March 2002

briefing

INQUIRY INTO BRITISH HOUSING 1984-1991

Chaired by HRH The Duke of Edinburgh KG KT

What has happened since?

An Inquiry into British Housing was mounted in 1984 to mark the centenary of the Royal Commission on Housing for the Working Classes and also the Golden Jubilee of the National Federation of Housing Associations. HRH The Duke of Edinburgh, then President of the National Federation, took the chair. The Inquiry's brief was "to consider inadequacies in the availability and condition of housing in Britain, and to make recommendations to remedy the deficiencies identified". Its report was published in 1985.

In the years following publication, the Joseph Rowntree Foundation agreed to invest £2m in a programme of research to consider the Inquiry's recommendations in more depth. The Inquiry reconvened in 1990 to look at the evidence, again with The Duke of Edinburgh in the chair. A second report was published in July 1991.

Ten years on, this paper considers the progress achieved toward implementation of the Inquiry's key recommendations.

JOSEPH ROWNTREE FOUNDATION

Recommendation 1:
The phased withdrawal of mortgage interest tax relief (MITR)

The Inquiry recommended "removing the inefficiency and inequity of an indiscriminate subsidy (which favours affluent home-owners more than those on modest incomes and costs almost twice as much as housing benefit for people on low incomes)".

In its second report, the Inquiry said: "We do not recommend that MITR be left to "wither on the vine". But by starting the withdrawal in line with expected falls in interest rates, home-owners would not be worse off."

The Inquiry noted that the savings to the Exchequer from ending MITR would easily finance the costs of the Inquiry's other recommendations. At today's prices, this subsidy was costing some £10bn at the beginning of the 1990s.

The Inquiry warned of the ways in which subsidising home ownership led to house price inflation and subsequent equity withdrawal, boosting consumer spending. In the late 1980s, well under half the new net borrowing by British households secured on their homes was actually spent on housing investment and home improvement: MITR simply provided cheaper loans (for the relatively better off) for spending on consumer products. The Inquiry also noted how the availability of subsidised borrowing undermines monetary policies intended either to dampen or stimulate the economy.

Success?

This recommendation in the Inquiry's First Report in 1985 made headline news. And despite its immediate dismissal by the Prime Minister of the day – and despite the constant pressure upon government in the 1980s to increase the ceiling for mortgage interest tax relief – it is now the case that MITR has been entirely abolished.

Its phased abolition has given the Treasury an annual income several billion pounds higher than would have been the case if MITR had remained unchanged (and greater still if its original limit had been raised annually in line with inflation).

Yet, because of falling interest rates, and the more stable housing market created by the phased abolition of MITR, home buyers' average mortgage costs fell in real terms over the 1990s (even though, in many areas, they have risen since). Almost certainly the phased abolition of MITR was a critical factor under-pinning the prolonged period of non-inflationary economic growth experienced by the UK over the mid and late 1990s.

It is not possible to claim that the Inquiry into British Housing was responsible on its own for the phasing out of mortgage interest tax relief. However, by generating a national debate on a taboo subject, spelling out the inadequacies of this form of subsidy, and repeating these messages over a period of years, a climate of opinion was created in which governments have been able to achieve this change, step by step. As a result,

i) a more level playing field exists between owning and renting, and the private rented sector has expanded considerably;

ii) resources have been freed up for the Exchequer to reallocate to higher priorities than subsidising better-off owners;

iii) the de-stabilising "boom-bust" characteristics of the housing market have been moderated, helping the Chancellor's wider economic goals.

"Some subsidies are not available to the poor at all. Mortgage interest tax relief is intended to help homebuyers, but it is obviously only available to those who can get a mortgage in the first place. Within the limits of the fixed ceiling, the bigger the mortgage, the greater the relief; and, until 1991, the basic rate tax payer has received a good deal less relief on the same mortgage than a top-rate tax payer."

"Many experts are convinced that this relief has the effect of increasing demand and therefore raising house prices – and is consequently counter-productive.

HRH The Duke of Edinburgh; preface to the Inquiry's Second Report (1991)

Recommendation 2:
The conversion of all housing subsidies into a *needs-related housing allowance*

The Inquiry intended that part of the extra revenue received by the government as a result of phasing out MITR would go to creating a new needs-related housing allowance: this would enable person-based subsidies to go not just to tenants requiring help with their rent (Housing Benefit) but for home owners unable to keep up mortgage payments and to poorer owners whose property required urgent repairs and maintenance.

