Chapter 12
Social Housing in the United Kingdom

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12.1 Introduction

Social rented housing[1] has played an important role in the United Kingdom for almost a century. From the introduction of central government subsidies in 1919 to the new Affordable Homes Programme, governments and landlords have faced trade-offs between the depth of subsidy and the scale of the new build programme; between rent levels and the quality and location of social housing; and between targeting housing on the poor and creating poverty neighbourhoods. These dilemmas are encountered in any country, but are played out through different institutional structures and within the wider context that includes demography, the labour market and wider economy, social security system and social attitudes.

The ability of governments to respond to changes is highly path dependent, and this chapter begins by providing an historical overview of the origins and development of social rented housing in the UK. It then examines the key changes since around 1980 that contributed to the changing nature of the sector: the Right to Buy, which was introduced in 1980 and led to many better off tenants becoming home-owners; and the changes in the way in which social rented housing is allocated, which led to a much greater emphasis on housing people in the greatest need. We then examine the factors that led to housing associations taking over from local authorities as the main providers of social rented housing: the transfer of local authority housing to the ownership of housing associations, and the promotion of housing associations as the main providers of new social rented housing from 1988.

[1] 'Social housing' is the term applied to housing that is let at below-market rents and allocated administratively according to need. It covers both public housing, which in the UK almost always takes the form of local authority housing, and housing provided by registered housing associations, which are private bodies, but operate on a not-for-profit basis.

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Finally, we examine the most recent challenges to the sector, which have arisen from the government's attempts to reduce the size of the budget deficit: the new model for financing "affordable" rental housing, and cuts to Housing Benefit (which is the UK's housing allowance).

12.2 Historical Overview

The United Kingdom was the first industrial nation (Mathias 1969). It was the first country where, as measured by the 1851 census, a majority of the population lived in urban areas. Urbanisation was associated with widespread overcrowding, poor sanitation and high levels of child mortality. The health problems arising from densely populated urban areas were compounded by the lack of understanding of the means by which diseases, notably cholera, were transmitted. Cholera was identified definitively as a water-borne disease only in 1854, by which time some 100,000 people had died of its consequences (Wootton 2006). Once the health effects of overcrowded and insanitary housing became clear, early state intervention treated housing as a health problem. Following a Royal Commission on Housing in 1885, legislation allowed local authorities to 'close' slum housing. Since clearance resulted in the problems of overcrowding tending to re-emerge in adjacent locations, local authorities were often reluctant to sanction clearance (Land Enquiry Committee 1913).

Before the First World War there was a marked reluctance to countenance public subsidy, particularly that provided by central government. Philanthropists made an appearance, providing sanitary housing for the 'respectable' poor, in part motivated by a belief that an improved physical environment would encourage higher standards of moral behaviour. There was also some housing provided by local authorities without central government subsidy. Although early social science had seemingly demonstrated that poverty was unavoidable for many households, no matter how prudently they budgeted (Rowntree 1901), there was nonetheless a tendency for progressive opinion stress the role of the land market in causing inadequate housing. By 1914 this view was changing although the enhancement of wages through a statutory minimum wage was seen as an alternative to subsidised housing (Land Enquiry Committee 1913).

Public rental housing subsidised by central government arrived in the aftermath of the First World War. The war-time Reconstruction Committee recognised the malfunctioning of the housing market, which was compounded by war-induced disruption to supply and the controls introduced on private rents in 1915 as a consequence of inflationary pressures. Moreover, the pre-1914 boom in infrastructure (schools, public transport and utilities) had created a (debt) crisis in local government finance (Offer 1981), such that central government equalisation grants became an inevitable and enduring feature of the system from 1929 (Lyons 2007).

Subsidised rental housing, introduced in 1919, was conceived as being a temporary measure, until market equilibrium was restored, and rent controls could be removed (Daunton 1984). Since shortages were not removed, rent control was retained until 1989, and by 1980 around one-third of the population lived in social rented housing, almost all of it supplied by local authorities.

