Low-income homeowners in Wales

Roger Burrows and Steve Wilcox

This report sets out the extent and characteristics of low-income homeowner households in Wales, and discusses some of the main policy issues arising from those findings.

The report provides a new analysis of low-income households in Wales, and shows that on a variety of measures they broadly comprise half of the poorest households in Wales. This includes new poverty measures developed by the authors that take fuller account of homeowners' housing costs than the official HBAI measures. Evidence from the Welsh House Condition Survey also shows that the majority of poor condition housing stock is occupied by homeowners. The report outlines the limited government support provided to low-income homeowners and discusses a range of taxation and housing policy issues, focusing on issues that are devolved to the National Assembly for Wales.

The report shows that low-income home-ownership is more widespread in Wales than elsewhere in Britain, and includes two-thirds of all low-income pensioner households in Wales, and two-fifths of all children living in low-income households. In contrast, only a fifth of government expenditure on housing grants, subsidies and benefits in Wales goes to homeowner households.

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Executive summary

Earlier reports have drawn attention to the significant proportion of homeowners among the poorest households in the UK, however ‘poor’ is defined.

Wales has for many decades had the highest proportion of homeowner households of any of the countries that make up the UK.

Wales also has lower average household incomes and earnings than both Scotland and England. It also has a higher proportion of its population aged 60 or over.

All these factors suggest that levels of low-income home-ownership in Wales are also likely to be above the UK average.

New FRS analysis

This study sets out a new analysis of the extent and characteristics of low-income home-ownership in Wales, compared to England and Scotland. It is primarily based on an analysis of the 1999/2000 Family Resources Survey (FRS).

When incomes are measured before housing costs (BHC), 57 per cent of the population in the lowest income decile reside in homeowner households. Fifty-four per cent reside in the lowest quintile, and 52 per cent have incomes below 60 per cent of the median. On all three measures the proportion of low-income homeowners in Wales is higher than in England and Scotland.

When incomes are measured after housing costs (AHC), following the official Households Below Average Income (HBAI) methodology, 43 per cent of the population in the lowest income decile reside in homeowner households. Forty-one per cent reside in the lowest quintile, and 49 per cent have incomes below 60 per cent of the median.

However, the HBAI makes no allowance for homeowners’ repair costs, or their expenditure on the mortgage insurance policies promoted by government policy (MPPI – mortgage payment protection insurance), or their capital repayments on their mortgage.

When these factors are taken into account the proportion of low-income homeowners is seen to be higher than suggested by the HBAI measures, particularly when mortgage capital repayments are taken into account.

When these additional housing costs for homeowner households are taken into account the proportion of the low income population in the lowest income decile rises from 43 per cent to 55 per cent, and the proportion in the lowest income quintile rises from 41 per cent to 48 per cent.

Taking all these measures together it can be broadly argued that homeowner households in Wales, as in England, comprise ‘half the poor’.

In Wales there is a particularly high incidence of low incomes for members of pensionable homeowner households. They comprise 68 per cent of all pensioners in the lowest income quintile (when measured BHC), and from 56 per cent to 58 per cent when measured AHC.

In contrast, among non-pensioner homeowner households there is a rather lower incidence. They comprise 45 per cent of all non-pensioner households in the lowest income quintile when incomes are measured BHC. They comprise from 35 per cent to 44 per cent when measured AHC, depending on whether the HBAI or the wider measure of homeowner housing costs is applied.

There is also a high proportion of children living in poor homeowner households. When incomes are measured AHC, taking the wider definition of homeowners’ housing costs, 41 per cent of all children in the lowest income quintile are seen to reside in homeowner households.

Evidence of the dynamics of low income households suggests that fewer low income households enter the tenure than leave it. The growth of low-income homeowner households is thus predominantly accounted for by changes of circumstance after households become homeowners, such as unemployment, loss of earnings, accidents, long-term sickness, relationship breakdown and retirement.

Homeowner households are more likely to be in poverty if they are single, lone parents, Pakistani/Bangladeshi, retired or unemployed.

The high incidence of low-income home-ownership in Wales is not a consequence of location in itself. The explanation lies in the greater incidence of other determining social and economic characteristics within the population of Welsh households.

Homeowners and poor housing conditions

The study draws on both published and new analyses of homeowner housing conditions using the 1998 Welsh House Condition Survey (WHCS) (NAW, 2001). The WHCS has, however, limited income information, and those questions were only answered by a limited proportion of all households in the survey. The analysis therefore primarily focuses on simple measures of the incidence of poor property conditions in the tenures for all households.

Seventy-two per cent of all unfit properties are in the homeowner sector. The average cost of the repairs required for each unfit homeowner property is £4,800, and the total investment required to deal with those repairs for the whole sector is £439 million, 69 per cent of the investment required across all tenures.

The total investment required to deal with necessary repairs for fit properties in the sector is £439 million, 73 per cent of the investment required across all tenures.

Of the very small number of households living in dwellings without all the basic amenities 63 per cent are in the homeowner sector.

Three-fifths of all households living in dwellings without central heating are in the homeowner sector, as are just over a half of the households living in dwellings with no double glazing.

Homeowners also comprise just over a half of all households occupying dwellings at high densities (greater than one person per habitable room).

Taken as a whole there are more poor-condition properties in the homeowner sector than in all other tenures combined. Other studies show that it is the lower income households within the tenure that are far more likely to reside in the poor-condition properties.

Housing policy and expenditure in Wales

In the 1990s Wales gave a very high priority to funding private sector improvements; however, in the years since devolution the Welsh Assembly has significantly reduced expenditure in this area, matching similar trends in England and Scotland.

The Welsh Assembly Government (WAG) does support a modest energy efficiency scheme for low income households in all tenures, and homeowner households are the main beneficiaries. However, the level of support available under the basic scheme is limited, and eligibility is constrained by the low level of homeowner take-up of tax credits, which is the main determinant of eligibility for the basic scheme.

The decline in improvement grant funding, together with cutbacks in the income support mortgage interest (ISMI) scheme and support for low cost home-ownership schemes, has seen the total level of government support to homeowner households fall from over £200 million per annum in the early 1990s to just £84 million in 2002/03. This represents about a fifth of total government housing support for housing although, as seen above, homeowners comprise half the poor and more than half the households living in poor housing conditions.

Given that they are excluded from the housing benefit scheme, tax credits are an important form of support for low-income homeowner households. In May 2002, 80,000 families in Wales received working families' tax credit (WFTC) at an average rate of £82 per week, and claimant numbers have increased sharply since the introduction of the new working and children's tax credit schemes in April 2003.

However, the most recent survey evidence showed that homeowners comprised just over two-fifths of working families' tax credit claimants. The potential level of homeowner beneficiaries is much higher, as only about a half of all eligible homeowner households claimed WFTC, compared with three-quarters of eligible tenant households.

Homeowner households do have the benefit of a favourable tax regime, notwithstanding the abolition of mortgage interest tax relief. They remain exempt from capital gains tax, and the estimated value of that relief for homeowners in Wales in 2002/03 was £357 million. However, that figure should be treated with considerable caution as it makes no provision for the 'rollover' relief that is a typical feature of capital gains tax in those countries, like Sweden, that do apply capital gains tax to homeowners, and where the actual yield is only 40 per cent of the notional level.

The net taxation position for homeowner households is partly offset by the impact of stamp duty and the element of inheritance tax that can be apportioned to the value of residential dwellings in total inheritances. Together these raised over £90 million from Wales in 2002/03.

Policies for low-income homeowners in Wales

There are a wide range of policies that could be adopted to improve the support provided to low-income homeowner households in Wales; however, many of those policies continue to be determined at the UK level. This report focuses primarily on those policy issues that can be taken forward by the National Assembly for Wales (NAW).

Further improvements will need to be made by the UK government to the tax credit regime in order to achieve its targets for reducing child poverty. Further steps will also need to be taken to improve the take-up rates for tax credits, particularly for homeowner households. In Wales this is an issue that NAW could take forward, together with mortgage lenders, local authorities and advisory agencies.

Improved tax credit take-up rates would serve to reduce the threat of repossession. Tax credits provide a safety net for homeowners who suffer a loss of earnings and also enable unemployed homeowners to protect their homes by moving into low-paid work, particularly in cases where they neither qualify for ISMI nor have an MPPI policy.

