove the need for relatively complex legal structures, and replace them with the ability for landlords to manage these housing assets within their own stock.

The public sector, including local authorities, could also take a more active role in masterplanning. This might be achieved by their assembling land for development, investing upfront in infrastructure, and dividing it into parcels for development by a range of providers. This process could be used both to increase the build out rate and to introduce a diversity of types of providers. Build out rates would be enhanced by bringing a larger number of mainstream developers onto large sites. Diversity could be increased by allocating a proportion (say 10 per cent) of each large site for development by co-operatives or self builders, although this would require coordination to ensure that the development of infrastructure was properly managed.

Other nations have housing innovation agencies, most notably The Netherlands with SEV, (Housing Experiments Steering Group)<sup>31</sup>. A housing innovation agency could experiment across all areas of housing, including with tenure, financial models and construction techniques. Identifying new and better ways of delivering the additional quantity and quality of housing could also deliver long term savings.

### **2.1.7 Mainstreaming marginal delivery structures**

A number of alternative housing models already exist in the UK or play a significant role in the housing systems of other countries. These may be able to play a more substantial role if they are given the right type of support or have barriers to their development removed. These models include:

- **Sweat equity**, where people contribute their time and effort towards providing their own housing instead of financial equity;
- **Community land trusts**, that seek to provide long term affordable housing for a particular community;
- **Self build**, where individuals take a leading role in the design and/or building of their housing;
- **Housing co-operatives**, which jointly own and democratically manage housing stock.

These housing models, and others like them, account for only a fraction of the housing stock in the UK unlike some other countries in Europe or North America where they are much larger, both in terms of total numbers<sup>32</sup> and as proportions of the stock<sup>33</sup>. There is the potential in the UK for many more residents to be attracted by the opportunity to develop long-term affordable housing in sustainable local communities. Building up the necessary social and financial capital to develop these models takes significant amounts of time and effort and they are unlikely therefore to contribute large amounts of new stock in the near future. In the past this has often led to these models being marginalised and institutional barriers have made it difficult for them to increase. Government support for the Big Society could be directed towards supporting the establishment of self-help projects.

It is important to ensure that those developing housing using innovative models can access finance. It may be appropriate for special lines of credit to be made available for co-operative and self-help housing, which occurs in other countries, for example through the German Federal Bank.

Some of these models can have wider social and economic benefits. Schemes that train NEETs (young people not in employment education or training) to bring empty properties back into use can develop their skills, improving their employment prospects, at the same time as delivering much-needed housing.

### 2.1.8 Gypsy and Traveller accommodation

In 2009 BSHF published the findings of a study into the costs of under-supply of Gypsy and Traveller accommodation across Leicestershire<sup>34</sup>. The report echoed earlier studies, including that of Morris and Clements<sup>35</sup> which covered the whole country, and demonstrated that local authorities still incur significant expenditure for every pitch that is under-supplied in their area. In contrast, the report also echoed the possibility of generating income where sites are provided, identified by Niner and Walker<sup>36</sup>.

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BSHF's research used very conservative figures, assessing only the costs incurred by local authorities, excluding all other expenditure incurred by the state, the costs incurred by Gypsies and Travellers themselves, and the social costs.

Measures, including budgetary measures, that act to limit the supply of suitable Gypsy and Traveller accommodation are counter-productive and will result in significant additional expense to the state and to Gypsies and Travellers, not to mention the social impacts felt both by travelling communities and the wider population.

## 2.2 Proposals

- Amend the Right to Buy scheme to ensure that most or all of the receipts from sales are recycled into providing new social rented housing stock.
- Rebalance capital and revenue subsidies, to provide greater investment in the development of a long-term social housing asset for the nation.
- Revisit 'best consideration' rules to ensure they are not preventing public bodies from making innovative use of their land assets as subsidy during a period when other sources of subsidy are constrained.
- Increase the provision of desirable accommodation purpose built for older households, to free up family homes and make better use of the existing stock. Where appropriate, these properties should be located in or near to existing communities to give those downsizing the option of doing so without moving out of the area. Work to increase this provision should feature delivery of homes in a range of tenures, including investment in provision of social rented homes of this type.
- Switch the UK to the GGFD system of accounting in a phased manner, to better reflect the status of local authorities' landlord functions and safeguard the status of housing association debt as off-balance-sheet.
- Conclude the reform of the housing revenue account.
- Consider the merits of existing innovative structures that housing associations and local authorities have established to deliver housing for communities, and if appropriate support their wider adoption.
- Support the establishment of a housing innovation agency, to conduct experiments into housing provision.