Early ‘council’ housing was not intended for the poorest people. Rather, it was aimed at skilled working and administrative classes. Indeed, rents – although subsidised – were so high that it would have been impractical for the poorest people to afford them. A Medical Officer of Health found that the mortality rate among council tenants in one area was higher than among the slum-dwellers, and attributed this to the high rents (Daunton 1984).

This incident points to the enduring trade-offs in public housing: between size, quality and rent; between rent and quantity; and between location and density. These trade-offs became more acute, when, after 1930, the Government adopted council housing as the principal means of clearing slums. Relatively low-density suburban developments – chosen for the cheap land – moved households away from amenities and crucially their places of employment. The alternative was higher density housing in inner-urban areas, notably the Quarry Hill development of almost 1,000 apartments in the centre of Leeds (Ravetz 1974). A start to the remaining problems of affordability was made as legislation permitted local authorities to develop their own differential rent systems, i.e. varying the rent according to individual household’s incomes. An advanced scheme (again in Leeds) caused much resentment among the tenants whose rents rose to pay for their poorer neighbours (Finnigan 1984).

Council housing resumed a leading role in social policy with the advent of the welfare state in the decades following the Second World War. Initially, the Government aspired to an ideal of high quality housing that could be occupied by a diverse range of classes. However, under the pressures of acute shortage and the persistence of slums, the Government reverted to essentially the position adopted in the 1930s. Building for ‘general needs’ gave way to prioritising slum clearance in the mid-1950s. With it, the size and quality of the housing declined, and its density increased. A clear signal was sent to the ‘aspirational’ working classes that their future lay in home-ownership, which became the majority tenure in 1970 as private renting continued to decline.

By the early 1970s the ‘crude’ housing shortages (measured by comparing the number of households with the numbers of houses) had been removed, and the Government moved to raise rents and to target subsidies on poorer tenants. This was to be achieved by the introduction of a national housing allowance system (called Housing Benefit), which replaced the schemes run by individual local authorities in 1972/73 and was extended to private tenants (Fig. 12.1).

The era of ‘mass’ public house building came to an end in the mid-1970s, when economic crisis led to assistance from the International Monetary Fund, and with it curbs on public spending. The ideological hostility of the Conservative Governments of the 1980s and 1990s towards local authority housing also contributed to a further decline in house building. Combined with the sale of properties at discounted prices under the Right to Buy from 1980, the sector shrank in absolute as well as relative size.

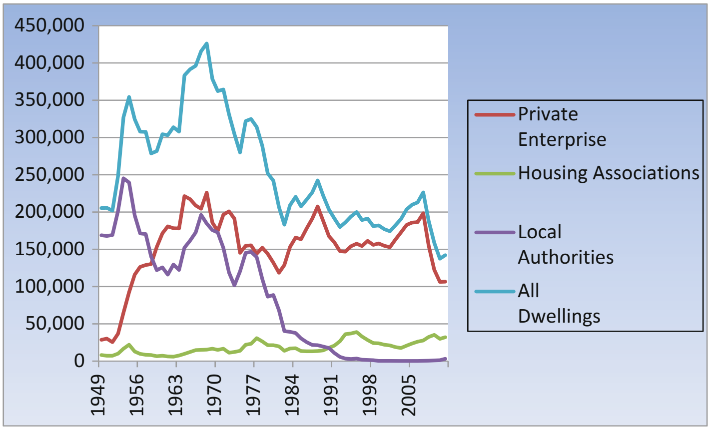

Fig. 12.1 Housebuilding in the UK 1949–2011 (Source: DCLG Live Table 241)

12.3 Right to Buy[2]

The Right to Buy was introduced by the first Thatcher government in 1980. The principal motivation was to promote owner-occupation, rather than to cut public spending. Governments since the 1950s had promoted home-ownership as the 'ideal' tenure for aspirational households, especially after the switch in the social housing programme away from 'general needs' housing and towards prioritising rehousing people from slum clearance programmes. Although the government made claims that it would save money, the policy remained uncosted until after 2000 (see Munro 2007).