Those measures would also increase the numbers of households eligible for assistance with energy efficiency measures under the Welsh schemes. There is, however, a case for increasing the very limited level of support provided by the basic scheme. There is also a very strong case for making all low income households with children eligible for assistance at the higher level, rather than just those with a single parent.

The NAW should review the effectiveness of the new discretionary scheme for assistance with home improvements, against its target of halving the number of private sector homes in a state of disrepair by 2005.

If the new policies fail to significantly reduce the extent of poor housing conditions for vulnerable and low-income homeowner households in Wales, then the NAW should not hesitate to introduce policies designed to be *effective*, rather than policies framed by normative expectations about homeowners' capacity or willingness to engage in equity release or similar schemes.

Introduction

Earlier reports have drawn attention to the significant proportion of homeowners among the poorest households in the UK, however ‘poor’ is defined (Burrows and Wilcox, 2000; Bramley *et al.*, 2001; Burrows, 2003).

This report sets out the results of an analysis of the extent and characteristics of low-income home-ownership in Wales, as compared to the levels in England, Scotland and Great Britain as a whole. At the core of this report is a new analysis utilising 1999/2000 data from the Family Resources Survey (FRS).

Chapter 1 of the report sets out the context for the new analysis, and highlights some of the key relevant economic, demographic and housing market characteristics in Wales. Chapter 2 then sets out the new analysis of FRS data showing the incidence and characteristics of low-income homeowners in Wales. Chapter 3 focuses on the extent of poor-condition homeowner housing in Wales.

Chapter 4 gives an account of Welsh housing policies and public spending on homeowner housing, and compares this with the policies and expenditure for social rented housing. In conclusion Chapter 5 of the report draws out some of the key policy issues that flow from this new analysis, with particular regard to areas of policy that are devolved to the Welsh Assembly.

1 Wales and home-ownership

Wales has a higher proportion of homeowner households than England, and both in turn have a far higher proportion than Scotland. Nor is this a recent phenomenon; indeed it can be tracked back over a long period. Table 1 shows that in 1961 home-ownership accounted for 48 per cent of the housing stock in Wales, against 44 per cent in England and just 30 per cent in Scotland.

Over subsequent decades the gap between the home-ownership levels in England and Wales has slightly narrowed, but it is still some 2 per cent higher in Wales than in England. It follows from this that the higher rate of home-ownership in Wales, relative to the other countries of Great Britain, cannot be attributed to the Right to Buy.

If, however, the level of home-ownership is higher than the average level for England as a whole, it is not higher than the level within each region of England. Indeed four regions of England have higher levels of home-ownership than in Wales – that is, the East, East Midlands, South East and South West regions (see Table 2).

Table 1 Home ownership in Wales compared to the rest of Great Britain (percentages of total stock of dwellings)

	1961	1971	1981	1991	2000
Wales	48	55	62	71	72
England	44	52	58	68	70
Scotland	30	31	36	52	63
Great Britain	43	51	56	66	69

Sources: Housing Statistics 2001; Welsh Housing Statistics 2003 (NAW, 2004).

Table 2 Home ownership in Wales compared to the regions of England (percentages of total stock of dwellings)

	1991	2002
Wales	70.7	72.5
English regions		
North East	59.5	64.8
Yorkshire & Humber	66.2	67.7
North West	60.6	70.6
West Midlands	67.7	70.8
East Midlands	71.2	73.3
East	71.9	73.6
London	59.0	58.1
South East	75.4	75.8
South West	73.6	75.0
England	68.0	70.1

Source: UK Housing Review 2003/04.

Income levels

Nor can the higher level of home-ownership in Wales be attributed to higher incomes; rather the reverse is the case. Average household incomes in Wales are lower than in every part of the UK, other than Northern Ireland. They are not only lower than the averages for England and Scotland, they are lower than the average household incomes within each region of England (Table 3).

The minor qualification required to that assessment is that while gross household incomes in Wales are slightly lower than those in the North East of England, and they in turn are substantially lower than in Scotland and all the other regions of England, disposable household incomes in Wales and the North East are at the same level.

A similar picture emerges from data on earnings levels in Great Britain. Male earnings in Wales are lower than those in Scotland and every region of England, although male manual earnings are only slightly lower than those in the English regions with the lowest levels (the South West, Yorkshire and Humber, the East Midlands) (see Table 4).

Table 3 Household incomes in Wales compared to the rest of the UK, 1998–99 to 2000–01

	Weekly household income (£)		Sources of income (percentages)				
	Gross	Disposable	Employment	Investments	Annuities and pensions	Social security benefits	Other
Wales	376	318	70	3	7	18	1
English regions							
North East	379	318	70	3	8	19	1
Yorkshire & Humber	439	359	74	4	7	14	1
North West	429	355	73	4	7	14	1
West Midlands	463	382	76	4	6	13	1
East Midlands	450	367	75	4	7	12	1
East	510	413	76	5	8	10	1
London	616	486	82	4	5	8	1
South East	586	463	78	6	7	9	1
South West	449	373	72	5	9	13	1
England	496	402	76	4	7	11	1
Scotland	418	343	74	6	3	15	2
Northern Ireland	371	316	71	2	6	21	1
United Kingdom	480	390	76	4	7	12	1

Source: ONS, Family Spending 2000–01.

Table 4 Earnings in Wales compared to the rest of Great Britain, 2001

	Average gross weekly earnings (£)						
	All males and females	Males			Females		
		Manual	Non-manual	All	Manual	Non-manual	All
Wales	381.8	342.6	478.9	412.3	225.2	346.9	327.4
English regions							
North East	380.8	356.1	481.3	418.6	225.1	335.3	318.4
Yorkshire & Humber	392.1	345.8	501.5	427.1	222.9	350.8	330.2
North West	408.3	351.5	533.8	451.1	232.4	355.8	337.2
West Midlands	419.1	353.2	556.1	462.1	236.4	362.9	340.9
East Midlands	394.3	346.4	506.2	430.9	229.0	346.7	322.3
East	438.7	371.0	561.9	482.9	242.1	378.3	357.5
London	593.7	406.9	759.7	667.7	281.9	503.0	483.1
South East	473.0	379.9	607.0	526.6	265.2	401.8	381.6
South West	438.7	343.4	534.8	451.8	235.1	352.1	333.5
England	451.5	361.9	591.8	498.3	243.4	393.7	371.6
Scotland	404.5	349.1	528.9	448.5	233.1	363.6	342.3
Great Britain	444.3	359.9	582.4	490.5	241.8	388.8	366.8

Source: New Earnings Survey 2001.

Note: Data are based on place of work, not place of residence. This is of particular significance for London and the South East.

Table 5 Age distribution of population in Wales compared to the rest of the United Kingdom, 1997 (percentages)

	Age of population									
	0–4	5–15	16–19	20–24	25–44	45–59	60–64	65–79	80+	Total
Wales	6.0	14.5	4.9	5.8	27.6	18.7	5.1	13.0	4.3	100.0
English regions										
North East	6.0	14.5	5.1	6.1	29.2	18.2	5.0	12.4	3.6	100.0
Yorkshire & Humber	6.3	14.4	4.9	6.2	29.5	18.1	4.8	11.8	4.0	100.0
North West	6.2	14.8	4.8	6.0	29.3	18.3	4.8	11.8	3.9	100.0
West Midlands	6.4	14.6	4.9	6.0	29.2	18.5	4.8	11.9	3.7	100.0
East Midlands	6.1	14.2	4.8	6.1	29.4	18.8	4.7	12.0	3.9	100.0
East	6.3	13.9	4.6	5.9	29.8	18.7	4.8	11.9	4.1	100.0
London	7.1	13.6	4.9	7.0	34.2	16.2	4.0	9.5	3.6	100.0
South East	6.2	13.9	4.7	5.8	29.9	18.7	4.6	11.7	4.4	100.0
South West	5.8	13.5	4.6	5.7	28.2	18.7	5.0	13.4	5.1	100.0
England	6.3	14.1	4.8	6.1	30.0	18.2	4.7	11.7	4.1	100.0
Scotland	6.0	13.9	5.0	6.5	30.3	18.0	5.0	11.7	3.5	100.0
Northern Ireland	7.3	17.4	6.0	7.1	28.9	16.1	4.2	9.9	3.1	100.0
United Kingdom	6.3	14.2	4.9	6.1	29.9	18.1	4.7	11.7	4.0	100.0

Source: Regional Trends 1999.