The Inquiry estimated that funding this housing allowance would absorb only a small fraction of the additional revenue gleaned by the Exchequer from ending MITR. Allocating about £1 billion to supplement the cost of Housing Benefit would provide sufficient resources to improve the current arrangements and extend support to home owners by: a) changes to Housing Benefit to help reduce the poverty trap that still results from benefit being withdrawn rapidly as incomes rise; b) the restoring of Housing Benefit to single people who lost entitlements at the beginning of the 1990s; c) the extension of the entitlement to those older tenants who cannot obtain Housing Benefit because they have modest capital resources which remove their eligibility; while also with d) help for home owners who encounter financial problems – eg through losing their jobs – and need assistance with mortgage repayments to prevent the loss of their homes; and e) support with costs of urgent repairs and maintenance for (often elderly) owners without sufficient income.

Success?

In the event, governments since 1991 have failed to provide a tenure neutral housing allowance for people needing help with housing costs. Those with mortgages who are in work receive no such help; yet low income remains a key source of the mortgage payment difficulties that lead to homelessness.

Despite the currently benevolent economic environment, a thousand families continue to have their homes re-possessed by lenders every fortnight.

Indeed, in 1995 the State safety-net for home owners – Income Support for Mortgage Interest (ISMI) – was rendered less effective for new claimants. An insurance-based safety net was favoured: a voluntary scheme of Mortgage Payment Protection Insurance. But take up of this private insurance has been low: only about 21% of those with mortgages, and just under 30% of new borrowers, are insured. And even amongst those who have taken out insurance, risks still remain since the cover does not include relationship breakdown or reduced income.

There are dangers that, if interest rates rise, and/or the economy falters, many more households with mortgage commitments could face mortgage arrears and the re-possession of their homes.

Meanwhile, there is no sign of extension of support to assist poorer home owners who are unable to afford urgently-needed repairs. Indeed, the position changed for the worse when Income Support replaced Supplementary Benefit, with the new system removing the opportunity to claim "exceptional needs" payments to cover such repairs. Yet it is now the case that 50% of all those living below the "poverty line" are owner occupiers. Despite important work by local Home Improvement Agencies – "Care and Repair" and "Staying Put" organisations – no financial help can be obtained for maintenance and repairs by owners on the lowest incomes.

Turning to Housing Benefit itself, there have been more steps backwards than forwards. Recently some modest concessions have been made in relation to those under 25 who are not entitled to support for a self-contained flat. But overall – despite the cost of HB falling because of lower rates of unemployment – the arrangements remain highly unsatisfactory.

"Rents and mortgage payments are the most obvious costs of housing. But I have the impression a need for, and the cost of, maintenance tends to be underestimated. The main fabric of a well built house may last for centuries, but only if it is never allowed to deteriorate."

"People who remain in the same house into their old age are particularly prone to save on maintenance, and when they cannot put if off any longer, they are vulnerable to unscrupulous contractors."

"Any scheme to help people with inadequate means to house themselves must include some provision for maintenance."

HRH The Duke of Edinburgh; preface to the Inquiry's Second Report (1991)

Restrictions on the levels of eligible rents introduced since 1996 have added to the complexity of the scheme, and have discouraged private landlords from letting to claimants, particularly young people. Anti fraud measures have also led to a deterioration in the – already highly inefficient – administration of the scheme in many areas.

Looking ahead, there is the potential for important change. The introduction of the Working Families Tax Credit has served to reduce the numbers of tenant families who are dependent on Housing Benefit (and has reduced the extent of the unemployment trap for low paid owner households as well). By supplementing the incomes of those with low-paid jobs, therefore, there has been an indirect, positive attack on these problems. It is possible that these measures will be extended with the introduction of a Housing Credit scheme linked to the tax credit schemes due to be introduced in 2003. There are also indications that the government is now more focused on the related tasks of simplifying Housing Benefit and improving administrative performance.

Recommendation 3:
The introduction of a nationwide rent-setting system

When the Inquiry first reported in 1985, rent controls were still in force. The Inquiry recommended new arrangements for rent setting based on the *capital values* of property. This would give a consistent basis for rents both between landlords and within the stock of individual landlords and it would offer adequate returns to landlords, thereby encouraging investment in the stock.

In its First Report, the Inquiry set a marker of a 4% return on value, for the "fair rents" set by rent officers for private landlords, and for the rents of housing associations and local authorities.

For private renting:

By 1991, direct rent controls had been removed (from the beginning of 1989) for new lettings, assisting the process of letting by owners unable to sell their properties. The Inquiry felt that, for private sector rents still subject to regulation, and for rents paid through Housing Benefit, their earlier recommendation should stand, ie with increases restricted on the basis of 4% capital values. However, to boost the 4% return to a level acceptable to the market, the Inquiry made the case for *tax exemption* where the landlord satisfied some basic regulatory requirements (and became an "approved landlord"). Freedom from income tax and capital gains tax would greatly increase the total return for the investor. (An open market would remain for landlords operating without tax concessions and without reliance on receipt of Housing Benefit.)

