# Chapter 1

# Pushing the social sector to the margins

Steve Wilcox

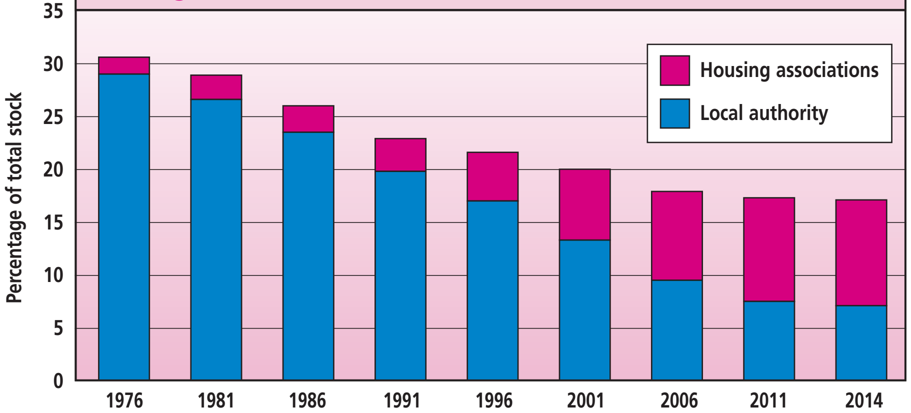
A recurring theme of this year's *Review* is the shift in tenure patterns across the UK and in particular how the Westminster government is redirecting investment towards homeownership. Uniquely in England this is being done actively at the expense of both investment in new social rented housing and of its current stock. This chapter examines how this is happening and some of the implications of a significant change in government priorities.

The social rented sector is already considerably smaller as a proportion of the total UK housing market, albeit that the transformation has been gradual and uneven and the impacts have included some developments that might be considered positive. Now, however, through a welter of new policies, the Conservative government looks set to push social renting further towards the margins. But if the ambition is plain, at the time of writing there remains considerable uncertainty about how the details will be developed, put into practice, and possibly also modified in response to the decision by the Office for National Statistics to reclassify housing associations as 'public sector bodies' for purposes of the UK national accounts.

## The long and uneven decline

As can be seen in Figure 1.1.1, the social rented sector in England has declined from almost a third of total provision in 1976 to just 17 per cent in 2014.

Figure 1.1.1 **Social sector declines as a proportion of the English housing stock**




Source: Compendium Table 17b.

Without doubt the biggest factor in its decline has been the right to buy (see Compendium Table 20), not only because of sales but because only a fraction of the receipts were ever re-invested in replacement social housing.

Clearly decline has been concentrated in the council sector, alongside which housing associations have grown, albeit to a much lesser degree. In part that is because RTB never applied to charitable HAs, and since the introduction of assured tenancies in 1988 has applied to an ever-decreasing proportion of HA tenants. Assured tenancies were one of the measures aimed at making the HA sector secure and attractive for private investors, to bring in private finance and reduce the call on public funds required to support new investment.

That approach was founded on the unique characteristics of the UK fiscal regime, and the then accounting classification of housing associations as private sector (not-for-profit) corporations. This release from the straightjacket of public sector financial controls also prompted some LAs to initiate what later became a central government-supported programme of 'stock transfers' from the council to the housing association sector. As well as the 'pull' of access to private finance many councils wanted to escape the redistributive housing finance regime that drained their accounts of what central government deemed to be 'surplus' rental income (see Compendium Table 107).

So while in 1976 housing associations comprised only five per cent of the English social housing sector, by 2008 they formed almost three-fifths of the sector. In addition, there were marked changes in the composition both of the housing stock and of the households resident in the sector. RTB predominantly involved sales of houses rather than flats, and sales to better-off working tenants. However, the impact of these changes is not as great as sometimes thought. While in 1976 houses comprised almost 70 per cent of council stock, by 2013 that had fallen to under 55 per cent, with only a very small decline after 1991. In contrast, not least because of stock transfers, the proportion of houses in the HA stock grew from 36 per cent in 1976 to 56 per cent in 2013.[1]

Similarly in 1981 some two-thirds of all social sector tenants below retirement age were in employment. By 1991 the proportion had fallen to about half for those below retirement age, and has remained around that level ever since (see Compendium Table 34), although ONS data suggest that the proportion has fallen in the last few years to around 40 per cent.[2] It follows that there is no evidence of any further upward trend in the proportion of out-of-work tenants in the sector, after the initial impact of RTB that removed a proportion of better-off working tenants.