While female earnings in Wales are also below average levels in England and Scotland, they are not lower than those in every region of England. Female manual earnings are slightly higher in Wales than in the North East and Yorkshire and Humber, and female non-manual earnings are slightly higher than those in the North East and East Midlands. In aggregate Welsh earnings are lower than those in every region of England except the North East.

One other notable and relevant characteristic of the Welsh population is that there is a higher proportion of older people than is the case in England and Scotland (Table 5). Some 22.4 per cent of the total Welsh population are aged 60 or over, compared to 20.5 per cent in England and 20.2 per cent in Scotland. Within England the South West is the only region that has a greater proportion of the population aged 60 or over (23.5 per cent).

House prices

Part of the explanation for the higher levels of home-ownership in Wales is related to the relatively low levels of house prices. Over a long run of years house prices in Wales have been lower than those in the south and east of England and the West Midlands. However, the relationship between house prices in Wales and those in Scotland and the northern regions of England has fluctuated over time. Currently average house prices are higher than those in Scotland and in the North (Table 6), but a little lower than those in the Yorkshire and Humber and North West regions.

The relatively low house prices make access to home-ownership in Wales more practical despite the low levels of incomes. Nonetheless the average mortgage cost/income ratios for first-time buyers in Wales are slightly higher than those in Scotland and the three northern regions of England.

Low incomes and home-ownership

It is already apparent from this simple analysis of key economic, demographic and housing market data sets that Wales stands out with its very specific configuration of high levels of home-ownership, low incomes and a relatively elderly population. In this context it would be no surprise to find that there is a high level of low-income home-ownership in Wales, as indeed is shown by the analysis in the next chapter.

Table 6 Average regional house prices (£)

	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
North	3,942	9,601	17,710	22,786	43,655	46,005	48,347	49,337	50,181	47,062	52,195	53,229	57,765	63,501	64,995	71,100	79,457
Yorks & Humberside	3,634	9,058	17,689	23,338	47,231	52,343	52,278	54,346	54,364	54,353	57,334	59,890	62,419	67,588	72,109	76,265	88,041
North West	4,184	9,771	20,092	25,126	50,005	53,178	56,377	54,890	57,180	56,537	58,232	63,558	65,730	71,997	78,166	82,495	92,417
East Midlands	3,966	9,989	18,928	25,539	52,620	55,740	54,599	53,370	55,096	55,050	59,743	61,798	66,244	72,523	79,272	87,238	104,981
West Midlands	4,490	10,866	21,663	25,855	54,694	58,659	57,827	58,315	59,106	62,133	64,571	67,623	71,899	79,924	88,181	97,510	112,018
East Anglia	4,515	11,528	22,808	31,661	61,427	61,141	56,770	58,039	59,537	60,898	62,944	69,694	75,354	79,445	92,548	103,797	129,984
Greater London	6,882	14,918	30,968	44,301	83,821	85,742	78,254	78,399	87,493	89,527	94,524	105,644	115,183	142,690	163,288	182,536	206,839
Rest of South East	6,223	14,664	29,832	40,487	80,525	79,042	74,347	74,605	80,579	80,949	86,296	92,651	104,323	118,176	137,217	152,836	176,014
South West	4,879	12,096	25,293	32,948	65,378	65,346	61,460	60,791	64,805	65,095	68,406	72,811	80,385	89,395	101,104	118,308	142,183
Wales	4,434	10,083	19,363	25,005	46,464	48,989	49,685	52,072	53,059	52,992	55,347	58,731	61,180	67,669	72,243	79,850	87,950
Scotland	5,002	11,139	21,754	26,941	41,744	48,772	49,224	49,553	50,551	53,105	57,431	57,697	64,083	69,366	69,877	73,704	76,893
Northern Ireland	4,387	10,023	23,656	23,012	31,849	35,352	37,775	38,878	38,642	42,804	47,850	53,322	59,645	66,200	72,471	80,103	112,865
United Kingdom	4,975	11,787	23,596	31,103	59,785	62,455	60,821	61,223	64,755	65,641	70,534	75,959	81,991	92,715	101,466	112,865	128,634

Source: Housing Finance, Council of Mortgage Lenders, derived from the DoE/BSA 5% sample survey, and from 1994 the wider Survey of Mortgage Lenders.

Note: The average prices are not adjusted for changes in the mix of properties mortgaged to building societies. There is a discontinuity in the series between 1993 and 1994, due to the switch to the wider Survey of Mortgage Lenders. The impact of this break in the series varies from region to region, but the aggregate effect for the UK is to increase reported prices by some 2 per cent. Regions of England are standard regions, rather than government office regions.

2 Low-income homeowners in Wales

This chapter sets out the results of a new analysis of data from the 1999/2000 Family Resources Survey (FRS) that shows the incidence of low-income home-ownership in Wales, as compared to the rest of Great Britain.

The initial analyses follow the methodology and definitions used by official annual analyses of Households Below Average Income' (HBAI) (DWP, 2003). The limitations of the official methodology, and in particular its treatment of homeowners' housing costs, are discussed further below. HBAI analyses are based on 'equivalised' incomes. Their primary unit of measurement is the individual. The incomes of individuals are derived by applying a range of equivalisation factors to household incomes that take account of the size of the household and the age and other characteristics of the household members.

Following this methodology, Table 7 shows the proportions of individuals in homeowner households within a range of categories of the low income population, measured on the basis of incomes before housing costs (BHC).

Three low income measures are shown: the proportion of individuals in homeowner households in the lowest decile (10 per cent), in the lowest quintile (20 per cent) and with incomes that are below 60 per cent of median incomes.

The analysis shows a clear pattern in the distribution of low-income home-ownership as between England, Scotland and Wales. On all measures the proportion of low-income homeowners is lowest in Scotland and highest in Wales.

Table 7 Percentage of population in households with low incomes (using all HBAI measures of low income, before housing costs), including the self-employed, who are homeowners in the countries of Great Britain

	Bottom 10%	Bottom 20%	60% of median
Great Britain	54	49	49
Wales	57	54	52
Scotland	33	33	33
England	56	51	50

Once again following the HBAI methodology, Table 8 shows the proportions of individuals in homeowner households within the same range of catagories of the low income population, measured on the basis of incomes after housing costs (AHC).

In all cases the proportions of homeowners within the low income groups are lower than when incomes are measured before housing costs. In part this reflects the significant proportion of low-income homeowners who either are outright owners or

Table 8 Percentage of population in households with low incomes (using all HBAI measures of low income, after housing costs), including the self-employed, who are homeowners in the countries of Great Britain

	Bottom 10%	Bottom 20%	60% of median
Great Britain	39	41	46
Wales	43	41	49
Scotland	27	26	34
England	40	42	47

only have a small mortgage. However, the figures also reflect the particular limited measure of homeowner housing costs included in the HBAI methodology. Nonetheless the profile of the results, as between England, Scotland and Wales, is very similar to that in Table 7.

Overall the BHC measures show that from 52 per cent to 57 per cent of low income individuals in Wales reside in homeowner households, depending on which poverty measure is applied. Similarly the AHC measures, following the HBAI methodology, show that from 41 per cent to 49 per cent of low income individuals in Wales reside in homeowner households.

Fuller measures of homeowner housing costs

One critical weakness of the HBAI AHC measure is that it makes no provision for households' own housing repairs expenditure, and this is of particular significance for homeowner households. Repair costs are not available in the Family Resources Survey. They are, however, collected in the Family Expenditure Survey, and data was obtained from that source, disaggregated by tenure and income quintile, and combined with the FRS data. Nor does the HBAI methodology take account of the capital element of homeowners' mortgage costs. From an economic perspective this approach can be justified as the capital element of mortgage costs involves the acquisition of a capital asset, rather than payment for the use and occupation of housing. However, that is not the only relevant perspective in terms of housing policy and poverty analyses.

Home-buying households must necessarily enter into commitments to cover the capital costs of acquiring their home, whether through a conventional repayment mortgage or by a mortgage-related endowment policy. This is not optional. Consequently the resources committed to capital repayments are not, as a matter of choice, available to meet non-housing expenditures. From this perspective the AHC measure should also take account of home buyers' capital repayments. Similar arguments can also be advanced in respect of a range of mortgage-related insurance costs that are not taken into account in the HBAI measure.