- Provide support for housing delivery mechanisms that harness the efforts of members of communities, such as self-help housing, as part of the Big Society programme.
- Ensure adequate investment in the provision of Gypsy and Traveller accommodation to avoid the unnecessary expense that would be incurred as a result of under-provision.

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# Section 3: Environmental measures

## 3.1 Context

Responding to the challenge of climate change will require significant changes to the housing system. At present, 27 per cent of CO<sub>2</sub> emissions produced by the UK comes from domestic buildings<sup>37</sup>. The Climate Change Act 2008 commits the UK to reducing carbon emissions by 80 per cent by 2050<sup>38</sup>. Achieving this target will require major changes to the existing housing stock in addition to the government's commitment to ensure that all new homes are zero carbon by 2016<sup>39,40</sup>. Responding to climate change will require other changes to the housing system. One in six homes in England are at risk of flooding without significant improvements to prevention measures against floods and storm water runoff<sup>41</sup>. Higher and more volatile prices for energy appear to be increasing the number of households affected by fuel poverty, with an estimated 5.4 million households currently needing to spend more than ten per cent of their income on their energy bills<sup>42</sup>.

The need to improve the existing housing stock to reduce household carbon emissions through a large-scale programme of retrofitting is widely recognised. Such a programme could have a significant role in long-term poverty reduction by mitigating future increases in energy prices<sup>43</sup> and creating new jobs. A number of barriers will need to be overcome if the intention for large-scale retrofitting is to be quickly turned into a reality. The first is identifying the range of techniques and technologies that will achieve the desired goals most effectively. These methods will then need to be rolled out on a massive scale which will require the development of new skills in the workforce. Possibly the most important barrier to be overcome is the development of a viable funding model for the programme.

### 3.1.1 Ending fuel poverty

The Centre for Sustainable Energy and the Association for the Conservation of Energy produced a report, published by Consumer Focus in May 2009, on tackling fuel poverty by investing in energy efficiency.<sup>44</sup> The key finding of the report was that a programme of around £21 billion, or £3 billion per year for seven years, would virtually eradicate fuel poverty. (The seven year timescale comes from the target date of eradicating fuel poverty by 2016, which was seven years from the publication of the report.) The retrofit targets in that report are as follows:

*“target standards of EPC band B, or in the case of ‘hard to treat’ properties, EPC band C. The standards were selected on the basis that they would ensure the vast majority of households living in improved properties could enjoy ‘affordable warmth’ and no longer live in fuel poverty. For this reason, the programme is referred to as ‘fuel poverty proofing’ properties.”*

Programmes to address fuel poverty that focus on reducing the need to use fuel rather than increasing income are, of course, better placed to help contribute to the necessary CO<sub>2</sub> reductions. They also typically create savings that will be experienced year after year, making them more financially sustainable.

### 3.1.2 Winter Fuel Payments

Winter Fuel Payments were highlighted in evidence to the House of Commons Energy, Food and Rural Affairs Committee in their review of energy efficiency and fuel poverty as being “poorly targeted”. The report identified several key features of the programme and comments upon it, including:

- There are 9 million people in receipt of Winter Fuel Payments
- In 2005, 50 per cent of all the fuel poor were pensioners, but these households only represented 12 per cent of pensioners. Hence, focusing on pensioners does tackle fuel poverty, but 88 per cent of the Winter Fuel Payments expenditure is going on non-fuel poor households.
- National Energy Action (NEA) said that the Winter Fuel Payments removed only 100,000 households from fuel poverty and was an “extremely poor return for such investment”.<sup>45</sup>

The Audit Commission has called for a move from Winter Fuel Payments, which cost around £7.6 billion per year, to retrofitting, noting that Winter Fuel Payments “[aim] to alleviate fuel poverty but will have no effect on reducing domestic CO<sub>2</sub> emissions”.<sup>46</sup>

### 3.1.3 Broader retrofit programme

The Consumer Focus report referenced above also examined a broader programme to retrofit all 21.2 million homes in the country, using the same EPC band B or C targets. It assessed the cost of such a programme at £145 billion, representing an average of £6,860 per property. The cost per property for those in fuel poverty was £8,820, because their housing needs more upgrading on average.