This has not prevented the propagation of crude stereotypes of social housing and its residents in the media, not least in the TV series 'Shameless' and various so-called 'reality programmes', and that also appear to inform the assumptions of some government ministers. While the media have no difficulty finding individual cases to feed their stereotypes, research funded by DWP found 'no consistent evidence of cultures of worklessness in deprived areas'. The research did find issues for individuals in the sector with a range of personal disadvantages that made engagement with the labour market problematic, but those were not the result of their tenure or place of residence, or derived from any local culture.[3]

The findings related to social housing in itself were also mixed. While on the one hand the research did identify issues with 'postcode discrimination' by prospective employers, some tenants identified their security of tenure and relatively low (i.e. sub-market) rents as factors that made engagement with the labour market more viable.

More recent research also found no evidence of a culture of worklessness within families, and that even two generations of complete worklessness in the same family was very rare (less than one per cent). The much-quoted spectre of families with three generations of worklessness was so rare that no examples were found despite strenuous efforts.[4]

While about a half of households below retirement age in the social rented sector are not in work at any point in time, there is considerable movement between out-of-work periods and having low-paid and insecure jobs.[5] Among lone-parent households, who comprise nearly a quarter of all social sector tenants below retirement age, there is a clear trend towards increased labour market participation as their children get older. Across all tenures the proportion in work increases from just under two-fifths for those with children aged 0-4, to over three-fifths for those with children aged 5-11, and to nearly three-quarters for those with children aged 12 and over.[6]

The social sector housing stock and its residents are therefore more diverse than frequently recognised. However, the policies planned by the new government all look set to further marginalise the sector.

## The new agenda for social housing

The housing policies of the new Conservative government are a clear departure from those of the coalition, and two themes predominate – the higher priority given to promoting homeownership, and the recasting of social renting in an ever-more marginal role within the wider housing market. The key new policy components are:

- extension of the right to buy to the housing association sector
- requiring local authorities to sell high-value dwellings
- charging market rents to 'higher-income' tenants ('pay to stay')
- removing security of tenure for all new council tenants
- removing the requirement for new housing developments to include a proportion of social or Affordable Rent dwellings.

Alongside those policies, social landlords have to reduce their rents by one per cent a year over the next four years. While this will make rents more affordable for tenants, as noted by the IFS its primary purpose is to reduce government housing benefit costs. It will also reduce funds available to social landlords for investment either in stock improvements or in new housing.[7] And as discussed in Commentary Chapter 3, while the Autumn Statement outlined a programme of 400,000 new 'affordable homes' to be funded in the three years from 2018/19, some 335,000 will be via various 'affordable' homeownership schemes.

How much these emerging policies will further marginalise the social rented sector remains unclear. In particular the details of the extension of RTB to the housing association sector, and the requirement for councils to sell higher-value dwellings have yet to be determined. This is partly because the scope and viability of these manifesto proposals were not robustly analysed ahead of the election, and partly because all proposals relating to HAs have been thrown up in the air by the Office for National Statistics decision to reclassify them as within the public sector for the purposes of UK national accounts.

## The classification of housing associations

Given that the reclassification of housing associations to the public corporate sector sets new parameters within which to re-evaluate the manifesto housing policy proposals, a brief discussion of the underlying issues is required before returning to further consideration of the policies themselves.

Concerns about the classification of the HA sector were raised by the Office for Budget Responsibility in July 2015,[8] when they suggested that the planned right to buy and social rent reduction policies might prompt an ONS review. After some prevarication the ONS did announce a reclassification at the end of October 2015,[9] but based their decision on the pre-existing regulatory framework under the Housing and Regeneration Act 2008.

ONS outlined five elements of the regulatory powers under the 2008 Act that they considered required them to reclassify associations:

1. Consent powers over disposals of social housing assets;
2. Powers to direct the use of disposal assets;
3. Powers over disposals of housing stock following a de-registration;
4. Powers over the voluntary winding-up, dissolution, and restructuring of a registered provider; and
5. Powers to appoint managers and officers to providers.