Table 9 Alternative measures of the percentage of population in households in the lowest income quintile (after housing costs), including the self-employed, who are homeowners in the countries of Great Britain

	HBAI measure	+ repairs + MPPI	+ repairs + MPPI + capital repayments
Great Britain	41	42	49
Wales	41	42	48
Scotland	26	28	31
England	42	44	51

The impact of using more inclusive measures of homeowners' housing costs are illustrated in Table 9, for individuals in households within the lowest income quintile.

While on this particular set of measures there is a slightly lower proportion of low-income homeowners in Wales than in England, the table nonetheless clearly shows just how far the proportion of low-income homeowners increases when a more inclusive measure of homeowner housing costs is applied. On a similar basis the more inclusive measure of housing costs sees the proportion of homeowner households in the lowest income decile in Wales rise from 43 per cent to 55 per cent.

One point to note about all the above analyses is that they have set out the proportions of individuals in homeowner households in each country that are within the low income groups of Great Britain as a whole. This is not quite the same as the proportions within the lowest income groups for each country when they are measured separately.

Thus, for example, the proportion of homeowners within the bottom income quintile of the Welsh population only is 42 per cent, when incomes are defined after housing costs on the HBAI definition, and 49 per cent when incomes are defined after housing costs using the fuller measure of homeowner housing costs. In both cases the proportions of low-income homeowners are marginally higher than with the standard measures based on low income groups within the wider GB population.

In broad terms, and taking these various measures together, it can thus be readily argued that in Wales, as in England, members of homeowner households comprise 'half the poor'.

Low-income homeowners of pensionable age

When incomes are measured before housing costs, homeowners with a household head of pensionable age comprise more than two thirds of all pensionable households in the lowest income quintile. This proportion is significantly higher than

Table 10 Alternative measures of the percentage of households of pensionable age in the lowest income quintile (after housing costs), including the self-employed, who are homeowners in the countries of Great Britain

	Before housing costs	After housing cost measures HBAI measure	+ repairs + MPPI	+ repairs + MPPI + capital repayments
Great Britain	61	51	52	51
Wales	68	56	58	58
Scotland	45	35	37	35
England	62	52	53	52

in England. Even after taking account of housing costs, homeowners with a household head of pensionable age still comprise more than a half of all pensionable households in the lowest income quintile. Indeed in Wales from 56 to 58 per cent of all pensionable-age households in the lowest income quintile are homeowners, depending on the AHC income measure used. In each case the proportions for Wales are again markedly higher than in England (see Table 10).

For homeowner households of pensionable age there is very little difference as a result of using different measures of homeowner housing costs. This is because only a small minority have any mortgage costs. Thus while including repair costs results in a small increase in the proportion of poor pensionable-age homeowners, including mortgage capital repayments has the reverse impact because that improves their position relative to those, mainly younger, households with mortgages.

Low-income homeowners of working age

In contrast, homeowners with a household head of working age comprise 45 per cent of all working-age households in the lowest income quintile (before housing costs) in Wales, marginally more than in England. However, when incomes are measured after housing costs the proportions of homeowners with a household head of working age in the lowest income quintile are lower than the equivalent English levels. In Wales the proportions range from 35 per cent and 44 per cent of all working-age households in the lowest income quintile, depending on the AHC measure (see Table 11).

For homeowners of working age, most of whom have a mortgage, there is a very substantial difference in the results depending on which measures of homeowner housing costs are applied. While making provision for repair and MPPI costs only makes a small difference, making provision for mortgage capital repayments leads to a sharp increase in the proportion of working-age homeowner households that then fall into the lowest income quintile.

Table 11 Alternative measures of the percentage of households of working age in the lowest income quintile (after housing costs), including the self-employed, who are homeowners in the countries of Great Britain

	Before housing costs	After housing cost measures		
		HBAI measure	+ repairs + MPPI	+ repairs + MPPI + capital repayments
Great Britain	42	36	38	48
Wales	45	35	36	44
Scotland	27	22	24	30
England	44	37	39	50

The impact of the wider housing cost measure, while still significant, is slightly less pronounced in Wales than in England, reflecting the lower average level of mortgage costs, and thus capital repayments, in Wales.

Poor children

It is similarly the case that a substantial proportion of children living in low income households are located within the homeowner tenure. Measures of child poverty are higher when incomes are measured after, rather than before, housing costs. BHC measures tend to include more retired households, including outright homeowners with no mortgage costs.

AHC measures tend to include more working-age households, whose BHC incomes are more substantially offset by higher housing costs. This includes homeowner households in the earlier years of purchase, when mortgages are a relatively high proportion of household incomes.

Table 12 shows that the proportion of children living in homeowner households in Wales, within the lowest income quintile, rises from 28 per cent under the HBAI measure of housing costs to 41 per cent under the more inclusive measure of homeowner housing costs. Of these the greater proportion are in homeowner households with mortgages.

Table 12 Tenure analysis of children in Wales living in the lowest income quintile using HBAI AHC and the fuller AHC income measures

	HBAI AHC measure	Full housing costs AHC measure
Mortgagors	18	30
Outright owners	10	11
Social rented	57	47
Private rented	15	14

These results are of particular significance for Wales, as overall it has a much higher proportion of children living in poverty in all tenures (31 per cent) than in both England (27 per cent) and Scotland (26 per cent). Indeed only one region in England (the North East – 33 per cent) has a higher proportion of children living in poverty than Wales. All these 2000/01 figures are based on the conventional HBAI AHC measures of children living in the lowest income quintile.

Becoming a poor homeowner

There is no readily available data source on the processes by which low income households move into or out of home-ownership in Wales, or become poor after they have entered the tenure. We can, however, point to parallel evidence drawn from the Survey of English Housing.

Our analysis of movements over the three-year period from 1995/96 to 1997/98 showed that far more low income households left the homeowner tenure during that period than entered it (Burrows and Wilcox, 2000). It should be noted that this period pre-dates the recent sharp rises in English and Welsh house prices, and in subsequent years it would have become even more difficult for low income households to enter the tenure.

In addition it must be recognised that a number of lower income households enter the tenure without moving, by exercising the Right to Buy. However, the incomes of households exercising the Right to Buy are broadly spread across the full range of the income distribution. Less than one in five had incomes within the lowest income quintile.

If the Right to Buy entrants are added to the ‘movers’ it remains the case that twice as many low-income homeowners exited the tenure over the three-year period than entered. The level of low income exits from the sector will include numbers of elderly households moving into accommodation with care and support, but it also reflects the difficulties of sustaining home-ownership for low income households.

Post-entry changes of circumstances

More fundamentally these figures demonstrate that the growth of low-income home-ownership cannot be accounted for by the changing characteristics of the households entering the tenure. Rather they logically show that the growth of low-income home-ownership must be accounted for by the changes of life circumstances that homeowner households encounter after they have entered the tenure.

The critical changes of circumstances include the predictable, such as retirement, and the unpredictable, such as unemployment, loss of earnings, accidents, long-term sickness and relationship breakdown. All of these, other than retirement, are the kinds of changes of circumstance that feature again and again in analyses of homeowner households facing difficulties with their mortgage commitments (Ford *et al*., 1995).

Characteristics of low-income homeowners

The characteristics of low-income homeowner households can be analysed in a number of different ways. We have undertaken a range of regression analyses to show the likelihood of homeowner households with different social and economic characteristics being poor. Controlling for all other factors, this shows that, for Britain as a whole, homeowner households are far more likely to be in poverty if they are unemployed (9.90), retired (2.15), Indian (2.30), Pakistani/Bangladeshi (3.78), lone parents (4.76) or single people (5.53). In each case these odds relate to being in the lowest income quintile, when incomes are measured after housing costs using our wider measure of housing costs.

Our analysis also shows that the high levels of low-income home-ownership in Wales are not a consequence of location in itself. A Welsh location in itself does not make homeowners more likely to be poor. Rather the explanation lies in the greater incidence of the other determining social and economic characteristics within the population of Welsh households.

The probabilities of different household characteristics resulting in poverty must also be seen against the overall incidence of those characteristics. In terms of probabilities tenant households are far more likely to be poor than homeowner households (Burrows, 2003); it is rather because of the far greater scale of home-ownership households that numerically homeowner households nonetheless make up ‘half the poor’.

