rethinking social housing

Edited by Tim Dwelly and Julie Cowans

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HOUSING CORPORATION

THE SMITH INSTITUTE

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Contents

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Preface
Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank, which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the Institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

Trends in economic development, household formation and population movement have meant that, at the start of the 21st century, housing provision has become deeply polarised with many social tenants subject to systematic barriers that restrict geographical mobility and cultivate pockets of concentrated unemployment, social exclusion and multiple deprivation. *Homes for all*, the recently published Five Year Plan represents more than a doubling of investment in social housing from 1997 levels, to £2 billion in 2007/08, a significant increase even allowing for substantially higher costs in the sector. However, increasing the number of affordable homes may not be enough to deal with the stigma and concentrated poverty that much social housing now represents. Rather, investment will need to be married with radical solutions to address both the range of tenures in new-build and existing neighbourhoods; and the 'homes for life' approach to subsidised housing that has caused such asymmetry in the mobility of social tenants in comparison to private renters. How can these issues be tackled in a manner consistent with the Government's commitment to equity? Can mobility, rights and responsibilities be fostered in the housing system, while continuing to offer security of tenure?

The Smith Institute is pleased to be publishing this collection of essays by key experts, which we are sure will become an important contribution to the debate around the future of social housing provision in the UK. The Institute thanks Tim Dwelly and Julie Cowans for commissioning and editing this collection, and gratefully acknowledges the support of Grainger Trust and the Housing Corporation towards this publication and the associated seminar.

Editors' introduction

Current social housing policies and practices were first established on post war welfarist foundations. Whilst entirely appropriate in the 1950s and 1960s, the last three decades have seen a plethora of tweaks and changes, with gradually increasing frequency, to try to update policy to meet changes in society. However, the basic welfarist approach has been left untouched.

Yet as a society we are moving at breakneck speed into a global economy with massively different labour markets. We are today in a digital age with high aspirations and expectations.

In housing terms, a home is no longer just about a roof over our heads. It is also, or sometimes only, an asset, an investment, a pension, an income, sometimes a liability, an office, a business.

Society has changed, the fundamental principles of social housing policy have not. The result is a tenure which the vast majority of the population would not choose – a tenure of last resort – stigmatised and reviled.

As numbers have declined due to right to buy, well intentioned but short sighted practices of rationing this scarce resource to the most vulnerable, poor and needy in society has created spatial concentrations of deprivation: visible ghettos of deprivation.

Numerous studies have shown that those in poverty are more likely to suffer from poor physical and mental health, low educational achievement, crime and fear of crime and low self esteem/wellbeing.

House poor people with others in similar positions and all of these indicators are magnified. In other words being poor is bad, being poor in a poor community is worse. For all the best intentions of helping the most needy in society, social housing in the UK is now part of the problem rather than the solution it was in a previous industrial era in the last century.

Is it right that a developed society should be reacting to an individual's short term needs by giving them a solution they wouldn't take unless they were desperate? A solution that, in the longer term could significantly harm their life chances, and that of their children?

We believe not. We believe that UK housing policy is based on outdated welfarist foundations and that a fundamental rethink is required.

Such a rethink poses dilemmas, and many are nervous of publicly advocating it for fear of being heavily criticised by those who defend the status quo. But it does not mean it is not necessary.

This paper is meant to encourage debate and discussion. It asks the question: is social housing working?

It does not have all of the answers, but the contributors – a broad range of public and private sector practitioners and academics – have sown the seeds with some interesting ideas to begin a wider debate.

The bottom line is this: the aim of any publicly funded housing service should be to maximise people's prospects, to help them help themselves. Those aspects of today's system that do this should be vigorously defended. Those that do the opposite should be vigorously challenged.

Chapter 1

Social Housing isn't working

Tim Dwelly, Director, Live/Work Network

- In 1980 secure tenancies were created, offering a home for life to tenants just as mass unemployment was hitting large parts of Britain
- With job prospects shattered, many clung to their tenancies as a shelter from the storm of economic change
- Welfare dependency and social housing became synonymous with each other
- Since 1997 'work pays' benefit and tax credit policies have successfully challenged welfare dependency. Unemployment is at a 30 year low
- But social housing continues to concentrate the poorest together, often in places where welfare is a way of life
- Social housing applicants are still encouraged to demonstrate need and vulnerability
- A temporary lack of suitable housing results in the legal right to a subsidised home for life
- Are children of social tenants helped most by inheriting dependency or assets?
- Reform is needed to remove the barriers to opportunity sustained by a well-meaning but outdated social housing system

'How much social justice can our dynamic modern economy achieve while so many of the poorest are still lumped together as a single group on stigmatised estates?'

Social housing isn't working

Sometimes we take things for granted that later seem hard to defend once they are dismantled. Fifteen years ago it was unthinkable that there could be hundreds of digital TV channels, private sector telecom companies competing for our business, mobile phones in every pocket on every high street. We had four TV companies, one state phone company and vandalised phone boxes. Was it right to embrace change? Of course it was.

In the social housing sector, permanent revolution *appears* to be the norm. Stock transfer has dominated the scene for years. And each year new initiatives emerge – decent homes, ALMOs, best value, choice-based lettings, to name just a few.

But while all these processes imply change and rethink, do they in fact cover up a *failure* to change? Very little attention seems to be spent on the big question: no matter how you run it, is 'social housing' a good idea at all?

What/who is social housing for?

Despite all the changes to systems of delivery since the 1980s, this question is rarely asked. It is generally assumed by councils and housing associations that the basic product is a good thing.

This is partly historical. It once was. During the 20th century, council housing was at least meant to improve physical conditions. It was also very much aimed at the working class – people with jobs often working in major industries.

In the 1950s and 1960s mass unemployment – certainly long term unemployment – was not typically associated with council estates. The fact that this is no longer the case is at the heart of social housing's current poor reputation (MORI found that 85% want to own – a figure that includes many social tenants). Could yesterday's solution be today's problem?

Large numbers of older tenants and leaseholders on estates are part of that previous generation. They remember what it used to be like living on their estate when it was first built and they find today's situation tangibly worse. This isn't just about the properties. As many of them will tell you, it's the people moving in they are worried about. In many areas there is a very clear divide between 'old school' social tenants and the more recent generations, many of whom have been significantly more reliant on welfare than their predecessors.

For today's applicants, 'what is social housing for' is a question with very different answers. New lets are (certainly in high demand areas) rationed by 'need'. Need is measured mainly by a homelessness system that assumes that temporary lack of somewhere decent to live requires long term assistance – a secure home for life in the public sector.

Some would argue that those with the best chance of getting a tenancy are those who demonstrate a suitability for welfare dependency. If this sounds harsh, consider the reaction of homelessness officers to applicants with jobs sending them emails from work and otherwise demonstrating self-reliance. 'Why do they need a social tenancy' is the likely response. But what does this reveal about the assumptions made about those who *do* pass the test of needing one?

It would be helpful for all landlords in the social sector to now revisit their aims and objectives. Rather than having as an over-riding aim the provision of as much social housing as possible, they could usefully turn this on its head and clarify what they want for their customers: better prospects. Then they could work out what kind of housing service and product meets these objectives. This is already being done in many ways through the new preventative approach to homelessness. But as any homeless officer will testify, the legal framework is one that does confer long term rights to subsidised housing for those in temporary need of a stable home.

Times have changed

This government's welfare policies overall can be summarised as 'hand up not hand out'. Unemployment has fallen by well over a million since 1997, to the lowest levels seen since the mid 1970s. Many groups have benefited from the new 'work pays' approach, notably lone parents.

All this is partly down to a strong economy. But the chancellor's post-Thatcher welfare system has also played its part. Tax credits have made it pay to work. Before 1997, it was genuinely true that you could be worse off in a job than on the dole – another example of one of those things we accepted for no logical reason. The minimum wage has also helped boost the appeal of work.

Yet this does not seem to have had a major impact on social housing. The 2003/04 English house conditions survey found that 62% of social tenancies contain no-one in work. This does include the retired, but is still a deeply worrying figure in the context of everyday life on an estate. What chance do children have of experiencing adults working and bettering themselves as role models when a large majority are not working or are retired?

In many areas, of course, the figures are far higher than this average. Look hard at this figure: Only 23% of new housing association tenants work and don't claim housing benefit. That's over three quarters dependent on welfare. Some would see this as a sign of success, of 'targeting those in most need'. But surely our aim should be to reverse these figures?