The ONS decision relates solely to associations in England, and ONS have subsequently said they have no plans to review HA classification in the rest of the UK, although on the face of it the regulatory arrangements in all four countries are very similar in terms of the five criteria set by ONS. The 2008 Act did not even fundamentally alter the regulatory arrangements at the time, but it is a convenient peg for ONS as it avoids looking back at the rationale for their earlier decision to classify HAs as private sector corporations, made when the ONS was still subject to HM Treasury control.

The immediate effect of the ONS decision was that some £60 billion of English HA debt was added to public sector net debt, thus raising issues for the governments' wider fiscal policies as well as for its pursuit of policies relating to housing associations. The ONS decision did not in itself bring about any change in government policy towards associations but if, in that sense, nothing has changed in the short term, everything has changed in the context within which policies for the sector will be constructed going forward.

Another issue left unaltered is the level of *general government* borrowing and debt – the measures used internationally that do not concern themselves with the extent of borrowing by public corporations. This is the sector into which HAs were placed by ONS, giving them the same status as local authority housing in the national accounts – see Compendium Table 10. The *Review* has long argued that the UK economy is artificially constrained by its unique focus on the distinction between the public and private sectors, rather than the distinction between government and corporate (trading) sectors used in international fiscal measures. As a result, we have rather oddly ended up with sundry railway and utility services in the UK operated by other countries' public corporations.

This unique UK fiscal policy was also a critical factor in launching housing associations as private (not-for-profit) corporations in the late 1980s, able to borrow private finance that did not count against UK fiscal measures. From that also sprang the mass of stock transfers from councils (constrained by public sector subsidy and borrowing rules) to associations, free to borrow against their income streams. Twenty seven years later all that cumulative housing association borrowing and debt is back in the public sector. The irony of three decades of policies reshaping such a major public service, largely driven by an archaic accounting rule, and now undone by the reclassification of associations, has gone largely unnoticed.

So one option for the government would be simply to adopt international fiscal rules and to stop worrying about whether housing associations are public or private corporations. In reality this is unlikely as there is also a deep-rooted and ideological anti- (UK) public sector ethos underpinning the continuing maintenance of public sector-wide fiscal rules by governments of all colours over the last four decades.

So it is clear that, one way or another, the government would like to see housing associations back in the private sector, and current and future policies and regulatory arrangements are all being re-assessed in that context. What is less clear is how far regulatory powers will need to be relaxed to permit the ONS to once again classify associations to the private sector, and how current and future policies need to be trimmed accordingly. In that sense the very broad terms in which the ONS set out their decision are unhelpful, although a trawl through their decisions over the years on the classification of other bodies does give some indication of their thinking.

As with stock transfer, we again face the prospect of housing policy being driven by outmoded accounting rules rather than by what is best for tenants and for investment in the stock. Regulation has created the environment in which lenders have been prepared to invest with confidence. It has also reassured tenants, especially those transferred out of council housing or housed via council nomination schemes, that associations are bound by rules, and by a regulator, through which their interests are strongly protected.

## Taking the new policy regime forward

Even before the ONS classification decision the National Housing Federation was lobbying for a voluntary form of right to buy (VRTB), not least as initially they saw that approach as a means of retaining their private sector status. Now that VRTB has been agreed with the government, it is being trialled by five associations (London & Quadrant, Riverside, Saffron, Sovereign and Thames Valley) in a limited number of areas. Standard RTB discounts are available under VRTB, but the pilots have been restricted to tenants of ten years' standing, with provision for associations to offer 'transferable discounts' in cases where they would prefer to retain a particular property.

Central to VRTB is the proviso that HAs would receive full open-market value for properties sold under the scheme, with central government picking up the costs of discounts provided to tenants. Initially the government suggested that it would meet these costs by requiring councils to sell their higher-value housing stock (HVS – discussed below). However a number of independent assessments have suggested that potential sales under VRTB could outstrip any realistic level of HVS receipts, as well as failing to leave funds for other stated policy objectives.

Our own assessment is that the full VRTB could result in sales approaching 30,000 a year over the first five years, generating some £2 billion a year in receipts and a matching £2 billion annual discount requirement.[10] The potential levels of costs, as well as the classification issue, are a concern for government as it struggles to balance the books on its housing budgets.

However the maintenance of full compensation arrangements, albeit with some strings attached about replacement investment, remains central to VRTB, particularly as the scheme will have to be genuinely voluntary for individual HAs to ensure their continued support. The government will be unable to use back-door regulatory powers to ensure compliance while also seeking to see associations reclassified into the private sector.