Nearly all council tenants could exercise the Right to Buy provided that they had been tenants for 3 years. It was backed with strong financial incentives. Qualifying tenants could purchase a property with a minimum discount of 33 % from its open market value, and this rose by one percentage point for each year of tenancy up to a maximum of 50 %. Over time the terms became more generous: in 1984 the minimum residency requirement was dropped to 2 years and the maximum discount was raised to 60 %. More generous terms for tenants living in flats were introduced in 1986 with a minimum discount of 44 % rising by two percentage points for each year's residence to a maximum of 70 %.

Figure 12.2 shows how Right to Buy was an immediate success when it was introduced in 1980, but that sales fell dramatically after 2002/03.

An underlying reason for the affordability of the scheme for government the maturity of the local authority housing sector. Much social housing had been built in the 1930s and the high levels of inflation experienced in the 1970s helped to erode the real value of debts even on relatively recently built housing. The equity

[2] This section closely follows a section in Stephens et al. (2014) and is reproduced with permission.

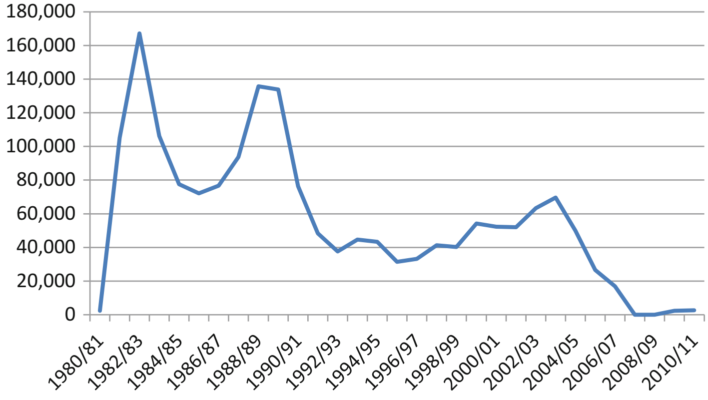

Fig. 12.2 Right to buy sales (England) 1980/81–2010/11 (Source: Department of Communities & Local Government: Live table 670)

that built up in the sector financed the discounts without any 'financial' subsidy needing to be inserted into the system. Indeed the capital receipts helped to reduce the level of government borrowing (Gibb and Whitehead 2007).

The transfer itself was probably on average 'progressive' in the sense that assets owned by the community as a whole were transferred to people who were mostly less well off than the average. But in the longer term, the limitation on using capital receipts for constructing new social housing eventually led to shrinkage in the availability of social housing.

Research suggests that the impacts of RTB have been quite complex. For example, the government has claimed that '. . . it has encouraged more affluent tenants to remain in the neighbourhood they have lived in for many years, helping to create stable mixed income communities' (DETR, quoted in Stephens (ed.) 2005). But the evidence is complex, and it is clear that RTB has probably impacted in different ways in different areas (see Munro 2007).

Until recently, it appeared that the policy – at least in its traditional form – had run its course, as sales have fallen throughout the UK. This was caused in part by restrictions, mostly in the form of maximum discounts that were introduced leading both to reductions in sales and the size of discounts. A maximum discount of £24,000 was introduced in Wales in 1999, then reduced to £16,000 in 2003. Regional maximum discounts ranging from £16,000 (in the high pressure south east) to £38,000 were also introduced in England (Wilcox et al. 2010). The 2004 Housing Act also lengthened from 2 to 5 years the period before a tenant becomes eligible to exercise RTB and extended the period during which the discount must be repaid from 2 to 5 years in the event of a re-sale. Moreover, the social landlord is given the right to repurchase the property if it is sold within 10 years of the RTB being exercised. Under the 'modernised' right to buy in Scotland, a reformed discount structure including a cash limit of £15,000 was introduced in 2002. However, sales declined less than elsewhere in the UK as the 'old' rights continued to be enjoyed by more established tenants (Wilcox et al. 2010). Under the 2010 Housing Act, the Scottish Nationalist government ended the Right to Buy for new tenants.

However, the UK's Conservative-led Coalition Government, formed in 2010, has sought to revive the right to buy in England, the one jurisdiction in which it controls housing policy. From April 2012, it raised the maximum discount to £75,000 (or 50 % of property value if it is a house; 70 % if it is a flat). Sensitive to criticisms that social housing stock will be lost, the Government has put in place incentives for local authorities to reinvest receipts in new housing. However, the new housing must conform to the new 'affordable' housing model under which rents are set at 80 % of market value. Local authorities not wishing to reinvest receipts will lose them to a national housing fund. Former local authority tenants, whose homes have been transferred to housing associations (see below), retain the right to buy and can participate in the new scheme. The new policy marks an important divergence from the rest of the UK.