The UK seems a very different place today to the 1980s and early 1990s, when unemployment was seen by ministers as a 'price worth paying' and whole subregions saw their industrial base collapse with nothing put in place. Today, in contrast, few places are devoid of work prospects. Times have changed – but modern social housing seems somehow stuck in a time warp. How much social justice can our dynamic modern economy achieve while so many of the poorest are still lumped together as a single group on stigmatised estates?

Inheriting dependency – or assets?

One of the more worrying aspects of estate life for many is that lessons are not being learnt about how to succeed. Too many of those who do succeed leave the area to associate themselves with more 'successful' locations. Instead lessons are being learnt about how to get your own safety net: a social tenancy.

Anecdotal evidence suggests that children of social tenants (whose parents had to fight hard to win a tenancy as shelter from the storm of mass local unemployment) are proving particularly adept at getting accepted as homeless today. Technically a notice to quit can be served on a 16 or 17 year old by a social tenant and this is fully valid as a reason to be accepted as 'homeless'. Are children of social tenants inheriting a welfare dependency outlook?

There are no figures available to judge this. This is because local authorities are not required to record the tenure of applicants' families through statistical returns. It would be helpful if national research could look into this phenomenon, as a case can be made that this might be damaging younger generations' prospects of achieving self help. Many local areas are, however, identifying such trends through homeless strategies and reviews.

In modern Britain social exclusion is not just about income disparity but assets. With growing levels of home ownership, more and more people have access to assets in their property that can be passed on to future generations. Equity can enable people to borrow to finance business start ups, help in a time of crisis and allow people to move/trade down. It is also likely to provide a cushion against pension inadequacy. In short, having assets gives a family greater confidence. In contrast social tenants often have nothing for a rainy day and nothing to pass on to their offspring. To many this makes clinging on to a social tenancy particularly important.

Again this is at odds with government thinking. The chancellor's children's bonds are one of many signs that the government is rightly trying to redress the asset divide. So is the growing emphasis on offering low cost home ownership options as a step onto the housing ladder.

With property proving the asset of choice to most British people, any major rethink on housing policy is likely to look hard at how even the poorest families can be helped to gain assets. It is hard to see how this will fit within a social housing system that requires the demonstration of need and vulnerability above the reward of initiative and effort.

There is another reason to pursue this analysis. If a family owns (and pays for) something, it is likely to have more respect for it. This lesson has been learnt in wired communities projects – those that have expected participants to pay say £200 for a PC (if necessary borrowing from a credit union) have been much more attached to their equipment. Those given poor quality second hand equipment free have not. On a much bigger scale the same can apply to living in a council house.

Unfortunately, the government's greater focus on intermediate housing and owning an affordable home comes at a time when house price rises are preventing the majority of council tenants from buying. Right to buy is in some areas proving to be a much less attractive way of buying an asset than other schemes such as retained and shared equity mortgages. But how can these be applied to council tenancies?

The political context

Outside the social housing sector, policy makers do seem to have growing concerns about social housing as a cause of welfare dependency. The prime minister has himself commented on the need for reform of public services that foster dependency and described housing pressures as a 'major barrier to opportunity'.

His overall analysis contained some important pointers for future housing reform. Take these passages:

- 'Our third term vision is to alter fundamentally the contract between citizen and state at the heart of that 20th century settlement; to move from a welfare state that relieves poverty and provides basic services to one which offers high quality services and the opportunity for all to fulfill their potential to the full'
- 'We need to move from mass production in what the state does. At the centre of the service or the structure has to be the individual. They have both the right and responsibility to take the opportunities offered and to shape the outcome. The role of government becomes to empower not dictate. The nature of provision – public, private or voluntary sector – becomes less important than the delivery of the service the user wants'
- 'This requires an inversion of the state/citizen relationship, with the citizen not at the bottom of the pyramid taking what is handed down; but at the top of it with power in their hands to get the service they want'
- 'The purpose is to put middle-class aspirations in the hands of working class families and their children, to open up opportunity not for a few but for all'
- 'Despite the changes we have made, for too many the welfare state is one which simply pays out benefits, trapping people into long term or even lifelong dependency'.

Apply this thinking to social housing and it seems logical that a major overhaul of housing policy will be required. This will not be easy politically. Labour often sees social housing as part of its heritage. However, the system that was devised to help working people in an different industrial age to make their way must be overhauled to face 21st century realities.

A system that entrenches poverty and dependency, often stigmatising people as unlikely to succeed cannot be the aim of a government committed to widening opportunity and spreading wealth.

What makes a home 'decent'?

While the big question of whether social housing is helpful or harmful is rarely addressed, the housing sector is concentrating on measures such as decent homes. My question is: what about decent *lives*? Even within the decent homes programme, there may be a risk of embedding welfare dependency.

In the private sector, the factors that make a home 'decent' to potential owners and tenants are increasingly at odds with those in the social sector. Of course everyone wants quality bathrooms and kitchens etc. But today what was once called the spare room has become a very important selling point – the place where people can work from home, especially schoolchildren.

This is because the very concept of a home is changing. In a crowded nation with high property costs and a growing aversion to commuting, use of the home for work of all kinds is bound to increase, enabled by rapid advances in information technology. Even by the 2001 census, just under 10% of the population were working regularly from home – double the number ten years earlier. The risk is that this trend is bypassing the social housing sector, where the notion of a spare room is anathema. Most landlords also still have tenancy agreements that bar use of the home for business – why?

This is just one example of how social housing may become further stigmatised in the future – representing the kind of property where 'you can't even get a room for the computer'. As children are increasingly expected to do homework online, the risk is of a new digital divide – children from social housing unable to get easy access to a broadband speed PC in a quiet space while their home owner counterparts flourish.

Other examples of consumer choice which don't fit neatly with the way social housing is provided include garages and gardens. High density urban centre living may appeal to the growing number of single people. But they are not getting social housing, families are.

Decent homes standards – and the concept of lifetime homes – could perhaps include some of these 'non housing' factors as a measure of a property's sustainability and long term usefulness.

Repair or replace?

The government repealed the Conservatives' homelessness reforms and strengthened rights to a secure tenancy as well as extending the groups to which councils owe rehousing duties.

Yet today its Homeless Directorate advocates a 'last resort' approach to local authorities accepting households as homeless.

This implies little faith in the basic framework, which in hindsight we may have to accept worked better in its previous incarnation.

Quite apart from welfare dependency issues, there is the simple matter of a fundamental ongoing imbalance between demand and supply.

Despite increases in spending on new social housing, demand (homeless acceptances running at around 100,000 each year) continues to massively outstrip supply (around 25,000 new homes a year funded by the Housing Corporation). Land and building costs are also rising, eating into the extra spending allocated to social housing.

Add the impact of right to buy and it is hard to see how there will ever be enough social housing to offer those who, in effect, have a legal right to it. This is not a sensible system.

Security of tenure – Thatcher's legacy

Few remember that it was the incoming Thatcher government's 1980 Housing Act that created secure tenancies for council tenants (though everyone remembers the right to buy that the secure tenancy introduced).

Looking back on the wave of industrial change that was about to envelop the country – and the growth in long term unemployment that went with it – it could be suggested in hindsight that the secure tenancy was a measure to soften the blow. For those about to see their stable world of employability shattered for a generation, anything that could be done to avoid the consequences of this becoming catastrophic was necessary.

In the 1980s a whole generation became used to living on the dole long term, in a secure home paid for by benefit. Many made ends meet with extra work on the side. Some took to crime. Fundamentally, welfare dependency became normal in far too many places. Today that unproductive (not to say depressing) economic lifestyle is being dismantled.

Should we continue to adhere a social housing system that seems all too reminiscent of how lives were led in the Thatcher years? Is offering a social tenancy for life unintentionally encouraging ways of living that value welfare dependency above making your own way?

The penny is dropping. More and more people recognise that social housing isn't working. Fixing it is not going to be easy however. In this paper we have invited a range of experts to propose options for reforms. We have also added some of our own ideas in the concluding chapter.

We do not profess to have all the answers. But we do hope that this paper at least begins to ask the right questions.