3 Housing conditions in homeowner housing in Wales

This section draws on the results of the 1998 Welsh House Condition Survey (WHCS) to show that, by a considerable margin, the majority of the poor condition housing stock is in the owner-occupied sector. The section includes both data drawn from the published report of the survey (NAW, 2001) and the results of additional analyses of the WHCS data set undertaken specifically for this report.

The WHCS contains limited data on household incomes. It provides data on gross total household incomes in broad bands, rather than detailed information on the precise levels of incomes from each individual source (as in the Family Resources Survey). There is a further constraint in that only 64 per cent of households in the survey provided answers to the household income question, with a slightly lower proportion of homeowner households answering the questions than tenant households.

The results of the WHCS household income analysis by tenure, for those households providing income details, are shown in Table 13. This shows that homeowner households comprised 36 per cent of households reporting gross household incomes at or below the level of £4,000 per annum, and 49 per cent of those with incomes in the range £4,001 to £7,000 per annum. Taken together homeowners comprised 44 per cent of all households with incomes at or below the level of £7,000 per annum. Altogether 38 per cent of all households in Wales had incomes below £7,000.

Because of the differential non-response to the income questions these figures are likely to underestimate the proportions of homeowner households with low incomes. More generally the low response rate means that these results, for all tenures, should be treated with caution.

Table 13 Gross household income by tenure, adjusted for differential non-response (%)

	Up to £4,000	£4,001– £7,000	£7,001– £10,000	£10,001– £15,000	£15,001– £20,000	£20,001– £30,000	Over £30,000	Total
Homeowner	35.7	49.3	63.2	78.9	87.4	92.8	94.9	67.4
Council	41.2	34.2	24.1	12.1	6.6	2.0	0.9	20.5
Housing association	9.1	6.8	4.7	2.4	1.2	0.5	0.0	4.2
Private landlord	14.0	9.7	8.0	6.7	4.8	4.7	4.2	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Analysis of WHCS 1998 data set.

Note: Proportions are shown for the 63 per cent of households that answered the income questions in the survey. A lower proportion of homeowners answered the questions than households in other tenures.

In view of that low response rate no further use has been made of the income data from the WHCS data set in the following analyses. However, it may be noted that our earlier analysis of the 1996 English House Condition Survey found, not surprisingly, that poor housing conditions within the owner-occupier sector were far more prevalent for lower income households than for those with higher incomes.

Unfitness

Some 72 per cent of all unfit dwellings in Wales are in the homeowner sector (Table 14). The proportion is higher among the pre-1919 dwellings, which comprise almost three-fifths of all unfit dwellings in Wales. The proportion is lower for the far smaller numbers of post-war unfit dwellings, where just over a half are located in the social rented sector.

Table 14 Unfitness by date of construction and tenure

		Owner-occupied	Social housing	Privately rented	All
Number of dwellings					
Unfit:	Pre-1919	41,400	1,500	12,100	55,100
	1919–944	9,100	4,200	1,700	14,900
	1945–964	8,000	9,800	1,100	18,900
	Post-1964	4,500	4,800	–	9,300
	Total	63,000	20,300	14,900	98,200
All dwellings:	Total	828,400	248,000	80,900	1,157,300
Percentages					
Unfit:	Pre-1919	75.1	2.7	22.0	100.0
	1919–44	61.1	28.2	11.4	100.0
	1945–64	42.3	51.9	5.8	100.0
	Post-1964	48.4	51.6	0.0	100.0
	Total	64.2	20.7	15.2	100.0
All dwellings:	Total	71.6	21.4	7.0	100.0

Source: Welsh House Condition Survey 1998.

Note: All numbers rounded to nearest hundred, and decimals to one decimal place.

Repair costs

The average cost of the repairs required for each owner-occupied unfit dwelling is almost £4,800 (Table 15). This compares with an average cost of some £2,550 for unfit dwellings in the social rented sector, and close to £5,800 for unfit dwellings in the private rented sector. The total investment required to deal with the necessary

Table 15 Repair costs by date of construction and tenure

		Owner-occupied		Social housing		Privately rented		All	
		Total costs (£ millions)	Average cost (£)	Total costs (£ millions)	Average cost (£)	Total costs (£ millions)	Average cost (£)	Total costs (£ millions)	Average cost (£)
Unfit:	Pre-1919	232.4	5,610	5.4	3,529	73.2	6,036	311.0	5,646
	1919–44	33.1	3,647	11.5	2,765	8.7	5,165	53.3	3,573
	1945–64	28.1	3,515	29.0	2,946	4.3	4,032	61.4	3,248
	Post-1964	7.4	1,640	5.8	1,221	–	–	–13.2	–1,424
	Total	301.0	4,777	51.8	2,547	86.2	5,794	439.0	4,470
Fit:	Pre-1919	260.1	991	10.0	700	49.8	1,280	319.9	1,013
	1919–44	93.4	874	22.7	707	7.0	969	123.2	842
	1945–64	74.3	556	47.2	588	2.9	586	124.5	569
	Post-1964	59.1	225	30.5	302	6.4	430	96.0	254
	Total	487.0	636	110.4	485	66.1	1,002	663.5	627
All:	Pre-1919	492.5	1,620	15.4	974	123.0	2,410	630.9	1,701
	1919–44	126.5	1,091	34.2	942	15.7	1,765	176.5	1,095
	1945–64	102.4	724	76.2	846	7.2	1,189	185.9	782
	Post-1964	66.5	249	36.3	343	6.4	430	109.2	282
	Total	788.0	951	162.2	654	152.3	1,883	1,102.5	953

Source: Welsh House condition Survey 1998 repairs for unfit dwellings in the owner-occupied sector is £301 million, some 69 per cent of the £439 million investment required to deal with unfit properties in all tenures.

While less severe for individual dwellings, the total investment required for necessary repairs to dwellings that are not unfit is greater still. The average expenditure required is just £636 per homeowner dwelling, but this totals some £487 million, or 73 per cent of the overall investment to deal with disrepair of all non-unfit dwellings in all tenures.

Taking all dwellings, both fit and unfit, the total repair investment required for homeowner dwellings is £788 million, or 71.5 per cent of the £1,103 million required for repairs to the total housing stock in all tenures. Of this £162 million, or just 15 per cent, relates to housing in the social rented sector.

One notable feature of the analysis of repair costs in England was that the repair costs for homeowner households in the lowest income quintile were significantly higher than for homeowner households in the higher income bands. In contrast there was no relationship between income level and repair costs for tenants in the social rented sector.

Lacking basic amenities

The overwhelming majority of households in all tenures now have the benefit of basic amenities (Table 16). Less than 1 per cent of the households in the owner-occupied and social rented sectors lack any of the basic amenities, while just 3.6 per cent of households in the private rented sector lack amenities.

However, due to the larger size of the owner-occupied sector, the 7,700 homeowner households in dwellings without all the basic amenities represent 63 per cent of all households living in such circumstances.

Table 16 Number of basic amenities by tenure and type of household

	Use of all five amenities		Do not have use of all amenities: Number of basic amenities in sole use							All households
	Yes	%	0	1	2	3	4	0–4 amenities	%	(100%)
Owner-occupied	811,100	99.1	300	800	1,300	1,700	3,600	7,700	0.9	818,800
Social housing	248,600	99.4	–	100	–	400	800	1,400	0.6	250,000
Private housing	85,300	96.4	800	600	400	500	900	3,200	3.6	88,500
Total	1,144,900	98.9	1,100	1,500	1,700	2,700	5,400	12,300	1.1	1,157,300

Source: Welsh House Condition Survey 1998.

Table 17 Heating by tenure and type of household

	With central heating		Without central heating		All households
	No.	%	No.	%	
Owner-occupied	742,800	90.7	76,000	9.3	818,800
Social housing	221,300	88.5	28,700	11.5	250,000
Private housing	66,100	74.7	22,400	25.3	88,500
Total	1,030,100	89.0	127,200	11.0	1,157,300

Source: Welsh House Condition Survey 1998.

Central heating

Proportionately more homeowner households have central heating than in other tenures (90.7 per cent). However, the proportion is only a little higher than for the social rented sector (88.5 per cent), and even in the private rented sector around three-quarters of all households have the benefit of central heating (Table 17).

Numerically, however, the 76,000 homeowner households without central heating are virtually three-fifths of the total of 127,200 households in all tenures without central heating in Wales.

