

HOUSING AND POVERTY

Until recently, a combination of social housing, Housing Benefit and the homelessness safety net has provided protection against poverty. However, on current trends, there is a real danger that the housing system will create poverty and deprivation.

Key points

Housing and poverty

- Access to decent, low-cost housing can increase disposable incomes, prevent material deprivation and improve work incentives.
- Housing Benefit helps to reduce poverty but take-up is incomplete. It can also reduce work incentives and create poverty traps.
- Welfare reform and rents policy are creating tensions for social landlords, causing some to rethink their traditional role of helping the poorest. Key elements of housing and welfare policy have become localised and discretionary, and delivery is inconsistent.
- Private renting is set to continue growing as social renting declines. Private rents are forecast to rise by 90 per cent in real terms between 2008 and 2040, more than twice as fast as incomes, pushing up to half of private renters into poverty.
- Setting social rents closer to market levels could put an extra 1.3 million people in poverty.

Affordable housing supply

- Continued reliance on higher rents to finance new development will increase poverty and the Housing Benefit bill over the longer term. Investment can be maintained via a mechanism linking rents to incomes to ensure that they are genuinely affordable.
- Planning obligations are delivering fewer homes. Reforms should address transparency, viability and the definition of affordability in planning legislation.
- Ensuring that new homes are more sustainable will also make living in them more affordable.
- Investment in new homes creates jobs, and costs the government less over the longer term than subsidising high rents. Action is required by central and local government and by social landlords to support these aims.

The research

This is a round-up of existing research on housing and poverty, written by Jules Birch

JUNE 2015

1) INTRODUCTION

The research programme

What is the relationship between housing and poverty? This summary presents evidence emerging from a research programme commissioned by JRF as part of its overall commitment to developing an evidence-based UK anti-poverty strategy for all ages. This includes the role of housing in the lives of people experiencing poverty, and practical ways to ease the housing crisis for people in or at risk of poverty. Relatively little evidence has been available up to now on how housing affects experience of poverty or of how housing can act as a potential route into or out of poverty.

The research

JRF's housing and poverty programme has two main strands – the relationship between housing and poverty and affordable housing supply – and includes both a research and a practice element. However, both strands relate to wider questions about poverty and the housing system as a whole. Key questions include:

- What role can housing responses play in alleviating poverty or providing a route out of poverty?
- What is the relationship between a person's housing 'career' and their experience of poverty over their life course?
- What are the trade-offs faced by people living in poverty between housing quality, housing costs and living standards?
- How can the supply of affordable housing more effectively meet the needs of those living in poverty?
- How can we better provide homes for those who are most excluded?
- How can we build good-quality homes more cheaply?
- How should local authorities, housing providers and private landlords address poverty in their future strategies and business plans?

This paper draws on the reports from the programme itself and from wider research supported by JRF:

Housing and poverty

Clarke, A., Morris, S., Williams, P. (2015, forthcoming) *How do landlords address poverty?* York: JRF

Stephens, M., Leishman, C., Bramley, G., Ferrari, E. and Rae, A. (2014) *What will the housing market look like in 2040?* York: JRF

Tunstall, R., Bevan, M., Bradshaw, J., Croucher, K., Duffy, S., Hunter, C., Jones, A., Rugg, J., Wallace, A. and Wilcox, S. (2013) *The links between housing and poverty: an evidence review.* York: JRF

Gibb, K., Stephens, M., Wright, S., Reusche, D., Besemer, K. and Sosenko, F. (2015, forthcoming) *Housing and work incentives.* York: JRF

Housing supply

Brownill, S., Cho, Y., Keivani, R., Nase, I., Downing, L., Valler, D., Whitehouse, N. and Bernstock, P. (2015, forthcoming) *Rethinking planning obligations: achieving a balance between numbers and affordability*. York: JRF

Collins, H., Lupton, M. etc (2015, forthcoming) *Living rents – a future development framework*. London: Savills

Gibb, K., Maclennan, D. and Stephens, M. (2013) *Innovative financing of affordable housing: international and UK perspectives*. York: JRF

Harrison, B., Wilson, J. and Johnson, J. (2013) *Changes to affordable housing in London and implications for delivery*. York: JRF

Monk, S., Whitehead, C., Burgess, G. and Tang, C. (2013) *International review of land supply and planning systems*. York: JRF

Morgan, J., Bowles, G., Leishman, C., McWilliams, C., Peacock, A. and Sosenko, F. (2015) *Building sustainable homes*. York: JRF

Housing market

Ferrari, E. and Rae, A. (2011) *Local housing market volatility*. York: JRF

Stephens, M. (2011) *Tackling housing market volatility in the UK*. York: JRF

Stephens, M. and Williams, P. (2012) *Tackling housing market volatility in the UK: a progress report*. York: JRF

Welfare reform

Power, A., Provan, B., Harden, E. and Serle, N. (2014) *The impact of welfare reform on social landlords and tenants*. York: JRF

Wilcox, S (2014) *Housing Benefit size criteria: impacts for social sector tenants and options for reform*. York: JRF

Homelessness

Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S. and Watts, B. (2015) *The Homelessness Monitor: England 2015*. London: Crisis

Poverty

Davis, A., Hirsch, D. and Padley, M. (2014) *A minimum income standard for the UK in 2014*. York: JRF

Macfarlane, R., with Anthony Collins Solicitors (2014) *Tackling poverty through public procurement*, York: JRF

MacInnes, T., Aldridge, H., Bushe, S., Tinson, A. and Barry-Born, T. (2014) *Monitoring poverty and social exclusion 2014*. York: JRF

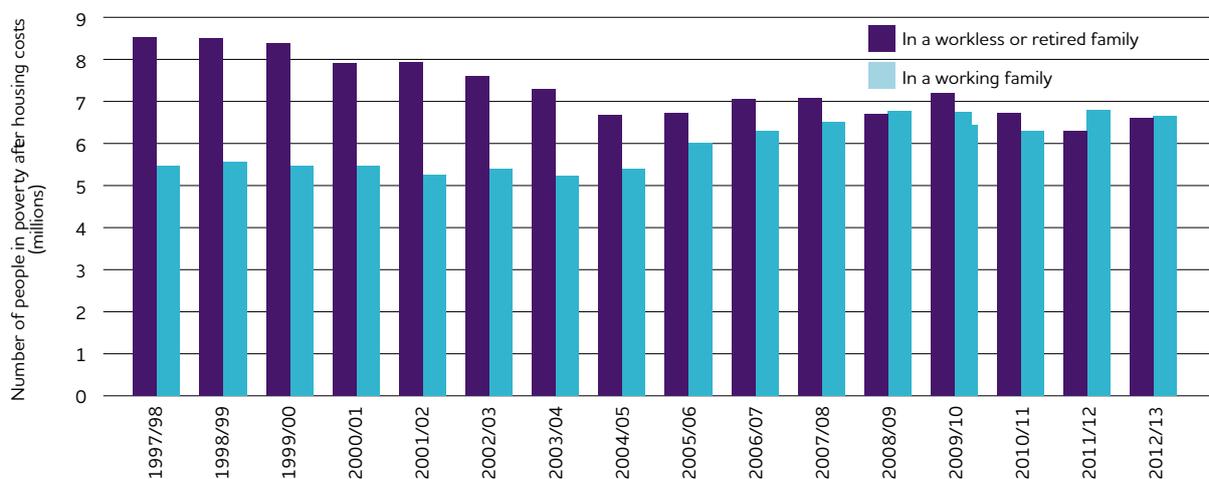
JRF is grateful to the Housing Studies Charitable Trust for its support of the Housing and poverty programme.