Chapter 2

UK housing policy reform – a global perspective

Professor Duncan Maclennan CBE FRSE, University of Ottawa

- Overall the UK economy has been managed to respond successfully to global change
- The Treasury has prioritised productivity growth whilst maintaining cyclical stability
- This has led to a recognition that investment in one sector of the economy has profound spill over effects on others and shapes long term possibilities
- In the last few years government has developed a clear understanding of how housing outcomes, particularly sluggish supply and rising prices, impact on the economy
- But housing policy lags behind this new economic understanding: its processes are still dictated by providers, local authority boundaries and paternalism – with narrow housing outcomes too often the sole measure of achievement
- What should the new housing roles be for central and local government, regions and agencies?
- Housing systems should be based on markets and consumers but with an essential associated not–for–profit sector
- How can housing benefit be replaced by a simple allowance, with affordable housing operating more like a market with real consumer choice and supplier competition?
- Could all social tenants be given a 'route to buy', sharing the annual gain in the value of their home with their landlord to make this happen?

'If the objective of government housing subsidy is to help the tenant, should it not help them into the wider set of housing choices available, rather than simply attach them to housing poverty and social housing forever?'

UK housing policy reform – a global perspective

We live in times that are characterised by a near constant hail of change. Not just in terms of new technologies and new competitors/collaborators, but in social patterns, cultural experiences and, increasingly perceptibly, environmental challenges.

Over the last decade the government has made major strides forward in understanding these processes and positioning the UK for both effective response and the capacity to lead change.

Creativity, flexibility and resilience may have been the rhetoric of Britain in the 1980s. But these approaches became a reality only in the last decade.

Everything is changing so fast across the globe. So many assumptions that were made even five years ago are now looking redundant. So where does that leave UK housing policy?

In the UK the ability of government to think beyond the spending obsessions of old socialism and the singular, short-term market obsessions of neo-liberalism is taken for granted. It has meant developing a coherent intellectual grasp of how the world is changing and an understanding of what needs to be left to markets and what needs to be done by government.

The UK government has evolved some effective and quite distinctive approaches to policy making that are different from federal government policy approaches in the US, Canada and Australia. The UK Treasury has moved economic management from a 'big picture' reading of the economy to an understanding of the more micro processes of real economies.

Its concern has been productivity growth, rather than simply annual budgets and cyclical stability. This has meant adopting endogenous models of economic growth, that recognise how action in one sector of the economy may spill over into another. It also means recognising how investment today in different forms of capital (human, social or place) will have productivity and growth implications for tomorrow. This is an approach to policy that sees the economy embedded in society, and vice versa. Competitiveness and social justice outcomes cannot be regarded as if unrelated.

How does good housing help a nation? Defining the goals

- **competitiveness and productivity** – house price outcomes influence wage rates, interest rates, equity withdrawal and stability, migration and investment incentives. These all matter for growth and stability
- **social justice** – housing outcomes matter in terms of the health of children, educational performance and sociability. But we also have to think system as well as outcome. Housing can separate rich from poor in much of daily life, so an inadequate home and neighbourhood can hold back the lives and opportunities of the poorest households
- **environmental sustainability** – this is significantly influenced by the locations, density and quality of housing. Large and sprawling homes mean greater greenhouse gas emissions. So also do inadequate design, insulation and management systems for all housing, large and small
- **national security** – local housing systems that are sorted by ethnicity as well as income can prove a fertile ground for recruiting the disaffected to insecure causes
- **good government and governance** – these have housing dimensions. Housing matters to how well the nation is governed and how people, as individuals and as communities, are involved in that process

Putting housing in a global context

Housing systems and policies should be constructed with wider goals in mind (see box above). But these overall goals are not simply national.

To manage the modern economy it is not enough just to have a working model of 'capital' as innovation and technology, with people as human/social capital. That now often neglected third factor of production, land, has to be reinterpreted for modern times too. Think of this factor as property, housing, infrastructure, planning and aspects of environment.

The UK Treasury has evolved an understanding of the role of housing markets in the national economy. But it has yet to follow with a fully coherent policy framework which builds on this understanding. Non-market housing in the UK is needlessly localised, even parochial, in its approach.

Across many of the non-European OECD economies, the policy understandings of most governments are narrower. Some nations, the US for instance, undertake exemplary housing and urban research and do much to encourage innovation in housing and renewal policies. But often there is only the clever rationale and the impressive innovation because the US seems to deal frequently in 'programmeless' policy.

What happened in New Orleans after Hurricane Katrina was unsurprising in a nation that seems to have lost the policy will to deal with environmental change and to address social injustice.

In Australia there is no federal spatial policy at all. There is a grudging commitment to rather narrowly defined housing policies, focused on rent assistance and tax break programmes. In Canada, non-market housing is in retreat, urban policy may or may not emerge, and there are no national and few provincial strategies for neighbourhood renewal.

In the USA, Australia and Canada, treasuries appear to see housing policy as a market distortion (as opposed to dealing with serious market failures in construction and housing markets) and any spatial policies as simply displacement. In Canada and Australia, following a now abandoned US fad of a decade ago, there is a prevailing view that no public infrastructure investment should be debt funded at all.

Challenges for the next decade

What will change be like in the decade ahead? What will it mean for housing policy?

There is likely to be at least one cycle and downswing period of difficulty in which housing budgets will have to be curtailed. However the period will be one of substantial real income growth and, if present programme commitments remain in place, slowly reducing inequality of income and opportunity. There will be a sustained challenge of managing growth in Britain with coexisting poverty and still places of negative synergy for the poor.

Demographic change will begin to create new and different patterns of working and living for the over 60s. We should stop talking about 'third age' and instead recognise that with growing longevity for the healthy and growing resource pressures in old age, there will be much more diverse lifestyles for households in their 60s and 70s. This is still not reflected in how we plan homes and transport.

Government should also recognise that the trajectories into home ownership and settled family relationships are not the same for the 20-somethings as they were in the generation of their parents. Educational debt, new consumption patterns and delayed permanent relationships are resulting in quite different housing choices, and less early asset accumulation, than two decades ago. This pattern may have some resonance in the attraction of the 'creative' classes to cities that wish to raise their growth rates.

There will be a growing clash in attitudes between ageing baby boomers and younger households. The former have tried to haul most of the welfare state ladders up behind them as they have left each age group, pay little attention to green issues, expect to hang onto their unearned housing wealth and expect taxes on younger workers to pay their health, pension and other costs. When my children are my age I do not expect them to look back kindly on the reduced inheritance of natural, social and public capital that we will have left for them.

Two thirds of the world's population lives in countries that are not ageing but getting younger, and they are often poor nations. There is every likelihood that the UK will be competing with the other OECD countries for not just creative classes, but computer engineers, carpenters and carers from these countries. The availability of decent housing in mixed neighbourhoods will be an important attraction factor. The current diminishing availability and unaffordability of all kinds of housing in our cities will curtail our attractiveness to mobile human capital. This will limit our growth rate. The UK has to become more capable of welcoming new visible minorities and accommodating them without cultural disruption, intolerance and housing discrimination and squalor. Here we can learn from Australian state and Canadian approaches!

Just as the nation will certainly become richer so it will almost certainly fail to meet its Kyoto obligations. The next decade will really begin to see the public recognition of global warming as an issue that individuals have to address. Governments will really have to deliver. In the UK, the housing sector will need to do more to meet the challenge. Whilst the case for higher housing densities in our cities is well made and as cities continue to recover housing market roles, there are still sustainability weaknesses. Suburban sprawl is still the dominant growth process. With rising forecasts for household numbers, and housing shortages to 2020 and beyond, have we really yet got a grip on this issue?

So in the UK major challenges will persist across all the major goals the nation shares with other world economies. How it approaches housing policy could contribute to change for the better in most of these areas, if the fundamentals are re-examined to ensure long term system change.