All these considerations suggest that VRTB will be rolled out gradually, and possibly that eligibility criteria will be tightened or an annual cash-limited budget set for VRTB sales.

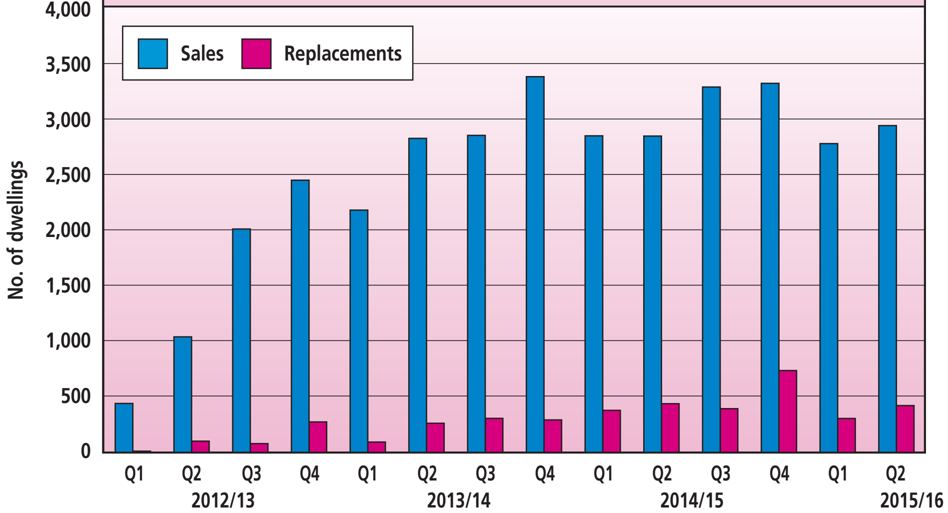
## High-value sales

The idea that councils should sell off their more valuable dwellings and re-invest in more modestly valued homes can be traced back to a 2012 Policy Exchange report,[11] arguing that some £4.5 billion a year could be raised by selling off the one-fifth of council stock that had a value over the regional median level for all dwellings (based on Land Registry house price data). Applied in this way the policy would, over time, entirely exclude council tenants from higher-value areas within regions – the most obvious example being central London. However an independent assessment by Savills has suggested that the potential number and value of sales would be far lower than suggested by Policy Exchange.[12]

In practice it is difficult to robustly assess the likely financial results of HVS as the government has yet to define the thresholds for a 'high-value' dwelling, or even to make clear whether the thresholds will be set locally or regionally. Instead it is now suggested that it will simply impose an annual 'sales tax' on councils and leave them to sort out how they raise the funds through voluntary sales. This would allow the government to extract a predictable income stream from councils, but it would still need to set out an explicit and credible formula showing how the 'sales tax' figures for each LA have been derived. It would also leave a host of practical problems for councils. Even if receipts from HVS were sufficient to pay the 'tax', they would face the uncertainty of how much would remain either to cover outstanding debt or to re-invest in replacement housing in lower-value areas.

On the re-investment front the portents are not good. When the coalition substantially increased the maximum RTB discounts, it argued that even with some receipts going to HM Treasury all the properties sold would be replaced on a 'one-for-one' basis (albeit with replacements being let at higher Affordable Rents). In practice sales have fallen well short. Over the three years to 2014/15, starts on replacements (or acquisitions) were only one in nine of those sold. Even allowing for a time lag in getting replacement underway, starts and acquisitions in 2014/15 were just one in six of those sold in 2013/14, as shown in Figure 1.1.2.

Figure 1.1.2 **Right to buy sales, England – starts and replacements**




Source: Social Housing Lettings: April 2014 to March 2015, England, DCLG.

In that context the recent government commitment that, at least in London, receipts from each HVS sale should provide funds for two new affordable dwellings is not altogether reassuring. If this commitment requires the government to reduce its 'sales tax' and permit councils to retain more of the receipts for re-investment, in turn that would reduce the receipts available to fund VRTB discounts.

However, if at this stage it is difficult to know quite how this shrouded policy will operate in practice, the likelihood is that (notwithstanding the London commitment) it will, alongside RTB, result in a further substantial net reduction in the stock of council housing.