The context: poverty

The number of people in poverty rose by 2 per cent in the decade to 2012/13 to 12.9 million. However, research for JRF shows a changing pattern within that overall total (MacInnes et al, 2014):

- **Incomes:** The single biggest change is an 8 per cent fall in average incomes, which is mostly the result of falling wages since 2007/08. As the poverty measure is set relative to median incomes, this has the effect of reducing the number of people in poverty (the total would be 3.3 million higher if the 2007/08 threshold was used).
- **Work:** The UK employment rate is close to a record high but wages have not kept pace with rising costs since the recession. Three-fifths of people who moved into work in 2012/13 were paid below the living wage. Half of all people in poverty were in a working family.

Figure 1: Half of all people in poverty live in a family where someone is in paid work



Source: Households Below Average Income, DWP; the data is for the UK

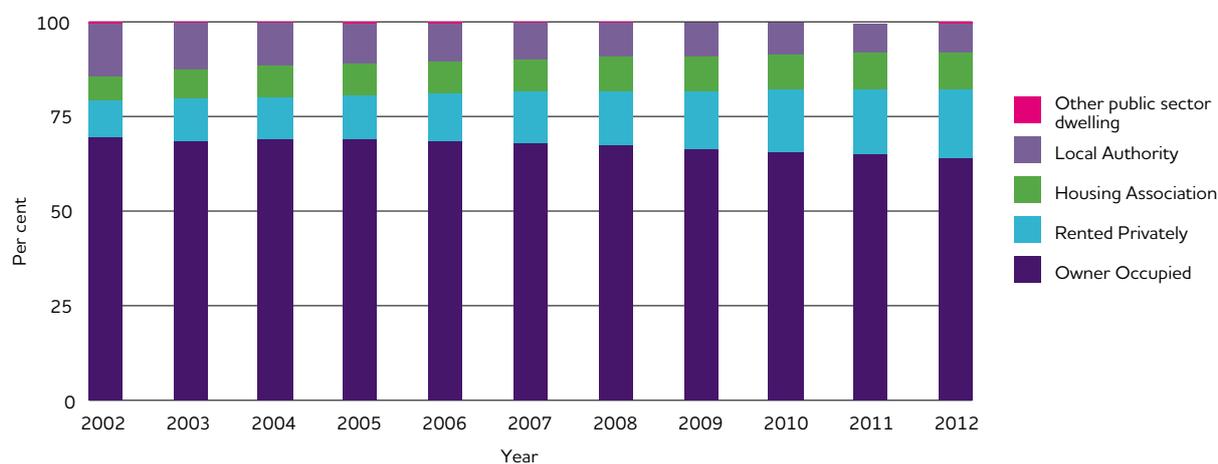
- **Tenure:** the number of private renters in poverty almost doubled from 2.2 million in 2002/03 to 4.1 million in 2012/13. Poverty fell among home owners and social renters.
- **Welfare reform:** Figures are only available up to 2012/13 and so do not reflect the impact of welfare reforms implemented in April 2013 such as the under-occupation penalty and the localisation of Council Tax support.
- **Housing costs:** Poverty is normally expressed as a relative measure before housing costs. The number of people living in poverty after housing costs is higher (see section 2).

The context: housing

The last decade has also seen major changes within the housing system (Collins et al, 2015, forthcoming):

- **Changing tenure:** Home-ownership in the UK declined from 69 to 64 per cent between 2002 and 2012. The private rented sector expanded rapidly from 10 to 18 per cent. In the last decade it has overtaken the social rented sector, which declined from 21 to 16 per cent. These trends are forecast to continue over the next five years and beyond.

Figure 2: Dwelling stock by tenure over time



Source: DCLG, Live tables on dwelling stock, Table 101, 2015

- **New homes:** Current rates of housebuilding in England are running at around half the level needed to meet existing and anticipated demand for new homes. This shortfall in supply is one factor in rising house prices. The private rented sector has grown mainly through the conversion of existing properties from other tenures rather than by new building.
- **Rising rents:** While mortgage costs fell following Bank of England cuts in interest rates after 2007, rents have risen faster than earnings. Rent increases for social housing are set according to an inflation-plus formula while data suggests that private sector rent increases have averaged 2 per cent a year since 2007.
- **Social housing:** Reforms since 2010 have included the introduction of higher Affordable Rents for new homes and some re-lets set at up to 80 per cent of market levels. Social landlords have also been given new freedoms to use fixed-term tenancies.
- **Homelessness and housing need:** Local authorities have more flexibility to house homeless families in the private rented sector and to set allocations policies according to local priorities.
- **Living standards:** Measures of the earnings required for a decent standard of living include assumptions about housing costs. Both the living wage and (until 2014) the minimum income standard have assumed that people live on social housing. The 2014 version of the minimum income standard assumes that pensioners and households with children live in social housing while adults without children live at the lower end of the private rented sector (Davis et al, 2014).
- **Wider costs:** Housing also has an influence on other costs such as energy bills. This is an increasingly important issue in debates about sustainability (section 3) and welfare reform (section 4).

However, these factors are only part of a market failure in the wider housing system. Failures in the credit market and housing market volatility have increased housing costs and pressure on affordable housing and pushed housing need up the income scale.