New roles for state, region and viable local action areas

The key objectives and strategies for housing should be developed at neighbourhood and metropolitan level, where authorities and others are capable of doing so. Moving to a more devolved decision system for housing policy makes sense, but only once key system changes are in place. I would propose:

- Whitehall, as with neighbourhood renewal, becoming a **centre for** good practice and research excellence for housing planning, market analysis, management and design. These functions should serve not just all of England, but all of the UK as the devolved administrations struggle to keep up with the pace of change in analysis and innovative ideas. (The Scottish Executive should share budgets and resources for such good practice and research efforts with their southern colleagues, for they have fallen behind since 1999)
- There should be a **national framework** for spatial development, and resource allocation, set out from Whitehall for England, so that housing budgets can fit rationally into broader plans for infrastructure and transport. It is disingenuous for Whitehall to ask all lower orders of government to be strategic and holistic when they fail to make such key choices themselves!
- Within that enabling framework, there should be a single **housing and renewal budget** allocated from Whitehall to government regional offices and then to new regional housing agencies
- These regional housing agencies would follow the regionalisation of a merger of English Partnerships and the Housing Corporation, with part of the new infrastructure being a capitalised but arms length **land renewal and development company** which would seek to maximise gain recapture from major public land development, infrastructure and renewal projects. The new agency would have a regional board which included a significant role for local politicians with a region wide interest
- Local authorities should be encouraged to form working partnerships and then potentially joint vehicles with surrounding municipalities. Municipal **boundaries** are now a real barrier to effective housing policy action. They are too small to capture and create regional economic benefits and linkages. This needs metropolitan regional alliances
- Conversely, local authorities are usually too large to adequately deliver **community renewal** and neighbourhood involvement. A whole new set of contestable, cross border arrangements in the delivery of non-market housing awaits to be developed
- In stock **transfers**, the Treasury and DCLG should give much more attention to the housing systems that transfers create. There has been a huge failure of creativity in

the process to date. Transfer usually means the same or smaller sized landlords operating within the same framework of provision. Contestability (a range of mechanisms/ competitors to ensure no one landlord has a local monopoly) and the overall efficiency of the local affordable housing market are seldom concerns. We need a new strategic vision for how the non-market housing 'industry' can be re-engineered and unleashed from local authority boundaries in the next decade.

These proposals envisage more viable approaches to the governance, planning and management of non-market housing. Their aim is to create more cohesive, economically driven but locally accountable systems.

We should let the fundamental forces of choice and 'contestability', within policy measures to address resource inequalities and market failures, drive more of the system. And that applies to other measures too.

Ideas: individual allowances and a 'route to buy'

Britain has required the recreation of more integrated non-market systems for more than a decade. Although the Scottish Executive has tried to develop a more singular regime for different social providers, involving planning, funding and tenants' rights, it still does not apply to pricing and subsidy. In England, aside from rent convergence, there has been little evolution towards some kind of quasi market for non-market homes.

Rent convergence regimes have been operating in England for more than five years. But they are a conceptual farrago and do not shape localised price structures. Some pricing scheme related to individual dwelling quality would encourage better landlord asset management, rational household choices over ranges of income and give some more sensible basis for the estimation of values in stock transfers.

The present rent distortions, coupled with restrictions on new supply have been used to resist a shift from housing benefit subsidy to a means-tested housing allowance. But if the ownership of all non-market housing were to transfer to bodies free of public borrowing constraints, and if true choice between competing providers were the norm, then the case for an allowance increases. This is the great reform still waiting to happen.

The right to buy, in much of the UK, has helped poorer households (though not the poorest) and it has spread wealth further down the income distribution. Reports of negative effects have generally been overstated, though sales of social housing in places with real shortages and where purchasers quickly move are clearly difficult to defend. However, if we accept the notion of home ownership as a worthy policy objective, there are important ways to expand this scheme.

To ensure asset based welfare for all, through housing gains, the right to buy should be converted into a 'route to buy'. For instance, if the real house price gain in the UK remains at around 2.5 to 3% per annum, tenants could accumulate 1.5% of the value of the property each year for a period of five years. This would, at the local authority average, constitute a roughly equal split in gains between landlord and tenant.

After five years the tenant would own around 10% of the property. After a further five years this amount would have risen closer to a quarter of the value. The tenant could then either use this accumulated deposit to buy their current home or to take the money and relocate elsewhere. The scheme could be tweaked in various ways to encourage early exit.

This latter example is indicative of a number of points made in this chapter: the importance of consumer choice, an enabling national housing policy and subsidy for local decision making to respond effectively to local markets. Many social housing providers and policy makers may object to these ideas. However, if the objective of government housing grant is to help the tenant, should it not help them into the wider set of housing choices available rather than simply attach them to housing poverty and social housing forever?

More generally, having now recognised the significance of housing for the economy, the government has to develop much clearer economic principles to guide the design and delivery of still badly-needed housing programmes.

Chapter 3

New affordable housing – time to embrace a truly mixed economy

Jon Rouse, Chief Executive, The Housing Corporation

- Housing associations, with the Corporation as their funder/regulator, have pioneered public-private partnership like no other sector
- There is now around £27 billion of private sector investment in housing association stock
- But now private developers can access grant direct, roles need to be rethought
- The old sector divisions are changing – *what* is delivered matters more than by who
- As divisions between providers become blurred, so too do tenure divisions
- Is it time for a single system to protect sub-market renting?
- Is greater permanent housing support and subsidy necessary to tackle short term need?

'Are there ways of persuading the private sector to take on more of the equity risk, instead of government or housing associations? Could flexible tenure arrangements across a new development over time replace rigid fixed percentages of affordable housing from day one?'

New affordable housing – time to embrace a truly mixed economy

As I write this, the Housing Corporation is launching its National Affordable Housing Programme for 2006-08. Over the next two years, almost £4 billion of public resources will be allocated and 84,000 new homes will be delivered. The programme represents a significant milestone in the delivery of affordable homes in England. For the first time, private developers will be participating alongside housing associations as partners delivering affordable homes.

With the comprehensive spending review due next year, planning is already in hand ahead of the next funding round, due to start in 2007-08. One option would be to reflect on the successes of the current programme, the lessons we have learnt, and then to do more of the same but better. But in reality I think we need to go a lot further than this.

It is almost 20 years since the current approach to affordable housing provision came into being through the 1988 Housing Act. During this time we have seen housing associations at the vanguard of the public-private finance model, in many respects years ahead of their counterparts in health and education.

Pioneers of public-private partnership

Through engaging with private lenders, housing associations have made important progress in rising to the challenge of addressing the high cost of public subsidy. They have become skilled at leveraging public capital and revenue funding to underpin development programmes that now attract significant sources of private finance. For example, in the 2006-08 National Affordable Housing Programme, public spending per affordable home is set to drop from an average of around £52,000 in 2004-06 to £46,000 in 2006-08, with the balance from private sector lenders.

Today, capital grants including social housing grant stand at over £30 billion, while private finance drawn down has almost caught up, at close to £27 billion, fuelled both by stock transfers and new development. We are rapidly approaching a time when private finance will outstrip public funding.

This private money has come increasingly cheaply. This is partly down to the stability of our economy and, in particular, long term low interest rates. It is also partly down to sustained excellence from most major housing associations in managing their businesses.

And crucially, and perhaps uniquely, it is down to the symbiosis that the Corporation has built between the investment and regulatory sides of its business.

At first glance, having a regulatory and investment function alongside each other in a national governmental organisation seems incongruous – won't the push-pull dynamic create internal conflicts? But the reality is rather different, generating instead a creation tension.

It works first of all because housing associations are non-profit distributing bodies, and therefore any surpluses they make are ploughed back into their social businesses, in other words, providing more homes, improving existing ones or providing community services. In this climate, the regulation and investment staff can work together and with the housing association to assess capacity, to plan forward, and to jointly manage programme expectations. At the same time, the direct regulatory engagement lends confidence to the lending community which translates to 50 basis points or more off the rate of lending.

In my view, (and it was my view long before I became chief executive), the affordable housing programme is the best sustained example of public-private financial partnership across UK government. The upshot has been that the Corporation has met its delivery targets year after year after year while many other parts of government have struggled to achieve the same discipline from their capital programmes.

Although we have made this look deceptively easy, it isn't rocket science either. It is based on one huge team effort, juggling over 6,500 housing developments at any one time with our 80+ development partners and other specialist associations, substituting schemes in and out of the programme to reflect everything from sustained bad weather on building sites to changes in policy at a local planning authority. By adopting a culture of non-adversarial, low blame relations with our partners, most of our schemes have completed and are occupied within two years of the initial allocation of funding.

So with this glowing resumé, why the appetite for change and evolution? Quite simply because we can see a number of clear warning signs and a number of potential missed opportunities within the current system, that means we will under-perform in future if we do not contemplate some changes now.

What's not yet working

There are too many housing associations who, from an investment perspective, are not leveraging their balance sheets, their asset base, as strongly as they should be doing in the context of current levels of housing need. A good indicator of this is the relatively low level of land banking being undertaken by many developing housing associations comparative to the size of their development programme. Many are relying instead very heavily on section 106 agreements with the private developer required to provide the affordable housing and usually constructing it on behalf of the housing association.

We also need to look closely at the relationship between regulation and investment within the context of a mixed economy. The symbiotic relationship that powers housing association delivery is not going to translate across to private developers. In the new era of grant being available to the private sector, it is inevitable that there will be a more adversarial contractual model.

At the same time, there are some accusations levelled at us that the ‘pull’ of regulation is too dominant over the 'push' of seeking more efficient delivery from our investment.