For social housing:

The Inquiry was concerned that rapidly rising rents for social housing, even if Housing Benefit could pay them, increased the disincentives for tenants to work. It was also clear that for tenants of housing associations and local authorities, a consistent measure for rents was needed. This would be achieved by basing rents on value, since this reflects all of the factors that make up the popularity of one property compared with another. However, the Inquiry recommended the marker should be a return of just 2.5% on capital value for social housing, to keep a limit on rent increases and to recognise the distinction between the subsidised and private sectors.

Success?

For private renting:

No government of any hue has been persuaded of the value of tax concessions to enhance the return to investors/landlords. But the Housing Green Paper of 2000 raised this issue for further debate. In the meantime, limits on Housing Benefit often mean tenants have to top up the rents in the private sector from Income Support or other benefits that have made no allowance for housing costs. At the same time, in the areas of lowest demand and lowest property values, Housing Benefit may cover rents which produce potentially excessive returns on the capital invested but tenants have little incentive to shop around.

For social housing:

In relation to the subsidised sector, further rent increases above the rise in earnings during the 1990s worsened the position for many tenants. In 2000, government decided to act both to restrain rent increases and to achieve a more rational rent regime in a sector with wildly differing rent levels (between areas and between social landlords in the same areas).

Under the aegis of the Housing Corporation, rent increases for housing associations are constrained (although associations can still raise them in excess of inflation without necessarily improving services).

The government's Housing Green Paper (2000) called for coherence within the rent regimes of housing associations, and convergence between the rents of these bodies and of local authorities (albeit only in England).

It is intended that these measures will be phased in over a 10 year period, and the use of capital values will be a key component in relating the rent of one property to another, as the Inquiry suggested. However, to prevent vast differences between rents of highest property values and lowest values, the proposed arrangements will also use an affordability criteria based on prevailing local incomes.

Recommendation 4:
New measures to reverse the continuing decline of the rented sector

In the 1980s, the public and private rented sectors saw substantial decline: a loss of 1.25 million Council homes (and growth of only 0.25m for the housing associations) and a bigger drop of over 1.8m rented homes in the private sector.

The Inquiry wanted to reverse these trends, both to ensure sufficient affordable homes for those unable to buy, and, through market renting, to help job mobility and meet the needs of the growing numbers of single person households – those who are postponing family commitments until an older age, or who never marry, or who divorce or separate – for whom owner occupation may not be the answer.

For private renting:

As well as recommending the tax concessions for approved landlords (in return for exercising restraints over rent levels), the Inquiry recommended removing tax disincentives to *home owners who wished to let their properties*. It was proposed that lettings by owner occupiers within their own property (even if self-contained) should *be entirely free from taxation*, either on the income or the capital gain relating to the proportion of the house which is let. Moreover, owner occupiers should be excluded from the requirement to declare income from rents on their tax returns (and those sub-letting who were entitled to benefits should not see these reduced to the point where letting is pointless).

For social housing:

The Inquiry in 1985 recommended a new approach to the housing functions of local authorities, giving greater emphasis to their strategic and co-ordinating role in supporting the efforts of all providers of housing and enforcing standards in all sectors. It was recommended not only that there should be greater *tenant participation* in management but also that Council property should sometimes be *transferred to other landlords*.

In 1991, the Inquiry's Second Report returned to the theme of transfers of ownership of Council housing, "which should be to more than one owner". This time the Inquiry introduced the concept of a free-standing housing department, still within the

Council but outside the restrictions of public finance, as an alternative to the transfer of stock to a body outside the local authority's remit. Under the Inquiry's proposals, the new arrangements would mean that costs of Housing Benefit for council tenants would no longer be drawn from surpluses on rents paid by other tenants: rental income would be retained by the landlord for re-investment. And the landlords of local authority stock would be able to borrow freely from the private sector and use most of the proceeds from sales of council housing specifically for housing purposes.

Importantly, the Inquiry also sought "grant arrangements that facilitate mixed and flexible tenure schemes which avoid the polarisation and segregation of rented housing". The point was made that if those in "welfare housing" were clearly identified as being for poorer households, this can stigmatise and disadvantage the occupiers.

"There needs to be a sufficient flexibility in the housing tenure systems to allow movement of people taking up employment opportunities. However desirable home ownership may be, selling and buying with every move is both cumbersome and expensive."

HRH The Duke of Edinburgh; preface to the Inquiry's Second Report (1991)

Success?