The context: welfare reform

Changes in the welfare safety net continue to have an impact on people experiencing or at risk of experiencing poverty (Power et al, 2014; Wilcox, 2014). These interact with reforms of Housing Benefit and changes to the housing system for people on low incomes and the homelessness safety net (Fitzpatrick et al, 2015). Welfare reform is explored in more depth in section 4 but a few key points are highlighted here:

- **Emphasis on work:** The Government sees employment as the route out of poverty for people on benefits.
- **Impact on incomes of poorest people:** Social housing tenants rely heavily on benefits and have been hard hit by the cuts.
- **Conditionality:** The benefits system has become much tougher and tighter, with more sanctions, exclusions and suspensions of payments for claimants.
- **Housing Benefit:** Reforms have affected tenants in both the social and private rented sectors. Despite these measures and falling unemployment, the cost of Housing Benefit has continued to rise thanks to a rising number of claims from private tenants and from working households.
- **Rent shortfalls:** Measures such as the under-occupation penalty, shared accommodation rent and bedroom caps mean that a growing number of tenants have to meet part of their rent from their other benefits.
- **Impact on landlords:** There is evidence that welfare reform has changed the relationship between tenants and landlords and made them more interdependent. Advice on employment and training and maximising income have become increased priorities for many social landlords but the reform has also led some to question their priorities in who they house.
- **Homelessness:** Welfare reforms such as benefit caps and the shared accommodation rate have had a particular impact on levels of homelessness in tight housing markets such as London. A weakening of the national housing and welfare system, including the localisation of key elements, has led to inconsistency and unevenness in policies designed to tackle homelessness.

The next three sections of this report summarise the evidence from research published or supported by JRF on the relationship between housing and poverty, affordable housing supply and welfare reform. The conclusion draws out the implications for policy and practice and for central and local government and social landlords.

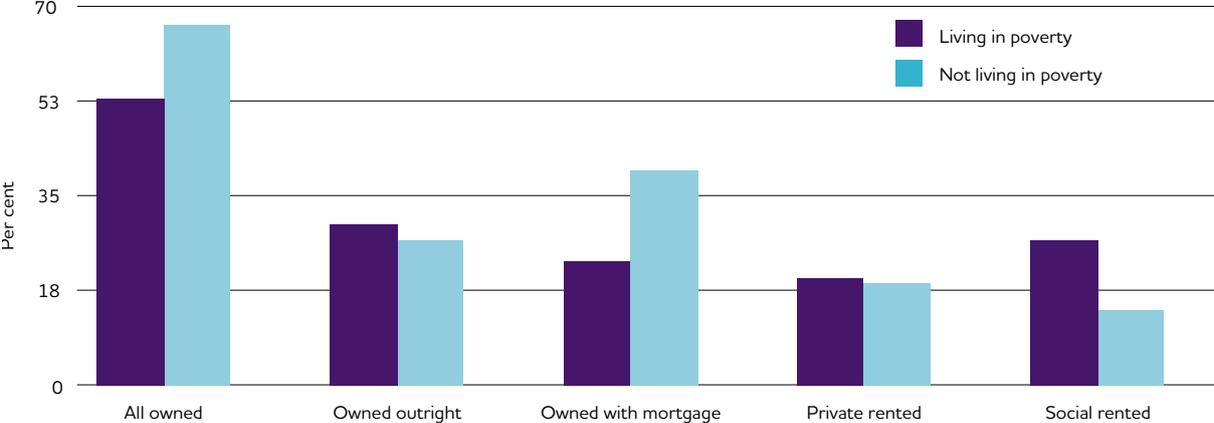
2) THE LINKS BETWEEN HOUSING AND POVERTY

A review of the evidence for JRF shows a two-way relationship between housing and poverty: housing can both mitigate and exacerbate the experience of poverty; and it can be both a charge on income (rent and mortgage payments) and a source of income (benefits and rents). The interaction between the two can have a big impact on the number of people defined as 'living in poverty' and who they are and has significant implications for policy (Tunstall et al, 2013).

In general, there is stronger evidence that poverty affects housing circumstances than that housing circumstances affect poverty. People living in poverty generally have worse, and less desirable, housing than those with higher incomes but they generally avoid bad housing too. The UK housing system (affordable housing, Housing Benefit and the homelessness safety net) is traditionally seen as a buffer against poverty and has been described as the 'saving grace' of the welfare system. Housing policies can partly break the link between lower incomes and worse housing conditions. Access to decent, low-cost housing can also help to increase disposable incomes, prevent material deprivation and maintain work incentives. However, high housing costs can also create poverty and material deprivation and increase costs for society as a whole.

The most widely used definition of poverty – people with a household income below 60 per cent of the national median taking into account the number of adults and children – is usually expressed before housing costs. On this basis, 20 per cent of the UK population experience poverty in any one year. When broken down by tenure, there is a strong relationship between social housing and poverty, but the table below shows the number of people living in poverty and not living in poverty in 2012/13 in each tenure:

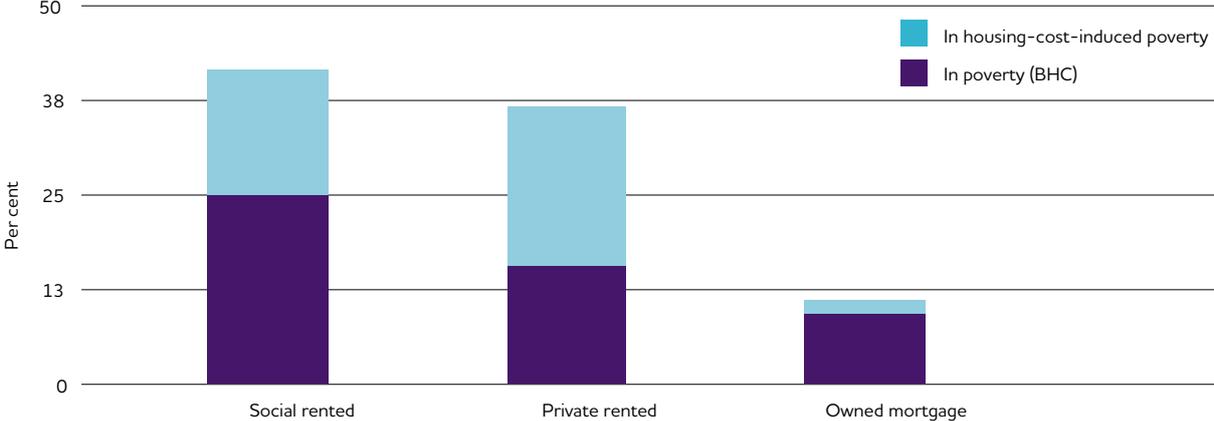
Figure 3: Housing tenure of those living in poverty and not living in poverty, UK, 2012/13



Source: DWP, Households Below Average Income, 2014

However, this before housing costs (BHC) poverty measure does not tell the full story. Overall, 5 per cent more of the population, around 3.1 million people, experienced poverty after housing costs (AHC) were taken into account. The before housing costs measure also significantly underestimates the risk of poverty for certain groups. For example, the graph below shows that this ‘housing costs-induced poverty’ is much higher for renters, and in particular for private renters, than for owners:

Figure 4: Poverty BHC and housing-cost-induced poverty by tenure, UK, 2012/13



Source: DWP, Households Below Average Income, 2014

The risks of housing cost-induced poverty are also significantly higher for workless households, minority ethnic groups and single people, and in certain regions. Once housing costs are taken into account, the number of Londoners living in poverty almost doubles from just over one million to just over two million. The principal targets set in the Child Poverty Act 2010 are based on income before housing costs and so overlook many children living in poverty.