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As the broad programme would save fuel costing £10 billion per year (based on 2006 fuel costs) it appears that Pay As You Save (PAYS) or similar schemes merit detailed investigation. The expected payback term on a simple calculation would be around 14 years, and the stock would be permanently improved to those standards. (The above estimate ignores interest charges, which would increase the payback time, but also ignores the effect of increasing fuel prices, which would reduce the payback time.)

A more detailed analysis of PAYS was conducted by the UK Green Building Council and published in August 2009<sup>47</sup>. This analysis found that the consumer would be of the order £50-£200 per year better off (counting their reduced energy bills and a PAYS charge). BSHF welcomes support for PAYS from the Department for Energy and Climate Change<sup>48</sup>. It is vital that the PAYS approach is rolled out as quickly as possible where it is seen to work effectively. More work may be required to ensure that it works effectively in some contexts, particularly the private rented sector where the interests of both landlords and tenants will need to be carefully considered.

## 3.2 Proposals

- Investigate the potential to move from the poorly-targeted system of Winter Fuel Payments to methods of tackling fuel poverty that seek to address the root cause by improving the energy performance of properties, and consequently aid environmental performance as well. The cost of a retrofitting programme for households in fuel poverty would be similar to that of the Winter Fuel Payments, and in the longer term, once the properties were retrofitted, actual savings would accrue.
- Establish Pay As You Save schemes. Limited state investment in creating the frameworks to make such schemes viable is likely to be more than offset by the savings from reduced unemployment as people find jobs to undertake the retrofitting work, funded by private investment by householders and financed by loans.

# Appendix A Defining the purpose of housing benefit

Housing benefit is a means-tested benefit in the UK given to people on low incomes to help them pay their rent. It was introduced in 1983 and combined previous rent subsidies. Unusually for a welfare benefit payment, it is administered by local rather than central government, with funds given to local authorities by the Department for Work and Pensions (DWP). It is paid to those both in and out of work, and those renting properties in both the private and social sectors. In April 2010, 4,746,000 households received housing benefit<sup>49</sup>, at a total cost of over £20 billion in 2009/2010<sup>50</sup>. It is a complex benefit, with links to other benefits and tax credits; with different rules for private and social tenants and for in-work and out-of-work claimants; and has earlier versions and entitlements running in parallel.

The provision of housing benefit has acquired a variety of roles or functions, with various governments adding to it over the last 30 years. It is now one of the central pillars of housing policy as well as a major element in the social security system. It has underpinned other policies that have transformed the housing system, including the homelessness legislation, the liberalisation of the private rented sector, private finance for housing associations and the transfer of local authority housing to housing associations<sup>51</sup>.

## Current purposes of housing benefit

Housing benefit fulfils a number of roles, which are identified below. In some cases these roles have developed as a result of a deliberate policy intention, but in other instances as an unintended consequence.

- Provision of **access to decent housing** for those on low incomes. This key role of is particularly important in London and the South East of England where on average property and rental prices are much higher than in other parts of the UK.
- With housing benefit partly or totally meeting rental payments, it ensures that low-income households have a **higher disposable income** to spend on other things. Housing benefit is a key component of income for those living on low incomes. As a means of providing income for low-income households, housing benefit is able to support **wider social objectives**

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such as social inclusion and reduction in poverty in general and child poverty in particular.