Double glazing

A similar proportion of homeowner and housing association tenants have comprehensive double glazing (57.3 per cent and 56.6 per cent respectively). Comprehensive double glazing is far less prevalent in the council (36.4 per cent) and private rented sectors (28.3 per cent). Nonetheless the 190,000 homeowner households that have no double glazing comprise just over a half (51.2 per cent) of all the households without any double glazing (Table 18).

While the Welsh House Condition Survey contains much information that relates to the energy efficiency of dwellings, it does not include formal energy efficiency ratings. However, evidence from the 2001 English House Condition Survey shows a clear relationship between age of property and heating type, and the incidence of particularly low energy efficiency ratings. Just over three-fifths of all dwellings in England with Standard Assessment Procedure (SAP) ratings of less than 30 (out of a maximum of 120) are in the homeowner sector (ODPM, 2003).

Table 18 Double glazing and tenure

(a) Percentage of households within each tenure with or without double glazing

	All	Some	None	Total
Homeowner	57.3	19.5	23.3	100.0
Council	36.4	6.6	57.0	100.0
Housing association	56.6	6.4	36.9	100.0
Private landlord	28.3	16.2	55.5	100.0
Total	51.3	16.5	32.2	100.0

(b) Percentage of households with or without double glazing by tenure

	All	Some	None	Total
Homeowner	79.2	84.0	51.2	71.0
Council	12.6	7.1	31.5	17.8
Housing association	4.0	1.4	4.2	3.6
Private landlord	4.2	7.4	13.1	7.6
Total	100.0	100.0	100.0	100.0

Source: Analysis of WHCS 1998 data set.

Density of occupation

Homeowner households are, as a whole, far more likely to live at a lower density than tenant households. Altogether 55 per cent of households in all tenures live at a density of fewer than 0.5 persons per habitable room. A further 40 per cent live at a density of between 0.5 and 1.0 persons per room.

Nonetheless homeowners also comprise just over a half of all households living at very high densities. Just 4.3 per cent of all households live at a density of over 1.0 person per habitable room. Of those 52 per cent are homeowner households.

Summary

On all the stock condition measures it is clear that there are far more poor quality properties in the homeowner sector than in other tenures. It follows that if it is a clear policy objective to improve stock condition for all low income households it is just as important to ensure the effectiveness of policies to deal with poor conditions in the owner-occupied sector as it is in the rented sectors.

4 Housing policy and expenditure in Wales

Throughout the 1990s Wales maintained a far higher level of public expenditure on housing than either England or Scotland. In particular it gave a very high priority to funding private sector home improvements. However, in the years since devolution the NAW has given a lower priority to housing, and it now spends less on housing (as a proportion of its total budget) than Scotland, and only a little more than England.

Declining provision for improvement grants

In common with England and Scotland the NAW has also significantly reduced expenditure on private sector home improvements from the levels provided in the early years of the last decade, as shown in Table 19. The table also shows that within a declining overall total the expenditure on disabled facilities grants has increased. The net decline in basic housing improvement grants has consequently been that much greater. Expenditure on basic improvement grants in Wales is less than half the level achieved in 1998, and just a third of the 1995 level.

These falls in improvement grant levels have been largely a result of UK-wide policy reforms, based on the notion that homeowners should be responsible for maintaining their housing to a decent standard, and that where they have limited incomes they should nonetheless be able to draw upon the value of their home in order to fund any required major repairs or improvements.

In England and Wales this approach also involved the abandonment of the 1989 Act regime that provided for mandatory means-tested improvement grants for low-income homeowner households, as the demand for such grants exceeded both the funding available to local authorities and the willingness of central government to respond to the financial demands arising from the mandatory regime.

This switch in policy, leading to reduced funding, has proceeded despite the evidence outlined in the previous section showing that the majority of poor condition housing is still located in the owner-occupied sector. The limitations of the current policy regime are discussed in the concluding chapter of this report.

Energy efficiency

A more positive approach has been adopted towards energy efficiency measures. The Welsh Assembly Government supports a means-tested scheme (Home Energy Efficiency Scheme or HEES), which is delivered nationally by the specialist non-profit

Table 19 Private sector improvement and disabled facility grants (£ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Improvement grants												
England	316.7	281.6	349.9	361.3	385.6	336.7	316.5	232.1	233.6	247.8	236.7	268.2
Scotland	117.2	107.1	109.5	99.2	87.4	78.5	70.1	49.3	46.2	42.4	34.2	41.7
Wales	85.0	94.3	143.1	156.2	137.1	148.7	146.7	132.6	111.2	91.5	71.6	50.2
Total improvement grants (A)	518.9	483.0	602.5	616.7	610.1	563.9	533.3	414.0	391.0	381.7	342.5	360.1
Disabled facilities grants												
England	68.3	52.3	61.8	70.4	86.7	96.3	99.0	101.3	104.7	116.5	124.0	133.6
Wales	0.1	4.5	9.5	12.2	11.8	14.8	15.7	19.1	20.5	21.7	24.8	27.6
Total disabled facility grants (B)	68.4	56.8	71.3	82.6	98.5	111.1	114.7	120.4	125.2	138.2	148.8	161.2
Total all grants (A + B)	587.3	539.8	673.8	699.3	708.6	675.0	648.0	534.4	516.2	519.9	491.3	521.3

Sources: Housing and Construction Statistics; Welsh Housing Statistics 2003; Scottish Housing Statistics Bulletins.

Note: Includes grants under the 1985 (1987 in Scotland), 1989 and 1996 Acts for repairs and improvements. Disabled facilities grants under the 1989 and 1996 Acts only apply in England and Wales. The 1987 Act continues to operate in Scotland, and makes no separate provision for disabled facilities grants.

Eaga Partnership. The scheme is available to both tenant and homeowner households, and in 2002/03 it improved the energy efficiency of almost 14,500 dwellings at a cost of £10.3 million (WAG, 2003a).

The scheme, which provides a higher level of support for elderly households and for those with disabilities, primarily provides assistance with various forms of insulation and heating systems, and it typically provides multiple forms of assistance for each dwelling.

While various forms of insulation are the most frequently provided item, the greatest part of the HEES budget is devoted to the provision of improved heating systems, as shown in Table 20.

Eligibility for HEES is linked to receipt of other benefits, or tax credits. Indeed tax credits are the most common form of qualifying benefit for the basic-level HEES. However the basic HEES scheme only provides assistance up to a maximum level of £1,500, and this accounts for less than a fifth of applicants assisted under the scheme.

More than four-fifths of the applicants, and an even greater proportion of the financial assistance, is provided to the elderly and disabled, and lone parents, under the more generous 'HEES Plus' scheme which provides grants up to a maximum of £2,700.

While homeowner households comprise almost two-thirds of the households assisted by these means-tested schemes, this should be set in the context of the much greater level of expenditure on estate modernisation schemes for council estates (£85 million in 2001/02), of which heating and insulation measures form a significant part.

The maximum grant under the basic scheme falls well short of the cost of installing a full central heating system. The low level of homeowner take-up of tax credits also acts as a constraint on their access to assistance through HEES (see below).

Table 20 HEES expenditure on energy efficiency measures, 2002/03 (£ thousands)

	Homeowners	Private rented	Social rented	Total
Insulation	2,162	139	739	3,040
Heating	4,927	345	1,637	6,909
Security	93	8	68	170
Smoke Alarms	7	0	0	8
CFLs	103	9	45	157
Total	7,292	501	2,490	10,285

Note: CFLs refer to low energy carbon-free lighting.

Limited overall housing support for homeowners

More generally the support for housing costs in Wales is heavily concentrated on the social rented sector, with relatively little expenditure devoted to low-income homeowner households. Table 21 shows how the imbalance in support for housing costs has become more pronounced as expenditure on improvement grants has declined.

In the last two years total support for low-income home-ownership has represented only a fifth of the housing support provided to all low income households in Wales. Yet, as seen above, low-income homeowner households comprise roughly a half of all the low income households in Wales.

The largest element of support to the social rented sector takes the form of housing benefit expenditure. In addition to improvement grants, the support for homeowner households includes income support help with mortgage costs (ISMI), the net value of Right to Buy discounts (see below), and the element of housing association grant attributable to low cost home-ownership schemes.