Housing and poverty: The evidence

Researchers commissioned by JRF analysed a decade of UK evidence to explore the relationship between housing circumstances and the experience of poverty. They explored broader questions about the effect of poverty on people's lives and the role of housing in enabling people to take up employment. In summary:

- People living in poverty have a higher risk of worse housing conditions than others.
- Housing policies partly break the link between poverty and worse housing conditions.
- Poor housing conditions affect some aspects of child development and adult health, and may affect income and employment.
- Housing costs create poverty and material deprivation.
- Regional variations in housing costs affect poverty and material deprivation (for example, there are one million extra 'poor' Londoners after housing costs).
- Housing Benefit helps prevent poverty and material deprivation.
- But Housing Benefit also reduces work incentives and creates unemployment and poverty traps.
- Rent levels affect financial work incentives and unemployment and poverty traps for tenants.
- Building homes creates jobs.

Source: Tunstall et al (2013)

Housing Benefit helps to reduce housing costs-induced poverty and enables people to live in homes that they would not otherwise be able to afford. However, take-up is incomplete (only about half of eligible working tenants claim Housing Benefit) and it is not available to home-owners. More tenants are also finding that they have a shortfall between their rent and their Housing Benefit as a result of recent welfare reforms, such as the under-occupation penalty, shared accommodation rate and benefit and bedroom caps. Housing Benefit is available to people in work as well as out of work but it can create work disincentives and 'poverty traps' because of the way it interacts with other benefits and the rate at which these are withdrawn as income rises.

Social housing and the low rents charged by councils and housing associations tenants make an important contribution to reducing housing cost-induced poverty and material deprivation among tenants. It is highly targeted at people with low incomes and has been shown to be the most 'pro-poor' and redistributive aspect of the welfare system. Calculations of the living wage and the minimum income standard assume that people are living in social housing (though this no longer applies to adults without children in the 2014 MIS). However, 29 per cent of social housing tenants are still living in poverty before housing costs and, despite low rents, 43 per cent are living in poverty after housing costs.

Housing pathways

Researchers commissioned by JRF have also examined longitudinal evidence on 'housing pathways' – combining the types of tenure people were in throughout the period with events in their lives over the same time – and how they relate to poverty and housing deprivation (Stephens et al, 2014). The study analysed the experiences of 5,000 people over the 18 years between 1991 and 2008 and the relationship between these two factors and other indicators. Housing deprivation is defined as experiencing damp or hard-to-heat housing combined with overcrowding at any point during the 18 years.

Overall, more than a third of people had experienced some form of poverty. For most it was a temporary experience but for 10 per cent it was chronic, meaning two or more spells of poverty lasting for three or more consecutive years. Other main findings included:

- People with housing pathways rooted in settled home-ownership experienced above-average levels of temporary poverty but relatively low levels of chronic poverty. Those with pathways rooted in settled social renting experienced rates of chronic poverty 3.5–5 times the average of the sample as a whole.
- Events such as changing marital status, downsizing, falling earnings and retirement were associated with more severe forms of poverty across all tenures.
- Sixty per cent of those who experienced housing deprivation also experienced chronic poverty but more than 85 per cent of those who experienced chronic poverty did not experience housing deprivation.
- Housing deprivation is found most often in London boroughs in England but also in rural local authorities in Wales and Northern Ireland.

A second project by the University of York is exploring these ideas further through a longitudinal, qualitative study. The aims are to understand the processes by which the dynamics of housing circumstances affect people's experiences of poverty at different stages of their lives and to identify policies and practices that can improve outcomes by better preventing, mitigating and reducing poverty.

The evidence underlines the importance of housing policy in reducing housing costs and the crucial role of affordable housing. However, it also points to the need to pay closer attention to the after housing costs poverty measure and to housing costs-induced poverty.

Social landlords and poverty

Social landlords and social housing have traditionally played a vital role in providing homes for the poorest households and in alleviating poverty. However, policy changes present challenges including welfare reform, higher rents for new homes and reduced funding for development and welfare reform and trends in housing tenure mean growing numbers of low-income households now live in the private rented sector.

A study commissioned by JRF set out to discover how landlords are responding to these challenges in their policies, strategies and business plans and what happens in practice (Clarke et al, 2015, forthcoming). Key findings include:

- There is a clear social ethos within the social housing sector but this is not always expressed in terms of addressing poverty.
- New development is a key part of the mission of most social landlords. However, most of those engaged in development said they had no option but to develop homes for Affordable Rent rather than social rent and to convert some re-lets of existing homes. Most were also cross-subsidising affordable housing through development of market housing.
- There was some uncertainty about who Affordable Rent housing should be for: some landlords were prioritising working households for it and setting stringent affordability tests for it while others saw it as being for those in need of social housing, including the poorest people.
- Most landlords felt they had no choices on rent setting for social rent and Affordable Rent tenancies and charged as much as they could.
- There is a tension in high-rent areas between maximising development and helping the poorest tenants. Reactions to this varied from capping rents at a local level to increasing spending on fuel efficiency to refusing tenancies to people unable to afford the rent.

- Two identifiable themes emerged in landlords' written strategies on selecting tenants: some re-asserted their traditional role of housing people in poverty but many are rethinking this and aiming to house a wider range of groups.
- This has created tensions with local authorities, which need housing associations to house the poorest people in order to fulfil their statutory obligations.

Work incentives

Successive governments have promoted employment as the best route out of poverty. Welfare reforms have concentrated on incentives to 'make work pay' and increased use of conditionality. A study for JRF explored the relationship between housing and work incentives (Gibb et al, 2015, forthcoming). Key findings include:

- Housing has profound impacts on work incentives for people competing for low-paid jobs that tend to be disproportionately part-time and insecure. Recent changes in the labour and housing markets have combined to make employment less attractive for this group.
- Contrary to widespread perceptions about a widespread reluctance to work, there is a very strong work ethic among people likely to command only modest wages and nobody who took part in the study indicated satisfaction with living on benefits. However, the costs of housing, transport and childcare create multiple disincentives to employment.
- Neighbourhoods facilitate social networks that provide informal recruitment channels, which enable people to find employment and vital support networks, notably for childcare, once they do. This helps explain a reluctance to move to another area.
- Along with housing, reliable and affordable transport is a key constraint to taking up work and seeking to advance within work.
- More secure tenancies would improve people's willingness to move and lower rents would provide a much clearer financial incentive to work.