- Housing benefit provides a **safety net** for low-income households experiencing increases in housing expenditure or decreases in income, with payments being adjusted to meet new circumstances.
- By enabling those on low incomes to rent properties in wealthier areas, it supports the aim of maintaining **sustainable, mixed communities**.
- As an in-work benefit, housing benefit has the potential to act as a **work incentive**, but this potential has not been realised as hoped. This is partly because there is limited awareness of its availability for those in low-paid work, but more importantly because the limited earnings disregard and the high taper rate mean that people are not a lot better off by going back to work, with the marginal deduction rate for those receiving tax credits, housing benefit and council tax benefit being 95.95 per cent<sup>52</sup>. This is before any additional costs of working, such as clothing and travel are taken into account. The complexity and workings of the benefit system are also seen as a barrier to people returning to paid work, particularly as housing benefit is but one of a series of benefits that do not always mesh well together. For example, in about 450,000 cases, tax credits awarded by HM Revenue & Customs are taken into account as income by the local authority in assessing housing benefit. The system gives with the one hand, only to take away with the other<sup>53</sup>.
- Housing benefit provides support to social landlords' balance sheets by providing a predictable income stream from government, effectively **providing guarantees to lenders**. This enables them to borrow on more favourable rates than would otherwise be the case.
- When paid as local housing allowance to private sector tenants, payment is made directly to the tenants to encourage both **personal responsibility and financial inclusion**. Households then have to budget for and pay their rent themselves, developing budgeting and financial management skills, as well as contributing to financial inclusion as households are required to open a bank account. This is currently only the case for private sector tenants, but not for housing association or local authority tenants.
- By increasing the number of persons able to afford rents in the private sector, the availability of housing benefit is seen as **supporting the private rental market**. Many private sector landlords are unwilling to let their property to housing benefit recipients.

- As an instrument of policy, housing benefit can also be used for **wider political purposes**. For example, by choosing to use public funds to subsidise tenants through housing benefit, rather than subsidise the construction of new council housing, the Conservative administration led by Mrs Thatcher was able to reduce the role of the public sector and the powers of local authorities.

With the payment of such large sums of government money to a comparatively large percentage of the population, housing benefit has long been susceptible to 'mission creep'. Evidence of recent thinking about expanding its role can be found in the Consultation Paper issued by DWP in December 2009<sup>54</sup>. These possible new roles included:

- Helping tenants to live in better quality accommodation by vetting of properties in the private rental market before allowing housing benefit to be paid to the landlords.
- Improving the carbon footprint of private rented properties, requiring properties to have reached a set level of energy efficiency before they could be let to tenants in receipt of housing benefit.
- Acting as a key tool for incentivising work, by making receipt of the benefit more conditional on seeking work.
- Increasing the supply of good quality social and affordable housing in mixed communities.

## A simpler purpose for housing benefit

A clearer and tighter focus for housing benefit does not mean that other objectives should be allowed to fall by the wayside; those objectives that are deemed not to be the core purposes of housing benefit will need to be addressed in alternative ways. For example, in the past it has been suggested that housing benefit might be asked to play a role in improving the standard of accommodation in the private rented sector; if those standards are felt to be a policy priority, a specific measure, perhaps around regulation, should be introduced instead.

Whilst, undoubtedly, the intention of increasing the quality of private rental properties is good, the reality is likely to be that implementation of the proposals to link it to the availability of housing benefit would lead to increased delays in processing payments and a reduction in the number of private sector landlords willing to let their properties to housing benefit recipients.

Conversely, whilst the housing benefit system should not be asked to directly achieve too many things, care should also be taken in its construction to ensure

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that it does no harm to other areas of policy. For example, whilst it should not be used to directly incentivise movement into work, it should not pose excessive barriers to work. The likely long term social impacts of a housing benefit system that fails in its objectives, and their effects on other policy areas, could include greater marginalisation of the poor, with potential for increased crime and anti-social behaviour.

In Europe, the Council of Europe's guidelines<sup>55</sup> on the effective use of housing allowances<sup>56</sup> state:

*The goals for a housing allowance system should be to improve access to decent, affordable housing for all households on low incomes and to function as a safety net for these households against increases in housing expenditure or decreases in income.*

Further analysis is necessary to assess whether that guideline covers accurately, and in full, the objectives that would suit a housing benefit system in the UK's context. However, as a broad principle, there are many merits in adopting a narrow purpose for housing benefit, and not attempting to use it to achieve policy objectives that are non-core for the benefit. Housing benefit is more likely to be successful if it is only trying to fulfil a limited number of roles and is doing them well, than if it is used to achieve multiple and potentially conflicting policy objectives.

