



# Better futures for social housing in England

## Looking forward, aiming higher

In June 2006, Ruth Kelly, Secretary of State for Communities and Local Government, announced that Professor John Hills would carry out an independent assessment of the future role of social housing in England. The Joseph Rowntree Foundation, in order to support the review and widen debate, asked Professor Duncan Maclennan to look at the current state of the social housing sector and suggest areas where change was needed and the issues that the newly announced Communities England would face.

### Main conclusions

- There is a clear case for a social rental sector and there must be an end of the policy era that has left the social rental sector as the end of the line. The social rental sector and the government need to aim higher and this requires not only rethinking but also resources.
- The social rental sector has to be part of a cross-sectoral strategy for housing low-income households in which market provision of rental homes and home ownership options have roles to play. It has to be a solution that tenants will choose.
- The social rental sector does not presently meet that challenge and the opportunity for the sector lies in recreating itself as more contestable, creative and diverse. It needs to do so, not just because it still produces too many inadequate outcomes for the nation's poorer households, but because there are also new roles to fulfil.
- There needs to be a radical reassessment of how housing policy promotes the overall effectiveness of the diverse collection of housing providers within any area. At present local system effectiveness is nobody's responsibility. Housing management has to be reconceived as a citywide or regional industry driven by contestable effectiveness rather than divided by housing provider and geography.
- Tenants should also be able to make moves and connections more easily. As long as the nation aspires to ownership and real house prices rise, it is imperative, for social mobility and reduced long-term wealth inequality, that tenants be offered mixed renting and owning options. It is also essential that they share in the uplift of property values over time, with any housing wealth accumulated in this way available as a deposit for home purchase.
- Social housing organisations should become multi-sectoral local housing agents with active asset management activities. They should also be empowered to engage in land development and service provision roles that promote required community-led and neighbourhood-based renewal. If the government really wants renewal, community and ownership choices then local vehicles must match national aims.
- Stock transfer policies now need to be revitalised to promote local housing system change and community renewal rather than simply landlord change.

The issue is no longer about how to shrink the system but how to use it in better ways.

## The Hills review

The terms of reference state that:

Housing is central to the quality of life in our communities, to fulfilling people's aspirations, to the economy and to the environment.

And that given recent progress, the Secretary of State wants to:

... step back and ask what role social housing can play in 21st century housing policy.

The main questions posed in Hill's review are:

1. Is social housing the most appropriate response for all those presented as in housing need? Who should social housing be for?
2. To what extent should social housing contribute to other objectives while also continuing to play a vital role in responding to need? Other possible objectives include:
  - Helping create genuinely mixed communities.
  - Encouraging social mobility and other opportunities, including in the labour market, for people to get on in their lives.
  - Being more responsive to changing needs and enabling greater geographical mobility.

The review was conducted by Professor John Hills and was published (Hills, 2007) on 20 February 2007.

In June 2006 Ruth Kelly, Secretary of State for Communities and Local Government, declared that she believed Britain to be on the verge of a 'golden age' in housing policies.

The present Labour government is undoubtedly 'pro-housing'. It has been innovative in many aspects of policy and has recognised the real significance of good housing in facilitating neighbourhood renewal, poverty reduction and wider economic progress. However, while policy expenditure has risen, low-income housing output in England still lies well below the performance of the mid-1990s, and homelessness, housing needs and investment requirements remain resolutely high. The golden age is still a serious number of leaden steps ahead.

There is still a major problem of culture change within the UK housing sector – a great deal of time has been spent defending the past and harking back to old roles and approaches. Present debates are often imprecise.

Over the past 30 years the interaction of UK housing policies with rising incomes and strong home ownership preferences have left the social rental sector as the home for the nation's poor. Although some estates do trap people, there are many who live better lives because there is a non-market sector providing decent homes and neighbourhoods.

A core aim of the debate about the future roles of the social rental sector needs to revolve around which housing arrangements will help achieve social mobility, and facilitate progress from poverty.

The forward view needs to recognise the potential dynamic for households and places and the importance of flexibility in asset uses. It also needs to be realistic about the cost of decent housing and how market and non-market systems operate. All of these issues are effectively explored in the Hills review, which provides a series of illustrations of how policies could change. However, there is also a need to get to the heart of how social housing is actually provided and to move beyond the tendency to associate outcomes with forms of legal ownership (council, association, stock transfer RSL, cooperative, charitable etc) and to assess how local systems might change.