3) AFFORDABLE HOUSING SUPPLY

Overall housing supply has failed to keep pace with household formation in England in particular over the last ten years. The same is true of affordable housing supply and housing need as funding has come under increasing pressure, initially due to a general move away from bricks and mortar subsidies and more recently as a result of austerity. With less public subsidy available for affordable housing, provision has come to rely on higher levels of private borrowing and higher rents for new homes. Contributions to affordable housing from private developers via planning obligations have fallen since the recession in the wake of concern about the overall viability of projects.

Previous work for JRF has shown that a general increase in supply is necessary to reduce volatility and maintain affordability and stresses the importance of social housing (Stephens, 2011). Recommendations from the Housing Market Taskforce included reform of taxation, mortgage lending rules and the safety net for home-owners, and a switch in housing subsidy from Housing Benefit to supply as part of a new model for financing affordable housing (Stephens and Williams, 2012).

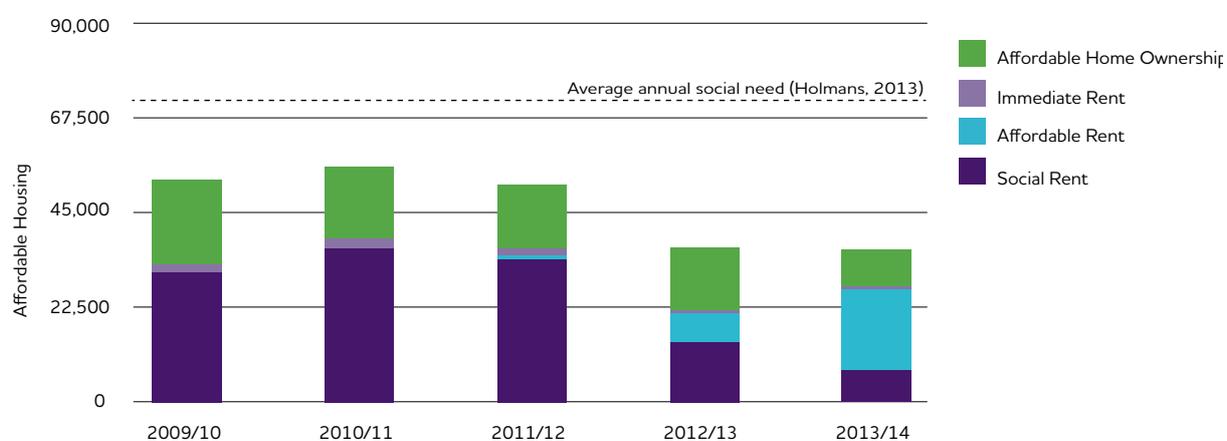
Spatial variations in housing and labour markets also have significant implications. The UK has one of the most volatile housing markets in the world. However, a study for JRF highlights the importance of demand-side disparities – jobs, economic change, migration patterns – rather than the supply side in explaining housing market trends (Ferrari and Rae, 2011). The evidence suggests a move from market volatility to local volatility with areas at both ends of the deprivation scale becoming disconnected and a large percentage of moves taking place between one deprived area and another. The result is increasing residualisation of poverty and wealth.

Figure 5: Affordable Housing Starts funded by the HCA and the GLA



Source: Department for Communities and Local Government, Affordable housing starts and completions, England 2014

Figure 6: Affordable Housing Completions funded by the HCA and the GLA



Source: Department for Communities and Local Government, Affordable housing starts and completions, England 2014

The extremes are most apparent in London, which is experiencing falling home ownership, rising homelessness and temporary accommodation and a mismatch between housing supply and demand. A study for JRF called for a new sustainable delivery model underpinned by clearer definitions of 'affordability' and 'housing need' (Harrison et al, 2013). It also highlighted:

- tensions between current housing policy and welfare reform and affordability and housing need;
- confusion among providers about who affordable rent homes are for – those in greatest need or those with higher incomes;
- broader housing need – from people who don't qualify for state help but can't afford to live because of high house prices;
- a need to use existing homes more efficiently.

Studies commissioned by JRF have analysed UK and international evidence on the construction and financing of affordable housing, land supply and the planning system, and examined how policy on rents could balance the need to ensure affordability for low-income tenants with the need to enable construction of new homes.

Rents

Home-ownership is shrinking, private renting growing rapidly and social renting declining. Provision of new homes is failing to keep pace with household formation. Real wages have recently begun to grow thanks to falling inflation, but fell in the previous four years. Rents have tended to rise faster than earnings, especially in the social rented sector, thanks to an inflation-plus formula for rent increases and a move to more expensive affordable rents set at up to 80 per cent of market levels.

Projections in JRF suggest that these trends will continue to 2040, with further declines in home-ownership and social renting, private renting housing a fifth of the population and private rents rising by 90 per cent compared to 2008 (Stephens et al, 2014). The same study estimates that setting social rents closer to market rents could push at least an extra 1.3 million people into poverty by 2040 and cost an additional £20 billion in Housing Benefit.

The evidence in section 2 highlights the importance of low-cost renting in reducing housing costs-induced poverty and material deprivation and in improving work incentives and reducing poverty traps. However, housing policy has been focused on supporting rents through Housing Benefit rather than reducing the cost of housing through capital grant. Since 2010, investment in new affordable homes has been cut and rents have risen. This has increased the pressure on tenants in low-paid work and will increase the Housing Benefit bill in the longer term.

In this context, JRF and the National Housing Federation commissioned an investigation into ways of ensuring that rents are genuinely affordable at the same time as maintaining investment in new homes (Collins et al, 2015 forthcoming).

The researchers looked for a mechanism for linking rents to the average earnings of those who are being housed by social landlords. The proposed Living Rent model is designed to reflect local earnings and the differing composition of households in different-sized properties. The starting rent is set at 28 per cent of net earnings. In general, Living Rents have a larger differential between property sizes than – and are higher than – current social rents in some cases and lower in others. They are significantly lower than Affordable Rents, highlighting that these are not affordable for people in work in many areas.

However, the transition to a new rent regime would need to be carefully managed to avoid disruption to social landlords' business plans. The report concludes that a phased approach applying Living Rents to relets and new properties developed with government support would be challenging but feasible for landlords. Rents would be linked to inflation (CPI) but rebased according to changes in earnings every five years.