Right to Buy discounts

The net value of Right to Buy (RTB) discounts has been computed on the basis that Right to Buy sales are to sitting tenants, and thus do not have the same value as sales with vacant possession. Recent evidence on the periods of post-RTB occupation by purchasers suggests that the opportunity cost of RTB sales is just 60 per cent of the open market value. A discount of 40 per cent from the open market value is on that basis a proper economic reflection of the value of a sale to a sitting tenant (Wilcox, 2003b). It is only, therefore, actual RTB discounts in excess of 40 per cent of open market value that are included in Table 21 as a further element of support for low-income homeowner households.

Tax credits

While homeowners are excluded from the scope of the housing benefit scheme, and time restrictions are replaced on their eligibility for help with their mortgage costs as part of the income support scheme, there is one important form of benefit that partly mitigates the housing benefit exclusion.

For homeowners in low paid work the working and child tax credits provide an important supplement to their earned incomes. While for tenant households a substantial proportion of the gains from tax credits are offset by losses in housing

Table 21 Support for housing costs in Wales (£ million)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Social housing													
Council subsidy	7	–10	–20	–37	–51	–67	–76	–80	–92	–93	–87	–87	–91
Housing association grant	110	114	150	124	117	92	85	62	64	65	51	54	54
Housing benefit (council)	168	186	210	227	250	261	270	268	266	268	270	273	280
Housing benefit (associations)	15	20	29	38	51	61	71	72	81	84	87	96	109
Total	300	310	369	352	367	347	350	322	319	324	321	336	352
Homeowners													
ISMI	32	49	60	52	46	47	40	32	33	28	26	27	22
Renovation grants	81	90	136	148	130	141	139	126	106	87	68	48	54
RTB discounts	18	11	9	9	9	6	5	7	7	9	7	8	8
LCHO grant	6	19	24	17	10	14	14	9	3	3	4	4	4
Total	137	169	229	226	195	208	198	173	148	127	105	87	88
Owners' share of total support	31.3	35.2	38.3	39.1	34.7	37.5	36.1	35.0	31.7	28.2	24.6	20.5	20.0

Sources: UK Housing Review 2003/04; Welsh Housing Statistics.

Note: Renovation grants figures are based on 95 per cent of total private sector grants; 5 per cent are apportioned to the private rented sector.

benefit entitlement, for homeowners the gains from tax credits are undiluted, except for the relatively small reductions that might arise through entitlement to council tax benefit.

As of May 2002 almost 80,000 families in Wales received working families' tax credit, at an average level of £82 per week. The recipients were fairly evenly balanced between couples with children and lone parents. As of May 2003, following the introduction of the revised working and child tax credit regime, the equivalent number of families had grown to over 120,000. In addition a further 90,000 families received all or part of the small 'family element' of the new tax credit regime, which replaced the old 'married man's allowance' in the tax system.

Figures on the levels of awards under the new regime are not yet available as, unlike the old system, entitlement levels are reviewed at the end of the tax year, to take account of any changes of circumstance during the course of the year.

The numbers of families receiving tax credits in Wales are thus lower than the total number of households receiving housing benefit (just over 200,000 in 2002), but substantially more than the 57,000 housing benefit claimants that were not also claiming income support.

While tax credits are paid to both homeowner and tenant households there is no routine administrative data available on the split of claimants between the tenures. However, survey data suggested that 43 per cent of the claimants for the working families' tax credit scheme in 2000 were homeowner households, against 52 per cent tenant households and 5 per cent that were living with friends or relatives etc. (McKay, 2002).

Analysis of the same survey data also suggested that there was a far lower take-up rate of WFTC by homeowner households than by tenant households. While some three-quarters of all eligible tenant households were claiming WFTC, only a half of eligible homeowner households were making claims.

Thus while tax credits may, in one sense, be regarded as a partial substitute for housing benefit for homeowner households, the potential of the tax credit regime to ameliorate levels of homeowner poverty is clearly constrained by the low take-up level. Moreover, while the level of homeowner take-up remains so low, more tenant households receive tax credits than homeowner households, and a proportion of those additionally receive housing benefit.

Homeowners and taxation

It can also be properly argued that account should be taken of the tax provisions relating to homeowner households, and these are set out in Table 22. However, while the support provisions set out in Table 21 are all more or less targeted on lower income households, the tax provisions shown in Table 22 relate to all homeowner households and not just to those with low incomes.

The net benefit of those provisions that accrue to low-income homeowner households are thus only a small fraction of the total figures shown in Table 22. The members of homeowner households in the lowest income quintile, for example, represent less than one-seventh of all homeowner households in Wales.

Moreover a particular note of caution is required in respect of the figures for capital gains tax (CGT) relief. These are based on the annual UK estimates provided by the Inland Revenue. However, as they note, those estimates take no account of the ‘rollover’ relief that is typically provided for in those countries such as Sweden that do apply capital gains tax to homeowners’ dwellings.

The rollover provisions permit owners to roll forward, without taxation, the receipts from the sale of their home provided that the receipt is fully applied to the purchase of a subsequent home. It is only when the homeowner trades down to a cheaper property, or moves out of home-ownership altogether, that the capital gains tax is applied to the lifetime gains in the value of the homeowner’s dwelling(s). In practice, taking these provisions into account, the potential proceeds from capital gains tax on homeowner dwellings would thus be far smaller than the crude Inland Revenue figures suggest.

Furthermore, it should be noted that the current UK capital gains tax regime only levies tax on 60 per cent of the capital gains from non-business assets held for ten or more years. These provisions are not taken into account in the Inland Revenue estimate of the value of the homeowner’s exemption from capital gains tax. Thus even in the unlikely event that CGT was extended to homeowner dwellings without rollover relief, the ‘asset retention’ provisions for non-business assets would significantly reduce the tax yield.

In Sweden, for example, the provision of rollover relief and the application of CGT to only two-thirds of the homeowners’ capital gain result in an annual tax yield of some 40 per cent of the gross yield that would arise without those provisions (Wilcox, forthcoming).

Table 22 Homeowner tax provisions in Wales (£ million)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
MITR	270	230	190	150	130	110	100	110	80	70	0	0	0
Capital gains tax relief	125	85	44	39	37	22	25	33	55	115	123	221	357
less													
Stamp duty	20	15	10	10	10	10	15	20	20	30	30	40	65
Inheritance tax	19	15	13	14	15	15	16	17	18	22	24	26	27
Net tax relief	357	285	211	165	142	106	94	106	97	133	69	155	265

Source: Inland Revenue Statistics.

Note: Capital gains tax relief estimates make no provision for 'rollover' relief and should be treated with caution. See text for discussion.

None of this is intended to argue against the reform of the current tax regime applied to homeowner dwellings. Indeed the case for introducing some form of capital gains tax for owner-occupied dwellings is strong in principle. However, it does need to be recognised that the net gains to the Exchequer from such a policy would be substantially less than might be suggested by the crude headline figures on the value of the CGT relief for owner-occupied dwellings.

More importantly, the arguments for the reform of the taxation applied to all homeowner households should not detract from the issues arising from the very limited levels of targeted housing cost support provided to low-income homeowner households, a substantial proportion of whom also reside in poor quality accommodation. These policy issues are considered further in the following section.

5 Policies for low-income homeowners in Wales

There are a wide range of policies that could be adopted to improve the support provided to low-income homeowner households in Wales. In the main, however, these are policies that are determined at the UK, or England and Wales, level. Taxation and welfare benefit policies are determined by the UK government, with little or no input at the Welsh level.

Housing policy is devolved to the National Assembly for Wales, but in the context of a legislative framework primarily driven by the English housing ministry (currently the Office of the Deputy Prime Minister). The policy decisions of the NAW are thus restricted to the range of options that can be pursued through the detailed regulations made under delegated powers from the English (and Welsh) legislation, and on the allocation of funds from within its devolved budget.

It follows that the NAW, on its own, can only take limited steps to improve the support provided to low-income homeowner households in Wales. In most policy areas the critical levers remain with the UK government, and it is to them that the majority of policy recommendations therefore need to be addressed. The focus in this report, however, is on those areas of policy where decisions by the NAW can make an important difference. The UK issues will be dealt with in more detail in a subsequent report.

Tackling poverty

The UK government has set itself the ambitious target of eradicating child poverty 'within a generation'. Its primary policy initiative towards that objective, to date, has been the reform and increased generosity of the tax credit system. It has also increased child benefits, and applied the improved levels of the new child tax credit to households both in and out of work.