12.4 Allocations and Role of the Sector

Local authorities have always enjoyed a good deal of autonomy in choosing tenants for social housing. As we have seen, early council housing was not affordable to the poorest and tended to house skilled working and clerical classes, but the emphasis on slum clearance in the 1930s and again from the mid-1950s changed that.

Particularly since the desirability of council housing varied according to its location, building type (house, walk-up, high rise, etc.), and quality the question of allocation was not just one of gaining access, but gaining access to what. The transition from private renting to council housing was bewildering for some households. Young and Wilmott's (1957) study of the East End of London records how mothers used to "speaking for" their daughters to persuade private landlords whom they knew to house them as they set up home with their husbands were bewildered when faced with the impersonal bureaucracy of the local authority housing department. Although the role of elected Councillors remained important until into the 1980s, and local authority housing could form part of a patronage system, it was primarily housing officers who operated allocation systems, and these were run to match households to "suitable" council housing, according to the family's status as well as their "objective" position. Thus housing officers would conduct household inspections to gauge the "respectability" of a household wanting to be re-housed. Until the "right to buy" removed much of the more attractive stock, there was a good deal of mobility within the system, so a household might enter the sector in an unpopular estate, but by good behaviour and regular payment of rent, make the case, perhaps with the help of a Councillor, into progressively more attractive accommodation. Filtering also occurred through the mechanism of thee "ability to wait" (Clapham and Kintrea 1984), whereby the less desperate households rejected offers of unpopular council housing until what they regarded as a suitable offer was made.

Discrimination became an issue with immigration from the British Commonwealth from the 1950s onwards, but was generally indirect: in other words allocation systems were constructed that had the effect of excluding or restricting access to certain groups. Thus the Greater London Council's "Sons and Daughters" scheme that favoured the sons and daughters of existing tenants clearly discriminated against newly arrived immigrants until it was abolished in the early 1980s (Glyn 2006). The system made a brief re-appearance in one London borough in the early 1990s (ibid.)

So council housing, whilst prioritising people needing to be rehoused as a result of slum clearance from the mid 1950s, housed a broad range of households, although there was differentiation within the sector. The change in the nature of the sector into one that was more "residual" began in earnest from the 1970s onwards.

In part this reflected changing attitudes towards allocations, with concerted efforts to become more "objective" and to base allocation more strictly on need. The landmark Homeless Persons Act of 1977 gave local authorities a statutory duty to house priority need non-intentionally homeless people in temporary accommodation until suitable settled accommodation becomes available (Fitzpatrick 2008). In practice settled accommodation nearly always took the form of a local authority tenancy (ibid.) creating an internationally unusual (and quite possibly unique) de facto right to housing. Whilst a recent change in England now means that local authorities can discharge their duty through private sector accommodation, the "priority need" limitation was abolished in Scotland in 2012 meaning that all non-intentionally homeless people have a right to settled accommodation. But here, the important consideration is that with rising homelessness in the 1980s, local authority housing, particularly in high demand areas, became increasingly focussed on the most vulnerable groups – leading to some resentment amongst others in great housing need. Needless to say, the situation was made considerably more acute by the relatively low level of new build in the social rented sector that has now pertained for four decades.

The right to buy not only removed much of the more attractive housing in the most desirable neighbourhoods from the sector, but took with it better off tenants, too. Meanwhile remaining tenants were also exposed to the economic restructuring that accelerated in the 1980s with widespread de-industrialisation that disproportionately affected the urban areas where council housing was concentrated. Unemployment and other forms of "worklessness" mean that the profile of tenants in the social rented sector as a whole is now decidedly disadvantaged. As Table 12.1 shows, incomes and levels of labour market participation are markedly lower than in the other tenures, with fewer than one-third of household reference persons in full or part-time employment, compared to more than 60 % of owner occupiers and nearly 70 % of private renters.