The report argues that a Living Rent Framework could be the basis of a partnership between providers, developers, local authorities and government to maximise resources. This could deliver 80,000 homes a year at sub-market rents, of which at least half would be let at Living Rents. The programme would cost an additional £1.15 billion a year in public investment but deliver wider economic benefits to the economy and reduce spending on Housing Benefit as well as improving the low-income families.

Planning obligations

Planning obligations or Section 106 agreements are a vital delivery mechanism for new affordable homes. They are agreements between local planning authorities and developers to secure financial contributions to essential infrastructure such as affordable housing, transport and open space. In 2006/07 they delivered 30,000 affordable homes (65 per cent of the total) but in the wake of the credit crunch this fell to 15,640 (42 per cent) by 2012/13.

A study commissioned by JRF attributed the decline to policy changes and volatile markets but also found considerable local variation (Brownill et al, 2015, forthcoming). In six case study areas, the proportion of affordable housing delivered through S106 varied from 3 to 86 per cent. The state of local housing markets, the strength of planning, and other policies and skills in negotiating agreements are all factors in the effectiveness of S106.

National and case study data also indicates that recent changes to the planning system have had an impact:

- a change in the definition of 'affordability' in the National Planning Policy Framework (NPPF) to mean housing below market value rather than what households can afford;
- greater emphasis on the viability of schemes and more flexibility for developers to renegotiate agreements if they can show they make a scheme unworkable;
- S106 becoming the only negotiable element of planning obligations, following the introduction of the Community Infrastructure Levy (CIL) for all non-site specific infrastructure apart from affordable housing;
- the replacement of regional planning with a duty to co-operate between neighbouring authorities.

Further changes have been introduced since the research was completed, including a reduction in the threshold for the number of homes on a site requiring S106 and waiving obligations on some schemes in return for a discount on market housing.

Despite these constraints, the study concluded that it is possible to maximise the provision of affordable homes by strengthening the operation of S106 and empowering local authorities and their partners to supplement S106 through local strategies. The researchers found that local mechanisms are being developed to supplement S106 including partnerships with developers on public land in Newcastle, the London Housing Bank, cross-cooperation between authorities to deliver large settlements in Cambridgeshire and the use of community land trusts in Cumbria.

The keys to making S106 more effective should be:

- greater transparency in the viability process;
- clarifying viability parameters used to ensure appropriate capture of land value uplift;
- changes to the definition of affordability in planning legislation are key to strengthening the operation of S106.

Priorities for supplementing S106 should be a 'golden triangle' of:

- **land:** increasing access by measures including lifting the requirement to dispose of public land at the highest price and the use of compulsory purchase orders;
- **finance:** including devolving increased financial capacity to the local level;
- **strategic leadership:** potentially through an enhanced role for City Deals and Local Enterprise Partnerships.

Sustainable homes

Improving the sustainability of housing is important in meeting the challenge of climate change but it can also help to make housing more affordable by cutting energy bills, and this more affordable warmth promotes health and well-being at a local level. The sustainability of new homes in the UK has improved, but at a cost. JRF commissioned a study of how to build sustainable homes more cheaply (Morgan et al, 2015). It argues that a balance needs to be struck: standardising energy efficiency regulations leads to cost-efficient delivery but wider sustainability can only be achieved by responding to local needs.

Regulation has driven the sustainability of new homes up to now, particularly Part L of the Building Regulations (conservation of heat and power) and the 2016 target for 'zero carbon' homes. However, a 'performance gap' between schemes 'as designed' and 'as built' means that standards are not

necessarily reflected in actual sustainability performance. Modern methods of construction (MMC) including off-site manufacture have been shown to be more effective in improving sustainability but take-up so far has been limited because developers see them as risky and not financially attractive. The market also lacks the volume that would reduce risks, ease innovation and bring down costs.

The study found that the cost of improving sustainability to zero carbon levels depends on the methods used. Significant changes in the building fabric would cost around 13 per cent more. A mix of simple building fabric solutions and technology could increase costs by 2.5 to 4 per cent but sustainability gains would depend on householders using the technology correctly. Government measures to permit 'allowable solutions' (offsetting carbon emissions in other places rather than on site) will reduce the combined cost further. However, an increase of 20 per cent in planning permissions would potentially increase the supply of new homes by over 3.5 per cent and more than compensate for the loss in supply due to increased sustainability.

Addressing fuel poverty and the affordability of living in a home are key motivations for social landlords to build more sustainably. Greater neighbourhood sustainability can deliver longer-term 'lettability' with shorter void periods and reduced rent arrears. However, private developers find that the additional costs of building more sustainably are not reflected in house prices and social landlord schemes are appraised on upfront capital costs rather than whole-life costs.

Affordable homes: the international evidence

Reviews of the international evidence, commissioned by JRF, show that these trends are not confined to the UK but there are some valuable lessons that could be learned. A study of the financing of affordable housing (Gibb et al, 2013) shows:

- a general shift upmarket to shallower subsidy regimes and 'affordable' rather than social rents despite pressures on Housing Benefit and increased housing need;
- a need to stretch limited public subsidy and increase private contributions to deliver additional affordable housing;
- higher rents and more limited security of tenure will have profound consequences for people on low incomes;
- an emphasis on the use of state-backed guarantees, competition among providers and getting the most from existing assets;
- an opportunity to creatively blend different forms of subsidy and encourage co-operation among providers, based on principles of solidarity. There are ideas to draw on from around the world and from the different countries of the UK;
- a long-term need to address fundamental market failures in the land and credit markets and to prioritise funding programmes for social housing.

An international review of land supply and planning systems identified five main themes: proactive growth management by planners; an active role by local authorities in land assembly; mechanisms for infrastructure provision; compensations and incentives for local authorities; and land value capture (Monk et al, 2013). The review highlighted three main implications for England:

Incentives: Land assembly and land readjustment (including compulsory purchase) are powerful tools to enable larger development. Measures that help stabilise expectations about future land prices would change landowner and developer behaviour. Incentives to enable development work better where the local authority retains local taxes and they are spent on local services.

Growth management: Planners need to look beyond the containment of urban sprawl by operating the green belt more flexibly and revisiting the boundaries more regularly. They should monitor land supply and respond to price changes by adjusting potential supply.

Infrastructure: Provision in advance of, or alongside, development is essential. Funding can come from land value uplift, taxation and debt finance paid for from a growing tax base. A rolling infrastructure fund has clear potential.

The study concludes that:

- increasingly sustainable homes cannot currently be built more cheaply;
- a mixed approach of near carbon-free housing on site and allowable solutions off site may be the most cost-efficient way to reduce carbon emissions;
- a single energy standard would allow large-volume production for increased sustainability;
- local authorities need a continuing role in ensuring that allowable solutions are used effectively and that sustainable places are promoted.