There needs to be a new clarity about:

- how we describe and critique or champion social housing providers;
- the importance of system design;
- beneficial mixes of market and non-market means to reach social objectives.

## Social housing

Professor John Hills appropriately labelled his report *Ends and means*. Looking across the advanced economies most governments, to different extents, will pursue housing policies with social objectives. In some instances social objectives may be sought by supporting, in different ways, market providers to house low-income households. In other countries the displacement of housing rental markets by non-market provision has created social rental housing. Historically, West European and former Soviet bloc countries made major efforts to deliver housing policy objectives through large public or non-profit sectors, usually involving government-subsidised loans or grants to non-market producers. Other economies, such as Canada, the US and Australia, placed much more emphasis on policies to shape rental market outcomes and emphasised the development of the owner-occupied sector.

In reality most countries use a mix of instruments to achieve social goals in housing. In the US housing allowances to support market rental choices exist but they are far from universal and public housing coexists along with markets, community owners and tax and grant schemes to provide low and middle-income households. In the UK low-cost ownership schemes and market choices supported by Housing Benefit coexist with social housing.

Over the past two decades there have been similar, major policy shifts in housing in the OECD (Organisation for Economic Co-operation and Development) countries and there has, if anything, been some convergence. In very broad terms this has meant:

- a tendency to significantly reduce real government expenditures on housing capital;
- extensive promotion of off-balance sheet and privately funded provision of low-income housing;
- a shift in support away from grants and loans to income-related, or means-tested housing subsidies, although the design and impacts of such approaches vary markedly;
- a shift from new housing provision to rehabilitation and increasingly to link housing renewal to other investments in poorer localities.

Until the past few years these changes meant not only an overall contraction in social housing provision but also switches of support from on-budget 'public/municipal' to non-profit ownership of the social rental sector. Now as countries are experiencing the adverse social and economic consequences of low-income housing shortages and several re-committing to expanding housing policies it is important to challenge an emergent anti-social housing lobby and to set out the 'in principle' case as to why social housing has positive, potential future roles to play, even in an increasingly wealthy and better housed Britain.

In housing policy debate today, too often there is an implicit assumption that all the 'in principle' arguments favour market solutions and this needs to be challenged. There are failures inherent in urban land markets and in housing and finance markets that mean non-market provision, despite some limitations, may, in some circumstances, be the best choice for housing the poor. The UK housing system is both notoriously sluggish and income segregated, and indeed becoming more so, and the in principle case for a social rental sector is likely to have in practice salience. However, as presently designed, future changes in incomes, prices and preferences will, in all likelihood, lead to a relatively smaller sector (and this is a point of difference with Hill's conclusions).

However, there can be little policy appetite to recreate or perpetuate what social housing has become in much of England. The challenges are to create social rental housing that is *triple A – adequate, accessible and affordable* – and that its organisation should be *triple E – economic, efficient and effective*.

## Future approaches

The core of any future approach has to be a significant re-engineering of how social housing actually functions as a local, metropolitan or regional system. The social rental sector has to remake its internal and external connections. And this applies to tenants, individual managers and sets of providers.

Hills rightly emphasised that landlords should not simply be rationing clients in and out of social renting but enabling them to choose a range of different and personally tailored rental and owning solutions. Equally, with an expanding reliance on private rental provision for currently poorer, younger households there is also a strong case for exploring the interface of social renting and efficient market rental instruments. Above all, with the government unable or unwilling to control rising real house prices it is imperative that tenants be given 'routes to buy' with a share of rising asset values if social housing is not simply to be a long-term low-wealth trap. Renting and owning need to be reconnected as choices for tenants in the social rental sector.

Diversity in choices and flexibility of instruments is critical in developing a housing system that will work for the future. The key difficulties will be in assessing the extent of support to give to the different routes to offer individuals varied and coherently priced choices, whether it means social renting, private renting and low-cost home ownership.

Managers within the social rental sector recognise that changing economics and demographics alter needs and demands for their stock. But their hands are often tied and their portfolios fossilised by rules and political sensitivities. They need to be able to be effective asset managers and that involves buying and selling stock and offering not just pure social rental but mixed tenure solutions. Social landlords have to become local housing development agents.