The pattern of "residualisation" in social housing is given a further twist by its concentration in so-called "poverty neighbourhoods." There is a live debate over

Table 12.1 Tenure profile (England, 2010–2011)

	Owner occupiers	Social renters	Private renters
Size of sector (number of households)	14.4 m	3.8 m	3.6 m
Proportion of household reference persons (HRPs) aged under 40	18.5 %	27.9 %	63.3 %
Mean weekly gross income[a] (HRP plus partner)	£786	£334	£558
Mean weekly gross income[a] (all members of household)	£836	£368	£627
Mean weekly mortgage payment/rent[b] (before Housing Benefit)	£143	£79	£160
Median length of time in current residence	12 years	7 years	1 year
Proportion of households receiving SMI[c]/Housing Benefit	0.3 %	62.6 %	24.6 %
Proportion of HRPs working full time	56.1 %	22.0 %	59.2 %
Proportion of HRPs working part time	7.4 %	10.4 %	10.1 %
Sample size	12,037	3,049	2,470

Source: DCLG (2012)
Notes
[a]Includes Housing Benefit
[b]Rent excluding services and rent-free cases
[c]Support for Mortgage Interest: a social assistance benefit to assist low income owner-occupiers with their mortgage interest costs

whether the concentrations of poor people in particular neighbourhoods exerts a further (independent) disadvantage on their residents. Possible causes might include the stigma associated with a particular estate, the development of cultures of worklessness as people have few role models who are in work, and the isolation of people from the social networks that would link them to labour markets. However, evidence of either neighbourhood effects or, if they exist, their causes remain inconclusive (Kintrea 2008). An associated thesis suggests that social housing itself might exert an independent effect on the outcomes of tenants. Although the socio-economic profile of social tenants is striking and there is evidence of diminishing life chances of people growing up in council housing (Lupton et al. 2009), that the tenure itself should be the cause lacks a convincing hypothesis. Another way to conceive of the sector, is that it provides a valuable "safety net" – secure and for the most part housing of a reasonable physical quality – for many low income households as their labour market position has worsened whilst both poverty and income inequality rose (Stephens et al. 2002).

12.5 Subsidies and Rents in Local Authority Housing

Since the 1930s local authorities have operated a system of rent pooling, under which the debts associated with building a particular estate are shared with others. This removes the anomalous position whereby newer estates with higher debts would have higher rents than older estates with lower debts. However, the system of local authority Housing Revenue Accounts (HRAs) does not tackle anomalies between local authorities, leading to inconsistencies in rents.

Central government has been able to exert influence over rent levels through subsidy. Local authority housebuilding has always been the subject of annual revenue subsidies, rather than up-front capital subsidies (in contrast to housing associations). In the 1980s, reductions in central government subsidies to local authority HRAs forced rents upwards until three-quarters of English local authorities received no subsidy at all (Wilson 2000). This process reflected the maturing of the sector, as very little new building was taking place and historic debts, already eroded by inflation, were repaid.

Until 1990, central government subsidy for Rent Rebates (the name for Housing Benefit for local authority tenants) was paid to local authorities separately from subsidies for the HRA. However, by merging the subsidy for the HRA with the subsidy for Rent Rebates, the Government once again gained control over rents. Thus local authorities with negative subsidy entitlement on the traditional HRA now lost subsidy associated with the payment of Rent Rebates. Any remaining surpluses were transferred to the local authority's General Fund. This system was unpopular with many tenants who objected that the poorest tenants' Rent Rebates were being paid for in part by other tenants, rather than by the community as a whole. Indeed, in 2000/01 the cost of Rent Rebates in England was £4.2 billion, of which more than one-third (£1.5 billion) was paid for by surpluses on HRAs (Wilson 2000). Revenue subsidies from central government to English local authorities declined from £4.3 billion in 1980/81 to£0.6 billion in 1992/93 (in 2003/04 prices), and then became negative, before small net subsidies re-emerged in the early 2000s (Hills 2007, Table 6.1).