4) WELFARE REFORM

Changes to benefits in general and Housing Benefit in particular are having profound consequences for low-income households and people living in poverty. Measures such as the under-occupation penalty and benefit cap, and the way that these interact with the rest of the housing system, are also changing the relationship between tenants and landlords and causing some landlords to rethink policies on housing those most in need.

As seen in Section 2, Housing Benefit helps prevent poverty (in particular, housing costs-induced poverty) as well as material deprivation and housing deprivation. However, there are some tensions between this role and the assumption within the welfare reform policies of recent governments that employment is the best route out of poverty. In particular, there is a trade-off between using Housing Benefit to prevent poverty and avoiding a poverty trap for people moving into work. This is exacerbated by lack of take-up of Housing Benefit by people in work. Universal Credit aims to address some of these problems but its introduction has been delayed.

Evidence from JRF research into the impact of welfare reform raises basic questions about living standards for people living in social housing, who gets housed in it and what happens to the poorest households if they are excluded from it (Power et al, 2014). The study concluded that tenants and social landlords alike are struggling with the impacts of welfare reform and that the ripple effect within communities is far greater than government figures suggest. Social landlords work with the most disadvantaged people in the most disadvantaged areas and so are hard hit by the reforms.

The impact on tenants

Household unemployment was high among tenants interviewed for the study but many tenants were looking for work and most had spent their life in work. Those in work tended to be in low-paid, insecure service jobs. Over half of the tenants interviewed were in ill-health or had a disability. The study found that:

- Whether they were in work or not, the vast majority of tenants received some kind of income support, including Housing Benefit, Child Tax Credit and Working Tax Credit.
- Most were affected by changes to benefits, most often by Council Tax payments or the under-occupation penalty.
- Tenants generally accepted the need for cuts but were critical of how they were being implemented. Private contractors running eligibility assessments were unpopular and mistrusted.
- They were struggling financially and worse off than two years before. Coping strategies included cutting back on food, heat and electricity, falling into debt, using savings and selling belongings. Many tenants had borrowed from family and friends and food banks are playing an increasing role in meeting emergency needs.

- Tenants were showing resilience and skill with tiny amounts of money but recognise the need for financial advice and access to banking and credit unions.

The impact on landlords

A survey of housing associations for the same study found that their relationship with tenants has changed, with people whose rents were paid direct now needing support and personal contact. Landlords were concerned about poverty among tenants and expected arrears to rise, leading to evictions. They were providing advice on jobs and benefits and managing rent payments and bills, tackling fuel poverty and accessing hardship funds and food banks. The study also found that:

- Associations were intensifying scrutiny of applicants for new 'affordable' tenancies to ensure that they can pay higher rents.
- Some of the poorest applicants (whether in work or not) were being rejected and screened out and advised to apply for cheaper homes.
- Fuel bills, which were increasing at the time of the study, were causing rising debt, and advice and investment in energy-saving measures were growing priorities for landlords.
- Landlords were worried about the future and concerned that the advantages of Universal Credit may be undermined by other cuts. Discretionary housing payments were helping some tenants but are time-limited and not seen as a long-term solution.
- The financial pressures on landlords caused by welfare reform were raising doubts about future development plans.
- Landlords were struggling to reconcile their commitment to housing low-income tenants with their financial viability and their aspiration to provide more housing for those in need with their responsibility to existing tenants.

Under-occupation penalty

The measure that has caused the most controversy in the social rented sector is the under-occupation penalty, or Housing Benefit size criteria (also known as the 'bedroom tax' or 'removal of the spare room subsidy'). A study for JRF covering the first six months of the policy (to October 2013) highlighted a failure to deliver the expected savings, inconsistent implementation and a disproportionate impact on households with a disabled member (Wilcox, 2014).

Homelessness

The Homelessness Monitor 2015 identified a number of key trends in the homelessness and welfare systems:

- a strong set of incentives for local authorities to steer households away from making a statutory homelessness application, particularly in authorities that have adopted private rental rehousing powers under the Localism Act;
- the combined effect on homelessness in London of an extraordinarily tight housing market with welfare reforms such as the benefit and bedroom caps;
- particular problems for young single people caused by the Shared Accommodation Rate;
- many local authorities appear to be making use of new powers under the Localism Act to restrict access to their housing lists significantly;

- continuing 'localisation' of key housing and homelessness policy and practice frameworks and in welfare benefits. Locally-prescribed, discretionary schemes including Discretionary Housing Payments, Local Welfare Assistance and council tax support are supplementing a weakening national welfare system but coverage and delivery are inconsistent and uneven.

5) IMPLICATIONS FOR POLICY AND PRACTICE

There is a complex, two-way relationship between housing and poverty: the housing system can help to prevent poverty but can also cause it. A housing policy that maximises the first while minimising the second will contribute to more equitable outcomes and reduce the costs of poverty over the longer term.

The UK market has suffered from persistent price instability for the last 40 years. These problems have been exacerbated by volatility in credit markets and a long-term failure to build enough homes. House prices have risen faster than earnings and home-ownership has fallen, especially among younger people and in regions such as London and the South East. This has left millions of people reliant on the private rented sector, which offers choice but not long-term security, especially for families with children. The social rented sector offers security and more affordable rents that improve work incentives but it is declining and new investment is in short supply. Housing Benefit enables millions of poorer tenants to pay their rent and has helped to prevent poverty and deprivation but it also creates poverty traps for tenants looking to move into employment or increase their hours, and costs to the Exchequer have been rising.

In the wake of the credit crunch and austerity, current housing policy relies on shallower public subsidy and higher rents for social housing at the same time as the Government is looking to control the cost of Housing Benefit as part of a more general programme of welfare reform. Meanwhile the structure of the labour market and falls in real earnings mean that housing is becoming more unaffordable for millions of people. This creates obvious tensions: contradictions between the policies of different government departments; problems for local authorities in carrying out their statutory duties; and dilemmas for social landlords to questioning whether they should continue to look to house those most in housing need or those with higher incomes who can afford the rent.

The risks are now so acute that housing's role as a buffer against poverty and deprivation will be undermined and that the housing system could instead create more poverty and deprivation. Research for JRF projecting to 2040 suggests that:

- Poverty rates are likely to be higher and the relationship between poverty and housing deprivation stronger by 2040.
- Housing costs will continue to rise – with private rents forecast to rise by around 90 per cent in real terms.