How and what matters more than who

It is worth breaking regulation down into its constituent parts – ensuring good management of housing stock, ensuring delivery of investment requirements, ensuring good governance and ensuring financial viability. Clearly, the latter two of these are not directly relevant to the private development sector who operate within the parameters of shareholder interest and discipline. There will always therefore need to be specific housing association oversight of governance and finance, particularly in the latter case, because of the large amounts of historic public and private debt embedded in the sector.

But in terms of the first two requirements, I believe there is a strong case for considering the provision of affordable housing as a domain or activity rather than as a series of individual sectoral interests – housing associations, private sector developers, private sector landlords, arm's length management organisations etc.

On this basis, one could potentially separate out the service delivery component of affordable housing provision and achieve universal coverage of the sub-market rented sector with a *single system* of accreditation or licensing to protect the residents' interest. And similarly, in respect of development, it may be possible to envisage a partner-based contractual model that retains the flexibility of our current programme agreements with housing associations but without the sectoral exclusivity.

The goal would be to develop the whole affordable housing sector into one that is characterised by the benefits that can be drawn from proportionate and consistent oversight and intervention, but that is also able to embrace a more risk positive approach to its investment footing. It would also send a clear message that organisations can adopt or at least emphasise different roles – ownership, development, management, community services.

In the current framework there are limits on our ability to make this happen. We can and are reducing regulatory burdens, de-regulation continues apace, and we have made real progress in implementing a risk based approach to regulation. But in order to enable the sector to further shift up a gear on investment, and to fully promote the benefits of differentiation and diversification of roles, then we probably need to re-visit some of the fundamentals of our current regulatory approach while at the same time not jettisoning the massive benefits that eighteen years of symbiosis have achieved.

Blurring the sectors to blur the tenure divide

We also clearly need to build on our initial success in opening up public subsidy to the private sector. If we are to deliver affordable homes in the numbers needed, and place them in communities we can aspire to and be proud of, we need to continue to diversify the range of potential providers of affordable homes, promoting further competition and innovation.

In particular, I think we need to consider how we can engage with large scale commercial developers in the provision of new affordable homes. Potentially, there is a much better fit between government's social housing requirements and the prevailing business models of the commercial development industry than there is with the volume house-builders. The commercial developers are fuelled by greater amounts of long term institutional finance and are more likely to be willing to sustain a long term holding, which of course, social rented housing demands.

That does not mean I am downplaying housebuilders' role. Far from it. But it's a case of horses for courses. It may be that most housebuilders are more suited to directly providing low cost home ownership products, using their immense knowledge of their customer base.

At the same time, we need to be ready to contemplate loosening restrictions on housing associations developing further their roles in delivering market housing, helping to meet wider housing supply targets.

The upshot of all this would be a blurring of both the sectoral and tenure divides.

Whose land is it anyway?

Finally, I would suggest that we have reached the point where we need to address the issue of public sector control over land and building assets. If we look at our most successful periods of affordable housing building in quantitative terms, before the Second World War, and in the late 1950s and early 1960s, then control of land assets was at the heart of the success, as evidenced by the big municipalities and then the new towns. This is of course not without its risks. It can effectively pitch the public sector against the private sector in what is an already heated, competitive market. It could create inflationary pressures. The case for public sector intervention therefore has to be made every time. But in the meantime, we should get on with making better use of existing public sector land assets. In practical terms, what would all this mean?

As I've noted, we know we are underutilising both our land and existing housing assets. The opportunity to borrow is not being exploited fully at present. To address this, we need to explore new ways of investing public funds to deliver affordable homes.

Historically, this has been through grant. In the future, I believe we should be ready to explore approaches including a greater degree of risk and profit sharing, particularly where this offers better value for money or helps to unlock opportunities that would otherwise be lost.

We are already taking strides to do this. Our Northern Housing Challenge, launched earlier this year, will seek to explore some of the opportunities this offers. This will make a difference, but again, there is the possibility of going a step further. We need to find new sources of finance, especially institutional investment. This will require new financial vehicles.

And if the Corporation is truly an *investor*, rather than just a reactive grant giver, then it also means placing the relationship between the Corporation and housing associations on a more mature investment footing, sharing risk and return. In particular, I think it is inevitable that this mean the Corporation taking a much closer interest in how recycled grant funds and disposal proceeds are utilised by housing associations. After all, it remains tax payers' money.

New thinking on rising equity values

It will also mean continuing to take a very hard look at how the government resources low cost home ownership products. In particular, are there ways of persuading the private sector, including new players, to take on more of the equity risk, instead of government or housing associations as surrogates of government?

This in turn may require a fresh look at how we negotiate section 106 planning agreements, with greater scope for use of flexible tenure arrangements across a development and over time, rather than rigid fixed percentages of affordable housing to be provided in designated units from day one.

This must mean ensuring the different delivery tools work together more coherently and effectively including public land acquisition and infrastructure provision, delivery of gap funding and other forms of investment for affordable homes, the regeneration of existing estates, and the oversight of the services and facilities that will make or break the prospect of communities over time.

A new emphasis on purpose not process

More fundamentally, it is not first and foremost about institutional reform. Form should always follow function. This is a debate that must also encompass tenure reform and housing benefit reform.

On tenure reform, it is becoming increasingly striking that housing is the only field where a permanent intervention and long term state subsidy is applied to address an immediate need. There is also the sharpening contrast between significant under-occupation of a significant number of social rented dwellings when many other families are living in overcrowded accommodation.

On housing benefit reform, any debate about the delivery of capital investment is inevitably overshadowed by the basic fact that revenue subsidy outstrips capital subsidy by a ratio of 6.5:1. There is no return on that investment and there is a probability, certainly with temporary housing, of embedding worklessness.

It is a provoking thought that the conversion of just £1.5 billion of the £13 billion housing benefit bill into capital subsidy would enable us to meet Kate Barker's estimates of annual social housing requirements.

Finally, we must root all of this in the changing institutional context at the local and regional level, recognising different geographic needs. The Housing Corporation's work with local government is focused on facilitating the exercise of their new strategic housing responsibilities. We need to consider how best housing investment can be delivered in the context of city regions and the devolution of decision making and delivery to new neighbourhood level institutions.

We need to ensure housing investment is capable of promoting both regional economic growth and community ownership of assets – with accountability at national, regional, local and community levels.

The National Affordable Housing Programme for 2006-08 is now being delivered and it represents a landmark in the delivery of social housing. The affordable housing sector – in its new, widest sense – is already embracing the opportunities offered. In the first full year that chairman Peter Dixon and I came to the Corporation, we achieved just over 27,000 affordable homes from our investment. In the second year, over 35,000. By 2007/08 we will be stretching for close to 45,000 homes per year.

But the simple reality is that these figures are still not enough in the long term and public resources are and will remain limited. So our 2006-08 programme should be seen as marking the beginning of a comprehensive programme of evolution in our work within the new mixed economy that is today's affordable housing sector.

Chapter 4

Breaking up dependency on existing estates – what works?

Cedric Dennis, Non Executive Director, Places for People Group

- Mixed tenure is now commonplace in new housing development
- But new homes represent only 0.004% of the nation's housing stock
- Large single tenure estates are often the most deprived places, reinforcing welfare dependency
- But experience shows that those who live there do want change
- How can new equity sharing products offer ladders out of poverty?
- Are single purpose 'housing' organisations equipped to rise to the challenge of improving residents' prospects and their assets?

'The community backed a vision to establish a thriving mixed tenure, mixed income community, with 60% of homes for sale. They wanted to live in a more prosperous neighbourhood rather than a run-down council estate. Our experience with pilot schemes shows a similar widespread appetite for affordable ownership right across the country.'

Breaking up dependency on existing estates – what works?

The building of new homes accounts for just a tiny 0.004% of housing stock in this country each year. So it is surely not sufficient to focus tenure diversification efforts on new development and new communities.

There is a pressing need to bring about a greater mix of income and tenure type in *existing* areas where social housing is the dominant tenure. As landlords our efforts should be focused on helping disadvantaged residents expand their networks and get better opportunities to find paid employment.

Much concentration of poverty in the UK is located within neighbourhoods dominated by social rented housing. There is therefore a pressing need for a serious debate about how we can create ladders out of poverty for those who live in these places.

Extending affordable home ownership, enabling tenants to buy their own homes through a number of new schemes such as shared ownership, can often provide better life chances and helps to regenerate communities. An increase in self-confidence and independence, together with a reduction in social stigma, can enhance employment opportunities and can open up routes out of poverty for the poorest people. By breaking the cycle of deprivation in this way, there are not only short term gains for individuals but longer term beneficial consequences for entire neighbourhoods.