These moves have begun to reverse the long rise in the levels of child poverty that occurred throughout the 1980s and early 1990s. In 1996/97 there were some 4.4 million children in the UK living in households with incomes below the level of 60 per cent median incomes (measured after housing costs). By 2001/02 the number had fallen to 3.8 million; but this still represented 30 per cent of all children in the UK.

In Wales the proportion in 2001/02 was similar (31 per cent), and this translates to almost 200,000 children living in households with incomes below 60 per cent of the AHC median level.

It can be anticipated that the subsequent tax credit reforms will have further reduced those numbers, but equally it is clear that more radical reforms will be required in the years ahead if the government is to continue to make progress towards its target of eradicating child poverty.

Reaching those targets will not only require some further increases in the levels of child benefit and tax credits relative to average earnings, they will also require a significant increase in the levels of tax credit take-up, particularly by owner-occupier households.

The latest available figures suggest that prior to the introduction of the new tax credit regime there were some 30,000 homeowner families in Wales failing to claim working families' tax credit, and some 15,000 tenant families. It remains to be seen how much the subsequent growth in tax credit claimant numbers reflects the improved generosity of the new scheme, and whether, and to what extent, the new regime may have succeeded in improving take-up rates. But there is little doubt that further efforts will be required to improve take-up rates, particularly by homeowner households.

There is a role here for the NAW, together with mortgage lenders, local authorities and local advisory agencies in Wales, in working to promote improved take-up of the new tax credits. Not only are improved take-up rates an essential element for an effective policy to reduce and eventually eradicate child poverty, but this is an area of policy where the NAW can intervene without the resultant costs of increased claims falling onto the NAW budget.

At the UK level mortgage lenders have already agreed in principle to co-operate in promoting tax credits, particularly to home buyers facing difficulties with their mortgage, but this has, as of yet, to be translated into a widespread promotional programme specifically targeted on low-income homeowner households (Wilcox, 2003a).

In the longer run there is a case for an all-tenure housing tax credit scheme, linked to the new tax credit regime. Adding to the tax credit scheme in this way would make it easier to get over the message that tax credits apply to homeowner as well as tenant households. It would also be more effective in further reducing the extent of the continuing overlap of the tax credit and housing benefit schemes for a minority of tenant households. Those changes, however, rest with HM Treasury and the Department of Work and Pensions.

Energy efficiency and fuel poverty

Measures to increase the take-up of tax credits would also serve to increase the numbers of households eligible for assistance with energy efficiency measures, through the HEES and HEES Plus schemes.

However, the limited grants available under the basic HEES scheme limits its usefulness and the likely take-up of grants. It is also difficult to understand why assistance at the higher HEES Plus level is not available to two-parent families with young children, in the same way that it is available to lone parents with the same level of low income.

The impact of poorly heated dwellings on the health of young children is no less because they have two parents rather than one. This discrimination in the eligibility criteria for the two schemes is anachronistic in the context of the contemporary structure of UK welfare benefits.

Repossessions

Improving tax credit take-up rates is not just important in the context of child poverty. The tax credit regime is also important for homeowners in the context of the limited safety net available to homeowner households that face adverse changes of circumstance that make it difficult for them to maintain their mortgage payments.

Not only are homeowners excluded from the housing benefit scheme, where they become unemployed they must now wait for nine months before they get assistance with their mortgage costs as part of the income support scheme. Those restrictions, introduced in 1995 and applied to all households that have taken out a mortgage after that date, were intended to promote the take-up of private mortgage payment protection insurance (MPPI) policies.

In practice the take-up of MPPI policies has been limited, and the scope of their coverage variable. 'Flexible' mortgages also offer a measure of security for some households, but nonetheless there remain significant gaps in the welfare safety net available to out-of-work homeowner households.

In this context the tax credit regime is important as it provides most homeowner households with a ready opportunity of securing an income above income support levels, even when account has been taken of their mortgage costs. Ensuring that out-of-work homeowner households are aware that it may be possible to move back into very modestly paid work and still (with the aid of tax credits) be better off can thus also serve to minimise the risks of repossession and homelessness.

Home improvement policy

Home improvements is the primary area of policy relevant to low-income homeowners that rests very substantially with the NAW. While the legal framework for improvement grants is common to England and Wales it was recently changed (July 2002) to provide local authorities with much greater discretion over the provision of grants and other forms of support to private sector households living in poor housing conditions.

In that context the NAW potentially has greater scope in its drafting of policy and guidance on improvement grants than is the case under most Westminster primary legislation. It is also entirely a matter for the NAW to determine the extent to which it wishes to provide financial support for improvement grants from within the NAW budget.

Historically, as seen above, this is an area of policy where Welsh governments have provided proportionately more support (relative to the size of the sector) than either England or Scotland. Indeed this remains the case despite the recent cutbacks in private sector improvements policy in all three countries. At the same time this should be seen in the context of the greater proportion of elderly households and the lower relative incomes in Wales, as well as the evidence that the majority of poor condition dwellings in Wales are located in the homeowner sector.

Housing finance is provided as part of an integrated capital grant system. Councils are free to determine the distribution of spending between different services and policies. The removal of the mandatory means-tested grant provisions in 1996 (other than for disabled facilities grants) was clearly the trigger for the recent fall in the levels of improvement grants expenditure, as local councils responded to the opportunity to rebalance their priorities for expenditure.

The new regime

The new ‘flexible’ regime introduced in 2003 (under the 2002 regulations) is likely to see a further reduction in the levels of support provided for private sector repairs and improvements. Authorities now have powers to provide loans, as well as grants and other forms of financial support, to promote the renewal of private sector homes. Loans can take different forms: they might be interest free, or be tied to share in the future growth in the value of the property.

The key point about loans from the local authorities' perspective is that while in the first round they count against public sector borrowing limits, when they are subsequently repaid the 'receipt' can be recycled to provide a loan to another household, and so on. There may be a net revenue loss on interest-free or equity loans, but the net cost is likely to be much less than the cost of an outright grant.

In policy terms, however, the critical issue is whether the new more flexible policies have a greater impact in tackling the poor housing conditions of vulnerable homeowner households. Whether those improvements are dealt with by means of grants, loans or other policies is important, but is secondary to the extent of their combined impact in improving poor housing.

The NAW guidance on the new regime does recognise the limitations of private sector equity release schemes. Those schemes are perceived to provide poor value for money, and are in any event only available to elderly households (Appleton, 2003). Moreover there is less scope for such schemes in areas of relatively low property values, such as the Welsh Valleys.

The guidance also gives a warning against authorities adopting a blanket policy to abandon all grants in favour of loans. The effective assumption, however, is that authorities will to a greater or lesser extent seek to offer loans to households they would have provided with grants under the previous regimes.

It remains to be seen whether or not vulnerable and low-income homeowner households will be willing to take on loan commitments in order to fund major repairs and improvements to their homes. While interest-free and equity-share loans may have potential advantages over repayment loans for low-income homeowner households, there is still likely to be a degree of resistance to incurring debts in any form, especially from older homeowner households.

It should also be remembered that low income tenant households get the costs of repairs (and improvements) covered through housing benefit, while homeowners with identical incomes receive no help with their repair costs even if they eventually qualify for ISMI. In this context the rolling back of improvement grants is a further polarisation of the treatment of poor households in the homeowner and tenant sectors.

While it is quite proper for government to take account of homeowners' equity in their homes in framing its policies, and the greater degree to which homeowners have control over their housing affairs, the overall effectiveness of those policies remains the responsibility of government.

If it wishes to have policies that achieve objectives, not just in terms of the housing conditions of vulnerable and low-income homeowner households, but also in terms of related policies (such as health, child poverty, fuel poverty and Kyoto targets) then the critical issue is 'what works'.

The NAW therefore needs to closely monitor the practical impact of the new regime of housing renewal policies, against its target of halving the number of private sector homes in a state of serious disrepair by 2005 (WAG, 2003b). If the new policies fail to significantly reduce the extent of poor housing conditions for vulnerable and low-income homeowner households in Wales then the NAW should not hesitate to introduce policies designed to be *effective*, rather than policies framed by normative expectations that limit the support offered to low-income homeowner householders, as compared to the support offered to low income households in rented accommodation.

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