Figure 7

Private rents in England are forecast to **rise by around 90%** in real terms between 2008 and 2040 – **more than twice as fast as incomes.**



- The decline of social housing and home-ownership and growth in private renting will continue – with one-fifth of the population housed in this tenure by 2040.
- Poverty can only be contained on assumptions that the supply of housing nearly doubles to 200,000 units per year, tenure patterns are unchanged, Housing Benefit meets a similar proportion of rents as in 2008 and social rent rises are controlled.
- On current trends in housing policy, these assumptions look optimistic.

(Source: Stephens et al, 2014)

The relationship between housing and the benefits system is also changing. A study for JRF on the impact of welfare reform found that it:

- may make tenants more, not less, dependent and certainly more vulnerable (risk of debt and eviction, shortage of necessities, foodbanks etc);
- makes landlords focus more on existing property and current tenants, limits housing associations' ability to build more and is leading to the exclusion of the poorest applicants from new lettings;
- may cost the Government more as reliance on private renting grows, due to social housing shortages, leading to higher Housing Benefit costs.

(Source: Power et al, 2014)

These developments are not inevitable but the action required to prevent them from happening poses challenges for policy and for practice and for central and local government and social landlords alike. Here are some factors they should consider:

IMPLICATIONS FOR CENTRAL GOVERNMENT

Poverty and affordable housing

Consideration of policy should start with a recognition of the role that low rents and secure tenancies in social housing can play in preventing poverty and improving work incentives. Social housing is becoming increasingly essential in an insecure and risky labour market. Rather than being a barrier to work, it is a springboard to employment. To enable that to happen, government will need to start to reverse the shift from bricks and mortar to personal subsidies to increase investment in social housing. This will also reduce long-term spending on Housing Benefit.

Affordable Rents at up to 80 per cent of market levels and intermediate rents may have a role to play in providing homes for different income groups. However, they are not affordable for low-income households in most areas. Relying on them will mean rising poverty unless government is prepared to countenance a spiralling Housing Benefit bill. One alternative would be to implement Living Rents that are linked to the earnings of those who live in social housing. Investment of an extra £1.15 billion a year could deliver 80,000 affordable homes a year, of which half would be at Living Rents. This would help to reduce poverty and long-term costs to the Exchequer. It would represent a sizeable contribution to the 200,000 homes of all tenures we need each year to contain poverty at current levels.

There are also lessons to be learned from international experience on how to maximise the effectiveness of public investment in new homes. This could include freeing local authorities to maximise their contribution to affordable housing.

Housing deprivation

Poor housing conditions affect health and may have long-term effects on incomes, employment and public spending. The Decent Homes programme successfully improved housing conditions in the social rented sector. However, recent evidence suggests that the poorest households are increasingly being housed in the private rented sector. Government should continue to monitor and take steps to maintain decent housing conditions for all households in all tenures.

Welfare reform

The current approach should be modified to maintain the emphasis on employment but avoid changes that create poverty and deprivation. For example, the under-occupation penalty should be repealed, or at least substantially amended to protect disabled people and people who cannot move to another property. Maintaining safety nets now can prevent costly outcomes later. Government should encourage increased take-up of Housing Benefit (and Universal Credit), especially among people who are in work and living in the private rented sector.

Welfare and homelessness

The combined impact of a weakening of the national housing system and growth of discretionary, locally-determined policies urgently needs reviewing. The result has been patchy and inconsistent support for homeless and vulnerable households. The aim should be to establish a new national minimum with clear rights and entitlements.

Procurement and poverty

Government should look to maximise the benefits of housing investment by making tackling poverty a clear strategic aim within public procurement.

Planning and housing

For housing supply in general, government should look beyond urban containment within the planning system and be prepared to revisit green belt boundaries so that housing land supply can respond better to price signals. It should consider introducing a rolling infrastructure fund to facilitate infrastructure provision before, or alongside, new housing development.

On planning and affordable housing, government should continue to ensure viability for developers but make viability criteria more transparent. 'Affordable' should be defined within planning legislation to mean in relation to earnings rather than sub-market. International experience suggests that the planning system could be used to supplement planning obligations, and could increase incentives to approve development by devolving more funding and tax powers.

Sustainable homes

A clearer policy framework is needed. Government should base policy on a mixed approach of near carbon-free housing on site and allowable solutions off site as the most cost-efficient way to reduce carbon emissions. It should encourage the development of more sustainable homes by introducing a single energy standard to allow large-volume production. Local authorities should be given a continuing role in ensuring that allowable solutions are used effectively and that sustainable places are promoted.

FOR LOCAL GOVERNMENT

Planning and development

Local authorities should learn from local best practice to maximise delivery of affordable housing through planning obligations/Section 106. They should ensure that local planning policies prioritise the provision of affordable housing accessible to people on the lowest incomes. Supplementary planning documents and S106 agreements can also set localised conditions and criteria for viability assessments and planning agreements, and specify rent levels that are affordable to those on the lowest incomes.

Viability is a crucial issue. Local authorities should establish specialised viability officers or teams within planning departments and provide additional training in viability for officers and members. They should also take a dynamic view of viability with review mechanisms and agreements to enable more affordable housing to be provided in later phases of schemes if sales performance is above that set out in the original viability appraisal.

As part of a more active role in the delivery of housing, local authorities should use public land to support the development of genuinely affordable homes.

Procurement

Tackling poverty should be a key priority in procurement decisions. While complying with UK and EU rules, local authorities could do more to target recruitment and training opportunities at disadvantaged people and enable social enterprises to bid for contracts.

Homelessness

Local government should review its support for homeless and vulnerable households. First there should be a national review of the patchy and inconsistent impact of localised and discretionary policies, and a strengthening of the national housing system.

Council housing

For the implications for local authorities as social landlords, see below.

FOR SOCIAL LANDLORDS

Strategies

Social landlords are distinguished from private landlords by their social mission. Tackling poverty should be an explicit aim in social landlords' business plans and strategies, including decisions on rent setting and procurement. All social landlords should aspire to become Living Wage employers and Living Rent landlords.

Rent setting

Current policy creates tensions for social landlords between their traditional role of housing people who are most in need and looking to higher-income groups that can afford higher rents. Social landlords can only operate within the bounds of what is possible within current policy and economic constraints. However, a strategy that relies on charging Affordable Rents that are not affordable to low-income tenants and directing the poorest households into social tenancies will become increasingly difficult over time. Living Rents offer an alternative framework that will be affordable for low-income households and a phased approach to implementation will be feasible within landlords' business plans.

Sustainability

Social landlords should include energy efficiency considerations in developing affordability strategies. Where possible, whole-life costing should be used to assess new schemes.

Procurement

See the procurement implications for local government.

Supporting tenants

Welfare reform continues to change the relationship between social landlords and their tenants. Support for tenants with advice on employment, training, income maximisation, benefits and energy efficiency is essential.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

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