In the 1990s, the total of rented homes did indeed increase – moderately. Although social housing (the combined stock of Councils and housing associations) diminished by about 360,000 (from 4.65 m to 4.29 m), private renting expanded by about 570,000 homes (or by about 600,000 taking account of the decline in the number of "tied" dwellings that go with a job or business) to about 2.4 m.

Private renting:

In the early 1990s at least part of the increase in renting could be attributed to home owners who were obliged to rent out their houses because they could not be sold in a depressed housing market. But by the late 1990s that element was gone. Instead there have been numerous purchases – "Buy to Let" – of property by individuals for letting.

However, there has not been the large scale investment by institutional investors which the Inquiry hoped to see. Nevertheless, despite the absence of tax concessions, the opportunities for this have now increased: there is a level playing field between renting and owning following the removal of mortgage interest tax relief, and equity investments on the Stock

Market are now proving considerably less attractive. The Joseph Rowntree Foundation's residential investments in City-centre Apartments for Single People at Affordable Rents (CASPAR) have demonstrated – in the centres of Birmingham and Leeds – that better returns can be achieved from unsubsidised private letting than from comparable investments.

Meanwhile, the Inquiry's recommendations *for tax free lettings* by home owners was adopted by government in 1993 (now for rental income up to some £3,600 per annum); moreover, this change included the concession that it is not necessary to declare these sums to the Inland Revenue.

Social housing:

In relation to subsidised housing, the concept of transferring local authority stock to new landlords has become policy for all the major political parties. This has led to billions of pounds of private investment already going into the improvement of public sector housing. (In all, housing associations – both new ones created to take over Council stock and established ones – borrowed £20 billion outside public expenditure constraints between 1989 and 2001.)

In 2000, the Inquiry's idea of the housing functions of the local authority being at arm's length to the Council but outside the restrictions of public finance, was adopted as an alternative to straightforward transfers, in the government's Housing Green Paper.

Finally, the Inquiry's recommendations that poorer households ceased to be segregated in a separate social sector have become central to the housing policy of all political parties. Avoiding the labelling and stigmatising of low income tenants is accepted as essential not only to enhance the life chances of the tenants but to sustain the value of the new homes. Planning policy now allows local authorities to require a proportion of newly built homes in private sector developments to be affordable to those not able to buy on the open market; and the funders of social housing – principally the Housing Corporation – are charged with ensuring that new social housing is integrated within a mixed community, eg usually with low cost home ownership amongst the rented properties.

In conclusion

On balance, can it be said that the recommendations from the Inquiry into British Housing have now found their way into public policy and practice? In a number of major respects they have. But there are significant omissions from the current housing agenda:

1 Savings from the removal of mortgage interest tax relief have not been applied to reforming Housing Benefit and creating an adequate safety net for home owners whose financial circumstances take a turn for the worse (or who need to fund urgent repairs that they cannot afford). Many hundreds of thousands of recent purchasers with substantial mortgage commitments are at risk if higher unemployment returns and/or interest rates rise. And, apart from the abject failure of its administration in many areas, the Housing Benefit system remains ineffective, produces significant disincentives to work and distinct problems for landlords as well as tenants.

2 Shortages of affordable homes in areas of economic growth – particularly London and the South East – have not been addressed. Supply has fallen, with house building at its lowest peacetime level for decades, despite the creation of growing numbers of new households. Using planning requirements to create affordable housing, in place of funding social housing directly, is not replacing the need for direct subsidies. An absence of affordable housing means essential public services and growing businesses cannot secure the staff they need. Without major initiatives – perhaps including regional economic policies to redirect growth to less pressurised regions – overcrowding and homelessness is rising again.

Strong economic growth and falls in unemployment have masked underlying weaknesses in our housing systems over recent years. The reluctance to build on “greenfield” land – very often for good reasons – has not been balanced by adequate incentives to build on urban brownfield sites and redevelop worn out estates and neighbourhoods.

briefing

Many of the key recommendations in the two reports from the Inquiry into British Housing have been taken on board, to good effect. Important, parallel work is being done to regenerate areas in need of economic and social revival. But underlying housing problems remain nationwide. Without the underpinning of a needs related housing allowance, large numbers of households are at risk of being impoverished by their housing expenditure or even becoming homeless. And with cutbacks in the building of social housing, alongside barriers to private house building which heighten scarcity, acute shortages are now returning.

RICHARD BEST
Secretary to the Inquiry (1984 – 1991) March 2002

Special thanks to:

Professor Janet Ford, Joseph Rowntree Professor of Housing Policy at the University of York;

Professor Alan Holmans, University of Cambridge; Adviser to the JRF;

Professor Steve Wilcox, University of York; editor of the annual JRF Housing Finance Review.

JR JOSEPH ROWNTREE FOUNDATION

Published by
Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
www.jrf.org.uk