The government, one way or another, inspects and influences the performance of all individual social landlords. Housing authorities have comprehensive strategic plans. The still statist thinking for social housing in Britain means, however, that nobody looks to the overall effectiveness of the provision system within the local housing system. Occasionally there is a concern about scale and mergers but system structure and functioning never gets past that issue. There needs to be a new housing management industry created, for social and other rental owners to use, that is designed not by turf and tenure but by contestable effectiveness. We need coherent economic design of how rental housing is financed, delivered and managed.

Breaking out of the boundaries of old provision systems is critical for change. There also needs to be recognition, in the financing and design of local delivery vehicles, that there are modern aims for the social

rental sector. This is now no longer just about adequate housing for the poor. Helping more diverse choices, asset management and a new industrial economics for the sector are all vital for change. However, all these activities are increasingly being promoted where the social rental sector has to contribute to community renewal or developing new sustainable and mixed communities. These are ambitious and complex aims. One cannot reach the stars by taking the Tube. Communities England will have to refashion multi-sector models that are fit for local purpose if new resources are not simply to run into old sumps.

Large and small islands of social housing monopolies should have no role in future housing policies for England, and indeed the rest of the UK. The aim has to be a well-supported system that is actually designed to deliver what is required and to connect the sector and all its tenants to wider social and economic systems.

It will take time. It will be essential to change that providers and politicians as well as tenants actually want to lead changes in systems and cultures of provision. Change will require longer processes of consultation and planning – a sense of how to proceed and where to start would be reasonable expectations. Hills has pointed out some possible directions and some more specific choice of routes to change.

## Recommendations

Making a new social rental sector requires actions at different levels of government and governance within the housing sector and there are major challenges for Communities England.

### *National*

- There needs to be a new national understanding of how social housing affects national wellbeing: a national standing committee (the Housing Productivity Commission) should be established.
- The government and its agents should address the yawning gaps in effective performance measurement, understanding and responsibility for identifying the overall efficiency and effectiveness of a local housing system. A national centre for assessing effectiveness should be established along with a performance database for both individual providers and local areas.
- The government should use stock transfer to assess the possibilities for post-transfer systems and their implications for consumers and costs.
- Conventional approaches for funding stock transfers should be reviewed to establish whether they have a real basis or are unduly conservative in scope and vision.
- A variety of new model 'social housing agents' should be developed.
- In the private rented sector there needs to be fast assessment of emerging niches in provision that could utilise the skills and diversify the interest of social providers.
- The government needs to understand the extent to which landlords could share equity gains with established tenants through equity.
- There needs to be an assessment of the rights and rents that are appropriate for different groups within a more diversified sector, perhaps through a formal review process during tenancies.
- The government should seek to identify the local settings in which they could develop the starting conditions for cross-tenure housing allowance pilots as a replacement for Housing Benefit, and assess the consequences of local rent structures on the use of stock, choices of households and efficacy of Housing Benefit payment.

## **Regional/local**

If national government is to create a framework of enabling measures, and to make clear principles for change, the bulk of the work would have to be at a more local level, involving all housing providers.

The Secretary of State should commission a series of regional/metropolitan reviews that would:

- Assess what housing actions need to be taken over the medium and long term to meet economic, environmental and social objectives – changing housing needs and demands would be at the core of such thinking.
- Review the structure and operation of social housing providers, in particular whether they operate as an effective local system, and identify opportunities for evolving organisations that serve as local housing agencies to actively manage assets, diversify tenures and renew places.
- Identify where variable rights, rents and regulations of the different fragments of the present system have to be removed to move towards an integrated system, where cooperation would facilitate integration, and determine changes necessary for a more consumer-oriented sector.
- Provide incentives to local support and integration.
- Identify the opportunity to create city and region-wide service provision companies (within the social rental sector) that have scale and contestability.
- Clarify to what extent community ownership, at a neighbourhood level, would be required to meet renewal roles.

## **Reference**

Hills, J. (2007) *Ends and means: The future roles of social housing in England*, CASEreport 34, London: ESRC Research Centre for Analysis of Social Exclusion, London School of Economics and Political Science.

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