The re-emergence of net subsidies reflected a reform to the system, which included an additional item of notional expenditure in HRAs – the Major Repairs Allowance, which was transferred by the local authority into a separate Major Repairs Reserve, where it could accumulate "to allow for more effective capital works expenditure planning" (Hills 2007, p. 61). Rent Rebates were taken out of the HRA, but in practice surpluses were redistributed between local authorities with the objective of removing anomalies in rent levels between local authorities – a national system of rent pooling. Rent restructuring also took place in the housing association sector with the grant distributing body (the Housing Corporation) assuming that applications from individual associations for capital subsidy would involve charging rents consistent with rent restructuring (Hills 2007). With various protections built into the system to prevent overly rapid rent rises, rent restructuring may be completed by around 2015.

Meanwhile the national HRA was tending towards surplus once again. In the mid-2000s, some 182 local authorities paid £615 million into the national HRA whilst just 52 received £694 million in subsidy (Wilson 2011). By 2009/10 a surplus was recorded (CLG Live table 651). Yet another reform then took place, which was intended to create a "final" settlement between local authorities and the central Government, and allow local authorities to become self-financing. This was achieved through a one-off redistribution of the outstanding housing debt between local authorities based on each authority's ability to service debt and maintain stock (Wilson 2011). This involved some very large redistributions with seven local authorities making payments in excess of £0.25 million and six receiving payments above this level (Pawson and Wilcox 2012). The Treasury also received a one-off payment of £8 billion (ibid.).

Many local authorities hoped that the settlement would allow them once again to build new social housing at a rate of perhaps 10,000 units a year. However, the Government's assumptions behind the introduction of "self-financing" in April 2012 reduced the scope of local authorities to build, and it seems that additional expenditure released through self-financing is more likely to be spent on repairs and stock improvement (Wilson 2011). Three-quarters of receipts from right to buy sales continue to be returned to central government. The government can also cap borrowing by local authorities, which (under UK accounting conventions) it does to control public spending. Moreover, the government has retained a provision that allows it redistribute debt again.

12.6 The Emergence of Housing Associations as the Main Providers of Social Rented Housing

Over the past quarter of a century the social housing sector has been transformed in another way. After central government subsidies for social housing was introduced in 1919, local authorities were chosen as the principal vehicle for the delivery of social housing. So, until the 1980s, almost all social housing was provided by local authorities. Housing associations, private non-profit (and usually charitable) organisations were often a legacy of nineteenth century philanthropy, and played only a niche role in the housing system, for example playing a leading role in neighbourhood renewal in the 1970s. In 1980, more than 90 % of social housing in the UK was provided by local authorities and just 7.5 % by housing associations (DCLG Live Table 101). In 2008, housing associations overtook local authorities as the main providers of social rented housing in the UK. In 2011, around 55 % of social housing in the UK was owned by housing associations and around 45 % by local authorities (DCLG Live Table 101).

Whilst local authorities have lost stock through the right to buy and demolitions, the shift in the balance between housing associations and local authorities was also attributable to new build by housing associations and transfers of local authority housing to housing associations (the later known as "stock transfers").

Stock transfers were prompted by the Government's changes to local authority Housing Revenue Accounts that came into operation in 1990 (see above). Some local authorities facing negative subsidy considered it to be beneficial to divest themselves of their hosing stock in order to avoid "negative subsidy" when Rent Rebate subsidy was taken into the Housing Revenue Account. These authorities made use of a provision that allowed them to transfer their entire stock to a housing association, which could be established for the purpose. These transfers are known as Large Scale Voluntary Transfers.

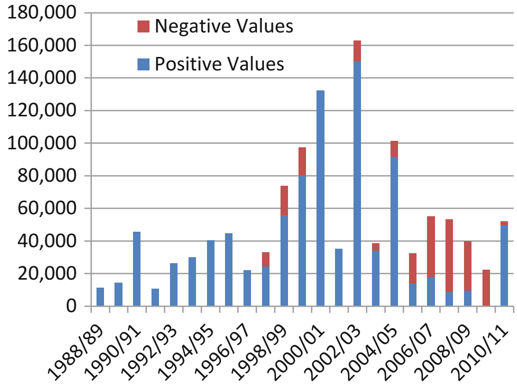

Fig. 12.3 Stock transfers (Source: Wilcox (2006), Tables 68a, 68d, 68e; Pawson and Wilcox (2010), Table 68)