It is worth noting that the Council of Europe definition includes "all households on low incomes". In the UK context, because of the significant differences between owner occupation and renting, it may make sense to exclude owner occupiers on low incomes from our housing benefit, at least at present. In doing so, our attention is drawn to the group that is being explicitly excluded, so would be reminded that alternative provisions must be put in place for this group.

# Appendix B A simplified model of housing benefit

There remains a clear need for a separate benefit linked to housing (or at least a component of a broader benefit that varies depending upon housing) due to the huge variation in rent levels across the country. Appendix A outlines the possibility of clarifying and simplifying the purpose of housing benefit.

Clearer **objectives** for housing benefit could underpin a simplified **model** of housing benefit delivery. A number of the difficulties with the current housing benefit system could be addressed by a simplified system. These could include simplifying the administration of claims (making it easier to reduce processing times or administrative costs), improving understanding of the system by the public (including claimants and prospective claimants) and reducing work disincentives. A simplified system could be designed to be revenue neutral.

As a matter of principle, subsidy should be transparent to consumers, to taxpayers and to government. It should be clear what is being paid for.

## Processing times

The average processing time for new housing benefit applications is now reported to be 23 days.<sup>57</sup> This is a significant improvement on previous figures, but as an average still conceals many applications that take even longer. Even acknowledging that much improvement has been made, 23 days plus possible delays is still a long time for an average claim to take, presenting difficulties both for claimants and landlords. The average processing time for new claims varies significantly, from five days in South Norfolk to 47 days in Wokingham. In some instances further cuts could be made to the length of time processing the case through improved administration, bringing the slowest authorities up to the standard of the quickest. However, a significant contributory factor to the length of time a claim can take is the complexity of the current system. Improving processing times might increase the number of landlords willing to accommodate housing benefit claimants

## Public comprehension

Housing benefit is very complex and difficult for professionals, let alone the general public to understand. Department of Work and Pension advice on housing and council tax benefit have been measured at 1200 pages over four

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volumes.<sup>58</sup> This complexity makes housing benefit almost incomprehensible for claimants. There is no easy way to tell what will happen to your benefits if your circumstances change in a certain way.

It is likely that this complexity is a key factor in the perceived failure of housing benefit as an in-work benefit. Take up of housing benefit varies by tenure, household type and employment status but is particularly low amongst people in work. It is estimated that only between 38 and 51 per cent of those in employment who are entitled to claim housing benefit do so, compared to 90 to 96 per cent of those not in employment.<sup>59</sup> This under-claiming may be due to people in low paid work not being aware of their eligibility to claim the benefit. The complexity of the system creates real confusion and instability for people on low incomes; this is even more important as the incidence of people moving repeatedly between low paid jobs and unemployment has increased 60 per cent since 2006, mostly due to the recession, increasing the number of people in a low-pay/no-pay cycle<sup>60</sup>. It may be the fear of a loss of housing benefit rather than the actual fact of how it will affect income that leads to low take up and creates work disincentives.

The complexity of the housing benefit system makes it difficult to justify to the general public. Housing benefit provides a major part of the income of many of the most vulnerable people in our society. However, it is harder to demonstrate this impact than it is for simpler benefits such as the old age pension and child benefit. Cases of fraud and error in housing benefit claims are difficult to detect with a complex system which further undermines public confidence in the system.

## **Principles for a simplified model**

A simplified model of housing benefit delivery could address some of these difficulties with the current system. Other European countries, such as The Netherlands<sup>61</sup>, operate much simpler systems of housing allowances. These examples show that simplification of the UK housing benefit system is possible.

The complexity of the current system means that a full consultation with stakeholders from across the housing sector would be necessary to ensure that a simplified system did not create negative unintended consequences. Whilst the detail of a simplified model would need careful consideration, there are a number of principles that are fairly well developed.

The first principle is that the housing benefit system needs to respond to how people now live, reflecting the major structural and demographic changes that have taken place since the design of the welfare state after the Second World

War. These include changing household structures, changes in the labour market and increased residential mobility. The current housing benefit system is not able to keep up with the changes in household circumstances.