All these benefits can flow from taking an imaginative and innovative approach. The Places for People Group is a housing and regeneration company, dedicated to creating neighbourhoods of choice for all. It aims to offer a wider range of housing and neighbourhood provision than the social rented sector has traditionally supplied.

There are a number of benefits to be achieved from selling homes to tenants either outright or on a shared ownership basis. At a strategic level, it contributes to the gradual breaking up of mono-tenure estates in a sustainable way. There is greater retention within these estates, of those who are employed, or move into employment, for example, sons and daughters of existing residents. Community stability can be enhanced if people in work have both the opportunity and the motivation to purchase a home and fulfil their ownership aspirations. In financial terms, the recycling of capital receipts makes the provision of new affordable housing more achievable.

There are a number of means by which these goals can be achieved. In this chapter I will outline our own experience and what it has achieved.

Lessons from Norfolk Park, Sheffield

A coherent neighbourhood strategy is essential to successful tenure diversification. By treating individual areas as distinct communities and providing a range of options that are tailored to meet particular needs, rates of success are greatly improved. We adopted this approach in Norfolk Park in Sheffield, where a large scale area regeneration scheme has been implemented to positive effect.

The 80 hectare 1960s-built Norfolk Park dominates Sheffield's skyline. Its high-density dwellings are set in large public open landscapes, with traffic and pedestrians segregated. This former council estate comprised 2,000 flats in 15 tower blocks, 300 maisonettes and 500 early examples of system-built timber-framed, flat-roofed houses known as Vic Hallams.

The estate declined as unemployment rose in the 1980s, and was identified as an 'area of acute poverty'. As demand for social rented housing in some parts of the North of England began to wane, it became clear that a radical transformation was necessary here.

Because of the physical condition of much of the stock at Norfolk Park, it was necessary to redevelop much of the area in order to break up the concentration of mono-tenure housing and achieve real change. The scale of the scheme was significant – 2,300 council homes to be demolished, 1,200 new homes to be built, an extra-care scheme to be set up, and 120 ex-council homes to be refurbished.

Effective consultation was a fundamental component of our approach. The local community backed a vision, to establish a thriving, mixed tenure and mixed income community, by building 60% housing for sale and 40% for affordable rent. They wanted to live in a more prosperous neighbourhood rather than a run-down council estate.

The design of the new homes at Norfolk Park does not distinguish between affordable rented housing and owner-occupied housing. Owners and renters are mixed throughout. This was key to creating an integrated and truly mixed community.

Existing owners, who had exercised their right to buy were treated as an integral part of the regeneration process. They were included in the refurbishment scheme, so that, although most were low-income owner-occupiers, they were not disadvantaged by being excluded from the regeneration scheme (as often happens elsewhere).

The Norfolk Park scheme is now well under way, and hundreds of homes for sale and rent have been built. The sales market has been very buoyant, and year by year house prices have been higher than the average for Sheffield. This demonstrates the faith of incoming buyers in the new Norfolk Park. The scheme won the Deputy Prime Ministers Award for Sustainable Communities in 2004.

Lessons from Ingol estate, Preston

A similar transformation, but on a smaller scale, is being brought about in Ingol, Preston, through the Village Green Lane scheme. This is a scheme that has also responded very precisely to local circumstances. It involves an investment of £6.9m and comprises 61 new-build houses and flats.

Of the 61 units, the new mix is as follows: 41 will be outright sale, seven will be shared ownership, 12 will be for market rent and one for affordable rent.

The small proportion of affordable housing in this scheme is in response to the wider neighbourhood in which the scheme sits. There is already ample provision of affordable rented housing in the surrounding area. Research concluded that from the point of view of sustainability, there is no sound basis for providing more. It is envisaged that the Ingol site will become a catalyst for further tenure diversification within the neighbourhood by raising the overall profile of the area and changing the characteristics of the locality in a positive way.

Piloting new types of equity sharing

Another approach to achieving diversification is assisting existing tenants in buying their own home through shared ownership schemes such as the governments social homebuy scheme.

For existing social tenants who cannot afford to buy their homes, or whose tenancies do not give them the right to buy or the right to acquire, social homebuy provides a new opportunity. It allows social tenants to buy a share of the equity in their homes at a discount. Tenants buy a minimum initial share of at least 25% of a home, and the remaining 75% is held by the landlord. The landlord can levy a maximum charge of up to 3% return on their equity.

Places for People Group is piloting the social homebuy scheme in several carefully chosen neighbourhoods throughout England, as well as working on a similar scheme in Scotland called homestake. The experiences gained through the pilot provide a useful basis for looking at the potential for this initiative as a tool for the future.

Our primary aims in carrying out the homebuy pilot schemes are to diversify mono-tenure estates and to provide access to home ownership in areas with relatively low incomes and property values, where home ownership options have not been previously considered. At the same time, we shall provide access to home ownership in areas with relatively higher incomes and property values, where there is a shortage of affordable home ownership options. We also want to increase home ownership as an aid to market renewal in regeneration areas where there has previously been some take-up of the right to buy. We hope this will foster long-term sustainability and encourage mixed economies.

Thirty five potential areas were considered for this scheme. Taking an individual approach to specific neighbourhoods has been key to the pilots success.

In preparing plans for each area, the level of investment required was a key factor, taking into account the decent homes standard and 30-year stock investment costs, and the value of individual properties, based on recent right to buy or right to acquire assessments. Financial modelling was also clearly essential.

There were also other factors to consider. Areas where there had been no previous opportunities to buy, particularly schemes that were built or acquired between 1989 and 1997 and had no eligibility for right to buy or right to acquire were given priority. This is significant because many in the social housing see stock that is 'protected' from right to buy as an inherently good thing. We are not convinced by this simple view.

Areas where that already had an interest in tenure diversification initiatives, and where local authorities were sympathetic were also prioritised. A range of different settings to try out the scheme was important and had to include some economically active and relatively affluent areas, where housing benefit levels were under 50%, as well as less affluent areas. A mix of relatively new schemes in well established neighbourhoods, and areas where there was a mix of different types of housing was also an important part of the criteria for identifying pilot areas.

We wanted to see how well the scheme would work in neighbourhoods that were very *different* from each other in terms of geography, income levels, house types, ages and conditions. At the end of the selection process 14 schemes in 11 local authorities were identified.

Levels of owner occupation in the 14 schemes vary from nil to 42%. There is not only a need to create an owner-occupied market in places where there has been no opportunity to buy, but it is also necessary to extend owner occupation to much higher levels even in places where some people have bought their own homes in the past to provide greater opportunities for local people to get on the home ownership ladder.

Most of our tenants have assured tenancy agreements. This means that they are not eligible for right to buy. In well-established areas – for example those that were built in the 1970s – where tenants have exercised the right to buy in the past, at the present time more than half of current tenants do not have this right under the terms of their tenancies. Without the social homebuy scheme, they would be unable to buy their homes.

Poverty levels also vary between the different pilot schemes. Using take-up of housing benefit as a marker, the numbers of tenants in the chosen areas on housing benefit range from 40% to 75%.

Under the terms of the social homebuy scheme, rent will be charged on the 75% share of retained equity. Most of the schemes have rents at 2.75% of unsold equity. However two will have lower rents, based on a reduced rate of 2% of unsold equity: Harbour Farm, Hull and Upper Manor, Sheffield, are both mono-tenure estates in areas of high deprivation, and the lower rents will provide greater affordability and an added incentive to tenants.

Tenants taking part in the scheme will be offered a new kind of tenancy agreement based on a shared ownership lease.

We are also talking to a number of national and regional mortgage lenders to see how they can align their products to a social homebuy offer. By April 2006, the Group will be able to offer its own recommended mortgages to all tenants, as well as home insurance in conjunction with the Co-operative Bank.

As part of this scheme, home-owners will be able to revert to renting their homes, for example, in cases of hardship.

Our experience of the homebuy scheme

Under the homebuy scheme, capital received for sales is recycled into new affordable housing. There is some flexibility in how this can be used. New homes for rent or shared ownership can be built or funding used to offer other current tenants an incentive to buy through, for example, shared ownership schemes.

In areas where house prices are modest, homebuy may turn out to be cheaper than renting for some tenants. For others, it will be the only way that they can get a foot on the housing ladder. Motives may vary, but the healthy response to our current pilot schemes, with a high demand from areas such as Wellingborough, Hounslow, Hull and Chorley, shows that there is a widespread appetite across the country for affordable ownership.