For a transfer to take place, tenants have to be balloted. The transfer value is based on the concept of tenanted market value, which is set at the net present value of net rental income over the next 30 years. Net rental income takes into account future repairs and maintenance obligations and the loss of rental income through right to buy. Since the local authorities with surpluses in the HRAs tended to be those with low levels of outstanding housing debt, their stock was also of positive value, i.e. its value was greater than the outstanding debt. These authorities were typically suburban or rural with stock of a generally high standard and with low housing debt. To reflect the loss of "negative" subsidy the Treasury introduced a "dowry" to be paid on transfer. Tenants retained their right to buy after transfer, and rents levels were usually guaranteed for a number of years. The upgrading of the stock was also a key attraction of transfer for tenants, and this was to become key to future transfer policy. Since housing associations are private organisations (albeit non-profit) they can borrow money without it scoring as public spending.

However, stock transfers were not viable in the areas where social housing was in the worst physical condition and in most need of renovation. In urban areas with problematic housing built in the 1960s and 1970s and high levels of outstanding debt, the transfer value of housing was too low to pay off outstanding debt. In the 1990s, the government introduced a subsidy programme called the Estate Renewal Challenge Fund which allowed local authorities to bid for subsidy to facilitate transfer and then upgrade the stock (Fig. 12.3).

These small-scale transfers gave way to some large-scale transfers of negative value stock. As part of its drive to improve the quality of social housing, the government was prepared to subsidise these transfers, the largest of which was the city of Glasgow with more than 80,000 properties. The Glasgow transfer involved the government writing off almost £1 billion of the city's housing debt, and heralded a large upgrading programme. However, whilst around 75 % of transfer ballots resulted in approval for transfer, this was not always the case. The Glasgow transfer was controversial and subsequent ballots in Edinburgh and Birmingham were rejected. After these, transfers of the entire stock of local authority housing in large cities ended. Transfers continue on a smaller scale, and the total transferred exceeds one million dwellings in England alone.

In 1988, the government decided to make housing associations the principal suppliers of new social rented housing. A new funding system was introduced that depended on a mixture of a capital grant from central government and borrowing from the private sector. Initially grants were very high (80 % or even more), although these diminished over time. For the first time housing associations had to access private finance on a large scale, which they did both in the form of loans secured from banks and bonds issued by individual associations or through an intermediary called The Housing Finance Corporation. This had the advantage of allowing smaller associations to access private finance, although the trend was towards development being concentrated among very large housing associations that emerged as regional associations merged with one another.

From 1990 onwards, use was made of planning obligations as a means of funding social and other forms of affordable housing. Development rights were nationalised in the UK in 1947, and when planning permission is granted for a developer to build on a particular site, the value of the site is enhanced. Since the 1970s, so-called "planning gain" was used to pass some of the costs of developing infrastructure on to the developers who benefited from them. From 1990, such obligations were also increasingly used to fund social and other forms of social housing. These "section 106 agreements" (named after the section in the Act that permitted their use) became an important source of subsidy for social housing (Crook and Monk 2011). The model worked well in the years of rising property values up until the credit crunch in 2007, but in the climate of a depressed property market, the government has suggested that developers' obligations to provide affordable housing might be reduced or even removed where they are an impediment to development.

12.7 New Supply in an Era of Austerity

The housing budget has been one of the principal casualties of the government's austerity programme. As a consequence of the 2010 Spending Review, the budget for housing development was cut by 60 % for the 4 years beginning in April 2011. Of the £4.5 billion that was allocated to housing, £2.7 billion had already been committed, leaving £1.8 billion to form the basis of a new funding model.

The new funding model is called the "Affordable Housing Programme" and is intended to make the limited public finds available to go further and to assist the construction of some 80,000 new dwellings. The grant per unit is being cut from an average of £60,000 per house to £20,000. (NAO 2012). "Social" rents are to be replaced with "affordable" rents that can be as high as 80 % of market rents. Housing associations themselves will become more dependent on raising private finance and cross-subsidising new developments.