A housing benefit system that is designed to be “roughly right rather than exactly wrong”<sup>62</sup> could provide the second principle for a simplified system. At present, the complexity of the housing benefit system is due to it being designed to closely match changes in household income and structure. A simpler method of calculating housing benefit could be achieved by using broader categories of rent paid, income and household type. The Dutch housing allowance system, for example, has a small number of household types. Likewise, income and rent could be broken up into broad bands. This would create a fixed number of housing benefit payment rates that could easily be understood and accessed by claimants, advisors and the general public in ‘look up tables’ or simple online calculators. A more basic system such as this would need to be carefully tested to analyse its impact on different groups of people but could provide a direction of travel to overcome the counterproductive levels of complexity in the current system.

Greater use of fixed period awards could be the third principle for a simpler housing benefit system. This could complement the ‘look up table’ approach and create greater stability for low income households, particularly those in marginal employment. Fixed period awards were discussed in the recent Department for Work and Pensions consultation<sup>63</sup> on housing benefit as a way of supporting people into work and responding to people whose income varies significantly over time. Fixed period awards, maybe lasting six months, would be of real benefit for people who are constantly shifting in and out of work or between part and full time. It could be adopted with the option for a break clause where there is a major change in your circumstances that has to be taken into account.

A fourth principle for a simpler housing benefit system might be derived from detailed consideration of whether it would be better to have a different system of housing benefit for pensioners. The current system may work better for pensioners than those of working age as pensioners tend to have more stable incomes and household structures. Whilst there would be a cost in having two systems instead of one it may be a more efficient way to respond to groups with different life circumstances.

The fifth principle for simplification would be that housing benefit entitlement should not vary depending on when the original claim was made. Over time adjustments could be made to remove all the old systems for calculating tenants’ housing benefit entitlement. At present a number of different historic

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housing benefit systems are still running. The earliest of these protected statuses dates back to pre-January 1989, but other significant changes include those made in January and October 1996 and the 2008 move to the local housing allowance system. Although this move would clearly have an impact on those households affected, as the earlier schemes are typically significantly more generous than the current one, at a time when the government is willing to make cuts to the benefits of the poorest in society it seems that the least worst option for those cuts would be to target the relatively generous systems. In doing so, genuine transitional measures would need to be adopted, for example phasing from claimants' current entitlement levels to those calculated under the new system over a period of, say, four years. Such phasing would retain some of the complexity of the current multiplicity of systems in the interim, but that would be a small price to pay for providing some measure of protection for those affected whilst still moving over to a single and simplified system within a defined timescale.

The next principle for simplification would be to remove the differential treatment of younger people. The current housing benefit system limits payments to younger households to lower levels than those available to other households. Specifically, the rules for single people aged under 25 limits their entitlement to a single room rent (SRR). Analysis of this has highlighted particular problems, including that 87 per cent of all SRR claimants face a shortfall between what they receive in housing benefit and what they pay in rent, averaging £35.14 per week, and that there is a shortage of accommodation available to under 25s which meets the SRR definition. These issues have been shown to cause further problems, where charities working with young homeless people are unable to move people on to appropriate accommodation because of the impact of the SRR and the greater risk of social and financial exclusion created by the SRR.<sup>64</sup>

A final principle for simplification could be the need to ensure that it does not lead to an increase in homelessness. Due to the potential costs (economic, as well as social) of homelessness, proposed alterations to the housing benefit system should be "homeless proofed". They should be tested and carefully analysed to see whether they are likely to create additional homelessness.

Superficially there is no reason why this proposal should lead to an increase in people experiencing homelessness, however the devil is in the detail. For comparison, see BSHF's analysis of the housing benefit measures contained in the emergency budget of June 2010<sup>65</sup>, which illustrated several ways in which the measures could lead to increased homelessness in the short, medium and long term.

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accommodation than they otherwise would be able to. Most revenue subsidies are demand side, giving consumers of housing more resources to spend on housing; local authority revenue subsidies, however, are classified as supply side, because they support local authority housing departments to supply more accommodation than they otherwise could at the rent levels charged.

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