Linking access to ownership to wider 'place making' efforts

Providing different means of allowing people to own or part-own their home is the key. Responsiveness to local aspirations and a willingness to adapt strategies based on the needs of particular communities are key to achieving change.

To create lasting and deep seated change it is essential to take a broad view of neighbourhoods and see tenure diversification as one aspect of a package of measures which can turn them around.

If the goal of tenure diversification is to create places where people want to live, then this 'place making' agenda must include a focus on other elements. For example providing access to good amenities, employment and training opportunities, excellent schools and healthcare facilities, affordable childcare and more. Taking such a joined up approach can maximise the benefits of achieving a mix of tenure, often in intangible ways.

This broad approach is critical to meeting the governments strategy of creating truly sustainable communities. Organisations, like Places for People, that can demonstrate a similar breadth of operation have a real opportunity to make a positive difference to peoples lives on a national scale.

The government's goals are ones we share. What is needed now is a recognition that to make these goals real will require multi-skilled delivery organisations. It will require organisations that understand the need to think beyond 'pure housing' and understand the true aspirations of those they are charged with assisting. It is time for housing organisations to be encouraged to think – and operate – outside their traditional housing box.

Chapter 5

Place shaping – a modern housing role for local government

Richard Kemp, chair of Plus Housing Group and leader of the Liberal Democrats at the Local Government Association

- A council's main housing role used to be landlord
- Today it is more often an enabler than a direct provider
- Its most important role is to create and organise a strategy to make its area work as a place – a town, district or city with its own unique appeal
- Councils control less than 15% of public spending in their area
- Yet only they have a direct relationship with *all* the other service providers and sectors
- In Liverpool, tough questions and research have led to an overhaul
- Housing is no longer treated as a single issue
- It is instead linked to neighbourhood management, education, the environment, employment – the softer ends of 'place shaping'
- Clearly articulating the city's outlook and devolving service delivery to locally respected organisations has achieved major results
- The population is rising not falling. Moving out is no longer the only path to prosperity

'Our policies in Liverpool had ghettoised a whole city as well as specific areas within it. We had encouraged people we had educated and had got good jobs to move out. They were no longer willing to wait for five years for a council house in a good area. They wanted to take responsibility for their own lives and live in semis and detached homes that they owned.'

Place shaping – a modern housing role for local government

Until quite recently most decisions about a neighbourhood or a city were made by that neighbourhood or city. But today instant communication, globalisation and a drive for efficiency mean this no longer applies, not even to nations. Decisions that have major effects on the lives of people in communities are often taken very far away.

Our own decisions as citizens are also less restricted by where we live. We have become more mobile in search of education, employment, leisure activities and at the end of our lives perhaps retirement to the sun.

Local government is not immune from these forces. It must work within these complexities. Many of the services that it used to deliver are now delivered by other parts of the public sector, some of which are in effect 'private' – such as universities and housing associations. Many are delivered on its behalf by organisations that are truly private. Local government has a choice about how to deal with this. It can either ride the wave of change or it can be submerged by it.

An increasing number of good local authorities are riding the wave and influencing it. A decreasing number of poor authorities are going under and are clinging to tried and tested methodologies which relate to an area's past, not its future.

In the 'good old days' those that made the decisions within the community were reasonably representative of those within it. Because of the local scale of the enterprise, people from the locality could grapple with the problems. Businessmen chose to help their community through the elected route and were pleased to let their staff become councillors. Trades unions and large employers similarly regarded councillors within their ranks as an asset not a nuisance.

The clearest thing that makes local government different than any other activity of government at a local level is the electoral mandate provided from the community they serve. The rhetoric of democracy demands that in each of our areas the political parties have applied their political views to a long term coherent view about the future of their area – and have worked out how the council they aspire to lead will deliver that view. Those respective views are then judged by the electorate at election time and a majority is created within the council so that those views are then delivered by the council.

There are two problems with this view:

- insufficient numbers of councillors/councils are able to articulate the unique selling points of their area and build a strong future around this USP
- councils only control between 10% and 15% of total public sector spend in their areas. The government and its delivery agents are hugely influential in service delivery and change.

The instinctive response of many within local government is to whinge about the gradual erosion of their powers and the shift in responsibilities towards unelected quangos. I too have done this and continue to share concerns about the micro management of quango targets by Whitehall. However, an increasing number of councils are now welcoming the opportunity to move away from a strict delivery mode of activity because it now enables them to concentrate more on the 'strategy', 'the direction', 'the joining up of services' at a local level in a way that *only* they can do.

They do this by recognising that the local mandate enables them to make four bold assertions about the modern role of local government:

- it can use its mandate to ensure that it becomes 'first among equals' with other delivery agencies when considering both long term futures and the short and medium term delivery options
- its mandate can and should be converted to a strong leadership role at both city and neighbourhood level to drive agendas and solution finding
- it is the organisation with the closest relationship with all the citizens of the area and can use the knowledge of needs and opportunities created by those relationships to guide planning and delivery
- it is the only organisation which can have a relationship with all the other deliverers. This relationship can be used to ensure a filling of gaps, an avoidance of duplication and a breakdown of traditional silos.

In effect we all now have to decide where we work on the continuum, which starts with power at one end and ends with influence at the other. Nowhere is this continuum clearer than in the field of housing.

Councils used to be simply providers of public sector housing. They solved problems of housing need by running council estates. Their key performance indicators were few – low voids, low arrears, good repairs, good customer care. As we managed our estates well, or in some cases indifferently, we failed to take account of the multiplicity of responses that could meet an individual or a community's housing needs. We took our eye off the ball in looking at the overall needs of our communities – we failed to link our responses to housing need to wider challenges faced by individuals and the communities in which they lived.

How not to run housing in a city

When my party took control of Liverpool in 1998 housing was in a mess. For almost 70 years there had been a relentless outflow of people. This was continuing despite some evidence of an upturn in city centre living. There were at least 18,500 empty properties across all sectors. The council had the unique distinction of being the only one to have achieved 'below average' for its housing strategy seven years in a row. No one was investing in housing in the city. Housing associations were undertaking only repair and maintenance activity because they did not know where to invest. The private sector built only in a few choice areas and the council had an extremely expensive estates action programme. There was no growth and the outflow of people continued.

Our first key understanding was that the council could not by itself tackle the immensity of the problems that it was facing. We had to find partners because we lacked the expertise and the money to do everything ourselves.

The second was that we did not really know much about the housing situation in the city. Because we had for so long concentrated on our own stock we had not asked key questions about the wider issues. How many houses were empty? Why? Who owned them? What was the cost of putting them right? Was it worth putting them right? The more we looked at it, however, the more we realised that questions about stock condition etc were only a part of the problem.

Understanding the challenges, tackling them together

We needed to understand a lot more about the 'market' for housing in both the public and private sectors. Why were people leaving the city? What did they want to live in? Where did they want to live? What would either stop them moving out or would bring them back?

So we did three things:

- We created a **strategic housing partnership** of the council, leading housing associations and representatives of smaller ones, the Housing Corporation and the government office. Within that partnership we openly shared our problems and hoped that our partners would openly share theirs. This was an absolutely vital first step. More than 50 housing associations operated within the city. Some of them were already partners of the council. Others had drifted into the city when competition opened the market under the Conservatives. Few of these were investing because they had no confidence in the council. Each defended their own fiefdom and fought for their own tenants to serve the needs of their organisation rather than the city as a whole
- We **commissioned research** to find out the answers to the key questions that we thought needed answering. We all knew a bit about the market, the needs, the state of property. But even we when put all our knowledge together it was clear that there were major gaps in what we corporately knew. Crucially we did not know why people were moving out. We did not know what might bring them back
- We began to **do things differently** within those activities that were clearly in our own control. Specifically we looked at stock transfer options for those estates where there was a mono-tenure pattern of development and control – particularly the big peripheral council estates.

We changed our investment pattern. Previously we had invested in stock that was in poor condition in poor areas in the hope that it would become popular. Meanwhile little investment took place in popular mid war estates because we could let them anyway. It was no joke in the city that you could always tell which homes the council was about to demolish – we put a new roof on them first! We believed that unless we did our part of the work properly there was no chance of any other of our partners having the confidence to work with us. Real partnership comes from shared ambitions and trust not from peremptory orders from a poorly performing body.