It will also have a wider effect on council housing's attractiveness to tenants, assuming that high-value stock is also likely to be the most popular. It will severely curtail or even in some cases end the opportunities for new tenants to move to popular estates. Depending on the rules, it may also affect transfers within the stock, an important way in which tenants can improve their lot within the sector. In this sense it could contradict the spirit of the reform in the Localism Act which encouraged councils to put more emphasis on 'local connection' when allocating tenancies.

## Pay to stay

Within the social rented sector the government has now firmed up proposals for 'higher-income' tenants to pay higher rents. The threshold household incomes have been set at £30,000 a year (£40,000 in Greater London). Tenants with incomes above that level will be required to pay more, perhaps with added increments related to their 'excess' income, up to a maximum of a full market rent. It is proposed that the income data will be provided by HMRC. Potentially this requirement could apply to some 150,000 council tenants.

There will be messy overlaps with the current housing benefit scheme and with universal credit. For example, a couple with two children and a rent in excess of £120 a week would be eligible for HB at the same time as being required to pay a higher rent. With universal credit the overall effect will be even worse – any couple with two children and a rent in excess of just £50 a week will pay higher rent yet receive universal credit.

One predictable consequence will be an increase in RTB purchases by tenants faced with paying higher rents, although age, affordability and other mortgagability constraints will mean that even with discounts many will not be able to buy. Nonetheless there is (to say the least) something of a disjuncture between the view that it is fair to provide higher-income tenants with a substantial right to buy discount but not fair that they should have access to a sub-market rent.

In December 2015 the government announced that the proposal would only apply to the council sector, and not as originally proposed also to HAs, a decision clearly related to the government's desire to see associations returned to the private sector.

## Phasing out of security of tenure

The removal of security of tenure for new council tenants is another measure intended to convey the message that the sector and its residents are transitory and marginal, and undermines what has always been seen as one of the sector's strengths.[13] It is already possible for social landlords to let tenancies for fixed terms, but while numbers have been growing they still comprise only one in six of all general needs social rent lettings, but almost two-fifths of Affordable Rent lettings (see Table 2.5.4 on page 92).

As with pay to stay, in the light of the ONS decision on HA classification this policy will apply just to new council tenancies. With limited exceptions councils will only now be able to offer tenancies for 2-5 years, after which there will be a review.

## Curtailing the mix for new housing developments

As explained in Commentary Chapters 3 and 4, the government has increased the budget for affordable housing investment, but with the focus switched to providing Starter Homes and away from building new sub-market rented dwellings. Further changes to planning guidelines are proposed to facilitate the newly enlarged programme for Starter Homes. It is already the case that on 'exception' sites (in planning terms) Starter Homes can be provided without any requirement for section 106 affordable housing contributions or tariff-based contributions to general infrastructure funds. With the expansion of the Starter Homes programme it is now envisaged that they will, at least in part, replace rented housing more widely, not just on exception sites, with a proportion of all new developments being Starter Homes. This in turn will make it even more difficult to develop new Affordable Rent housing with low levels of grant via the reduced HCA and GLA budgets.

## A cumulative effect when combined with earlier policies

Although the five policy changes described above are new, they add to the significant changes made by the coalition government, of which the most important (in this context) were the 'reinvigorated' right to buy for council tenants and the move to Affordable Rents in new HA developments, which required not only the diversion of funding from new investment in social rent but also the conversion of existing lettings to the higher rent levels. As noted in Commentary Chapter 4, over just three years these policies reduced the stock of social rented dwellings by two per cent, despite over 28,000 new social rented homes being built over the same period.

Recently, especially in London, there has been a further loss of social rented stock through redevelopment. Local campaigners in Southwark estimate that its seven redevelopment schemes result in 4,275 fewer social rent units;[14] while current schemes with planning permission in London involve a net loss of 7,326 such units.[15] With the Prime Minister's announcement of a new programme to redevelop so-called 'sink estates',[16] there is concern that this could further accelerate the loss of social rented homes.

The LGA has argued that RTB, high-value sales and reduced capacity due to social rent reductions could produce a net loss of 80,000 council houses by 2020.[17] While in our view, and on the limited information currently available, this seems overly pessimistic, a 50,000(+) loss in council stock over that period is clearly in prospect. Add to that further conversions by HAs of existing units to Affordable Rent (see Commentary Chapter 4), and there could well be a five per cent fall in social rented stock across the whole sector by 2020.