The public funds for the programme were allocated by competitive bidding – and were oversubscribed – so there was no difficulty in persuading enough housing associations to participate. Rents so far have averaged 75 % of market levels, lower

(65 %) in London where market rents are much higher than the national average. Outputs are back-end loaded, so around 56 % of completions will occur in the final year of the programme. This has contributed to a collapse in social/affordable housing starts. These fell from 35,690 in 2010/11 to 12178 in 2011/12 (Housing and Communities Agency, Table 1a).

A key factor in the success of the programme is the ability of housing associations to raise sufficient private finance. It is expected that they will have to raise more finance in the 4 years of this programme than they have raised over the past two decades. They have achieved this so far, with an increasing use of bonds. However, there are doubts about the sustainability of the programme beyond the 4 year period. This is because some housing associations will reach the limits to their borrowing capacity, although others maintain that they could support another round (Stephens and Williams 2012). One consequence is that other ways of attracting finance into the sector are being explored.

12.8 Housing Benefit

A further controversy in the finance of social housing arises from changes to Housing Benefit (HB). More than 60 % of tenants in social rented housing receive HB to help them pay the rent. It is almost always paid directly to the landlord. It is widely believed that this arrangement helps to reduce rent arrears. However, the costs of HB have grown and the programme is being cut back.

In April 2013 a weekly overall benefit cap for working age people will be introduced of £350 for single people and £500 for couples and lone parents. The government's estimates suggest that half the 56,000 households likely to be affected live in London and almost half will live in social rented housing (DWP 2012a). Mean losses approach £100 per week (ibid.). Although not specifically a cut to Housing Benefit, the Government's estimates suggest that only tenants will be affected, so clearly HB entitlement plays a major role in lifting benefit "entitlement" over the cap. Moreover, the money will be recouped by cutting HB.

A "bedroom tax" will also be introduced in April 2013, with HB being cut for households judged to be under-occupying their social housing. If a household is under-occupying their house by one room, their HB will be cut by 14 %; if they are under-occupying it by two or more rooms, their HB is cut by 25 %. The measure applies only to working age households (i.e. pensioners are exempted). The measure is likely to affect 660,000 households (that is 30 % of working age social tenants on HB). They will lose on average £14 per week (DWP 2012b).

A third change involves the introduction of a new system of social security called Universal Credit. It will be phased in from October 2013, and will involve the incorporation of HB into a single welfare payment for working age households. One effect of this change will be the payment of all benefit income (including the housing cost element) to the claimant, rather than the landlord. Exemptions may apply for "vulnerable" households, but it is not yet clear how vulnerability will be defined. Of course, social landlords fear that the new arrangement will make it much more difficult to collect rents.

Overall, the changes to social security benefits threaten to undermine the security that HB has provided to the social rented sector in general, and to housing associations in particular. If housing associations begin to record higher levels of rent arrears, then it is possible that this affect the willingness of the markets to lend to housing associations and the terms of loans.

12.9 Conclusions

As the centenary of government subsidies for social rented housing approaches, it is possible to reflect on the changing role of the sector. Adopted as a temporary expedient, it became an enduring feature of the British housing system, being used as a tool to rid the country of slum housing and to provide decent housing for everyone. At its peak, it housed a third of households, but the removal of the overall shortages of housing in the 1970s and the growth of owner-occupation weakened the strong political support that the sector had once enjoyed. The economic crisis of the mid-1970s followed by the ideological hostility of the Thatcher governments ensured that the sector would decline. The success of Right to Buy was founded on the maturity of the sector and the fact that it had provided much high quality and popular housing. The shift towards a social rented sector provided by housing associations rather than local authorities, reflected both an ideological hostility to local authorities and the government's public spending conventions that count borrowing by local authorities as public spending, but exclude borrowing by housing associations. Although the sector has residualised and shrunk, much of it has also been refinanced in order to improve its quality. Within the context of growing poverty and income inequality since the 1970s, social housing has arguably provided a safety net for a substantial proportion of the population. This role may be threatened by the shift towards "affordable" rents and cuts in Housing Benefit, both of which may cause housing associations to focus on somewhat better off households.

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