## Conclusion

Taken together, the housing policies of the new government will push the social rented sector into a more clearly residual and marginal role, at the same time as destabilising the lives of its tenants. Those policies will bear most heavily on the council sector, as the ONS decision to reclassify housing associations as public sector bodies has seen the government retreat from imposing some of its policies on HAs and readily agreeing to the NHF offer of a voluntary deal on right to buy. But for councils there will be an increase in central government control and further imposed reductions in their stock.

In addition to the effects on tenants and potential tenants, the rent reduction, the requirement that councils (but not HAs) transfer the extra income from pay to stay to the Treasury, and the payments that result from high-value sales, will combine with earlier policies (such as RTB receipts being partially repaid to the Treasury, again in contrast to HAs) to undermine councils' long-term business plans and hence their investment in the stock. Not only does this risk drastic curtailment of any plans to build new homes, it could prejudice the maintenance of the existing stock and risk a decline in standards which councils had succeeded in reversing through their programmes to meet the Decent Homes Standard.

While the changes recorded here are not decisive, and in any case have much more impact on councils than they do on housing associations, they clearly signal the start of a move towards a smaller social rented sector, with less attractive stock, reduced security of tenure and higher turnover. If continued and even augmented (for example through thresholds for high-value sales being set progressively lower), then these could be the ingredients in a fundamental shift in the purpose of social housing, from what has been called a broad 'safety net' role to that of a much more limited 'ambulance service'.[18] In time it would also mark a clear distinction between the role of the sector in England and the wider role it continues to have in Scotland, Wales and Northern Ireland.

But many questions remain over the details of the new policies and in some cases doubts about their viability. And while there is a consistent ideological thread running through them, in other respects they are very *ad hoc* and fail to provide a coherent policy framework. Pay to stay rents are to be imposed on a confused mix of social and Affordable Rents, and involve a new form of means test for tenants, but for many households alongside (and overlapping with) the housing benefit and universal credit schemes.

And while the government has modified some of its new policies, and proposed some relaxation of existing regulatory arrangements, with a view to seeking the reclassification of housing associations back to the private corporate sector, it still remains to be seen whether the changes will be sufficient to get ONS to reconsider its position.

## References and notes

1 Data from the National Dwelling and Housing Survey 1976; English Housing Survey 2013.

2 Data on working and workless households, ONS, 2015.

3 Fletcher, D., Gore, T., Reeve, K. & Robinson, D. (2008) *Social Housing and Worklessness: Key policy messages*. London: DWP.

4 Shildrick, T. (2012) *Are 'cultures of worklessness' passed down the generations?* York: JRF.

5 Shildrick, T. (2012) *The low-pay, no-pay cycle: Understanding recurrent poverty*. York: JRF.

6 Male and female lone parent with dependent children compared to all-family type analysis cross referencing various variables from LFS/APS datasets, 2007 to 2012, ONS, 2014.

7 Adam, S., Chandler, D., Hood, A. and Joyce, R. (2015) *Social Rents Policy: Choices and trade-offs*. London: IFS.

8 OBR (2015) *Economic and fiscal outlook July 2015*, Cm 9088. London: OBR.

9 ONS (2015) *Private registered providers' of social housing in England*, classification announcement, October. London: ONS.

10 Perry, J., Wilcox, S. and Williams, P. (2015) *Selling off the Stock: An interim analysis of the proposals for sales of council houses in high-value areas to finance a new right to buy for housing association tenants*. Coventry: CIH.

11 Morton, A. (2012) *Ending Expensive Social Tenancies*. London: Policy Exchange.

12 Buckle, C. (2015) *(Social) Home Truths*. London: Savills.

13 Fitzpatrick, S. and Pawson, H. (2013) 'Ending Security of Tenure for Social Renters: Transitioning to 'Ambulance Service' Social Housing?' in *Housing Studies*, 29:5, pp.597-615.

14 See http://35percent.org/blog/2016/01/31/completing-londons-clearances/

15 Mayor of London answer to question by Darren Johnson AM, February 2016 (see www.london.gov.uk/press-releases/assembly/darren-johnson/loss-of-social-housing-through-estate-regeneration).

16 Article for the *Sunday Times*, 10 January (reproduced at www.gov.uk/government/speeches/estate-regeneration-article-by-david-cameron).

17 LGA (2016) *80,000 council homes could be lost by 2020*, press release, 3 February. London: LGA.

18 Fitzpatrick, S. and Pawson, H. (2013) *op. cit.*