What the research found

When the research came back it enabled the first real analysis of the long term housing trends in the city. It revealed that:

- People moved out of the city because they aspired to a better quality of life. The city was perceived to be a place that was dirty, unsafe and gave a poor education to

children. These were not just perceptions, in many parts of the city they were founded on a harsh reality. Lifestyle choices were the first consideration in choosing where to live – people then chose the best housing option they could afford
- Whilst we had tried to deal with need we had failed to deal with aspiration. Times had moved on and we had not noticed. People were no longer willing to wait for five years for a council house in a good area. They wanted to take responsibility for their own lives and live in semis and detached homes that they owned
- The policies we had pursued had helped to ghettoise our whole city as well as specific areas within it. We had effectively encouraged many of the bright people who had come through our education system and got good jobs to move out. That was why 27 of our 33 wards were in the bottom 10% on the national deprivation index.

These major problems need major and radical solutions. Those solutions take time to put in place with housing being almost unique in having a 100+ year life cycle. They need a sense of partnership in which not only housing but all partners within the city joined up to a vision of the city and to strategies to deliver them. Those strategies then need to be delivered not only at the city level but in each of the neighbourhoods that make up the city.

Concerted action beyond 'housing' – lessons from Liverpool 8

The partnership with which we ultimately shared this new housing analysis was not the housing one, which became a specialist part of the local strategic partnership (LSP), but the LSP itself. To turn round housing problems and change the demography of our city, we needed concerted action from all service providers. Our vision, which became that of the LSP, envisaged a strong city which consisted of neighbourhoods which became fit for purpose in delivering the overall city of the future.

Glossy brochure strategies are of little value unless we can see them clearly made into flesh by joined up service delivery and planning at a local level. If we look at just one of these neighbourhoods we can see how this might work.

Many people have heard of Liverpool 8 – it reached national infamy as part of it is called Toxteth – scene of so called riots in the early 1980s. It is an area that has remorselessly declined over the years. The affluent who had built the city's first synagogue and Greek orthodox church had long moved out, leaving behind them a 'grand' set of buildings and pleasant vistas. But the former buildings of the rich had become seedy bedsits and demand for any type of housing here was low.

In parts of Liverpool 8 and Liverpool 1 a highly successful single regeneration budget programme had come to an end. But it had not, in the seven years available to it, been able to turn round the area. CDS Housing (now part of the PLUS Group) was a housing association with an excellent track record. It had a 90% satisfaction rate from tenants and good stock, but the void rate in the area was remorselessly going up.

CDS took the city-wide research and realised that the void rate was a response to the over riding problems of the area. Quite simply the area was dirty, poorly maintained, full of derelict buildings and dangerous. All of us might have difficulty in letting stock when the direction to it was turn right at the first derelict pub, left at the second derelict pub and it's opposite the two burned out cars.

CDS Housing made an offer to the council that we could not refuse. They told us that the area should not be a problem area but an area of opportunity because it was so close to the city centre. They told us that as major investors in the area with a large amount of stock they were prepared to act as the council's agent in sorting out local problems in terms both of future direction but also of immediate service delivery. They offered to be the council's partner in making the area clean, safe and well managed and then to work with the council in achieving long term social aims.

The success of INCLUDE, which was the delivery agent set up by the council and CDS is described elsewhere. But it worked because ultimately it held all relevant local partners to account for the delivery in *this* area of the strategies that they had signed up to city wide. A vision and direction for the area was agreed between all major players in the area then CDS was left to get on with the delivery of it. Crucially, it took the government dictum that it was not more money that was needed but better use of existing expenditure and made existing budgets work more effectively.

National implications

In this short description of Liverpool and one of its localities I have tried to describe a process which has national implications. After 70 years, Liverpool's population is once again rising. New houses are beginning to be built which meet not only people's needs but also their aspirations. The central role of housing in deciding who lives in a city and therefore what that city will function like and feel like has been understood.

Liverpool has moved from the traditional role of housing provider to being a 'place shaper' through its housing policy. Its reach over housing does not extend merely to its own stock but to the provision of all new housing in the city. It works through partnerships with housing associations and with mass housing developers, but it strongly leads those partnerships.

It has brought together housing, land use and planning policies, the hard edge of 'place shaping', with housing management, neighbourhood management, education, the environment, employment – the soft end of 'place shaping'. The process involves clear political direction being adopted in a way that a range of stakeholders and especially local people could sign up to. It involves the development of real partnership working not just a gathering around the trough when cash is available. It shares knowledge and shares research to get at real and not just perceived problems faced by people and communities. It commits partners to real joined-up delivery.

The challenges, to me, seem obvious.

For local government: Will it as a whole be able to adapt its ways of working to deal with the big picture? What will those of us in local government do to assist those who cannot rise to the challenges?

For central government: Can it manage to stop meddling both directly and through its quangos when local government shows a clear lead and direction?

Modern local government is at the heart of 'place shaping' at a strategic and neighbourhood level. We can do something that no-one else can do in our areas – think big and deliver small!

Chapter 6

Community investors – bringing long term private sector commitment to housing renewal

Perry Lloyd, Director, Pinnacle Regeneration Group

- Deprived social housing estates now look outdated and have become a huge challenge for the UK
- Regeneration initiatives that are dominated by public spending always risk failure
- Short termism and risk aversion is rife in public–sector controlled intervention
- Distinguish between two private sectors – short term housebuilders and long term investors
- Long term investors look to benefit from uplift in land values. Their assets in a neighbourhood are enhanced by the stability and success of the community
- As local government becomes more strategic, why not apply the 'enabling' role to central government too?
- Explore ways to bring private sector investors into area regeneration and watch organisations that are free of bureaucracy deliver flexibly with imagination
- Transform the notion of regeneration spending into investment, with rising whole neighbourhood land values the asset

'Unlike most house builders, the long term investment company wants to continually improve local assets to maintain and increase their value. High demand areas command a land and property premium. Using community investors to enhance demand in the neighbourhood therefore has an in–built quality control mechanism.'

Community investors – bringing long term private sector commitment to housing renewal

As a choice of tenure in 2006, social housing looks outdated. Many estates which were originally built as solutions to social policy challenges of the last century have become serious social policy headaches in the 21st century.

These estates still exist in their thousands, cramming together the most vulnerable and poor households. Yet most of these people share the same aspirations for lifestyle and tenure as the rest of the UK population. They want an improved, safe environment, access to good local services and schools, and in many cases, eventually want to own their own home.

Few now doubt that something has to be done to turn around these neighbourhoods. However, changing and improving the worst social housing estates in a meaningful and sustainable way comes with a hefty price tag.

Since the mid 1980s, all kinds of publicly–funded estate regeneration initiatives have been attempted, with new ones pledging to avoid the mistakes of their predecessors. But there is little hard evidence that any will meet their long term goals.

As demand for state regeneration cash always outstrips supply, two things happen. The first is that – in rationing scarce resources – only the very worst estates receive attention. Second, because of high demand and fierce competition for the resources, eligibility is strict, and the application of the funds become restrictive. State funds are therefore always being used to *fire–fight*.

Scarce resources and the urgent need to show results to justify the public spend usually means that regeneration tackles symptoms rather than causes. Regeneration strategies and plans end up being tailored toward the government's latest initiative funding stream requirements and eligibility criteria. Inevitably this rarely fits every scheme and often leads to the tail wagging the dog.

Déja vu takes hold, with a number of estates now being regenerated for the second and third time within occupiers' lifetimes, costing (some would say wasting) enormous amounts of public money.

Regional and local government now thinks more strategically. Increasingly sophisticated demographic and housing market data collection methods are allowing local authorities to identifying 'tipping points' in the fortunes of their neighbourhoods. However state resources are not generally available for such strategic preventative action.

My case is that remedial measures have failed and will continue to do so if they rely primarily on state funding. Future regeneration strategies should encourage private sector investment and services in both the most challenging areas and those that need preventative interventions.

In my view, changing the role of government to strategic enabler could be better achieved if, in parallel, the private sector position as both investor and delivery agent is enhanced.

What holds us back?

There is no statutory obstacle to greater involvement of private sector organisations like Regenter and Grainger in supporting a neighbourhood's housing renewal with an asset management approach to mixed tenure and ongoing improvement. So why does this currently only happen on a small scale?

The answer is, unfortunately, that the offer is at best poor, at worst non-existent. For too long national and local government policy has been predicated on a post war notion that only the state can properly provide and manage affordable homes.

This, coupled with a few (but notoriously bad) incidences of bad practices by private sector retail housebuilders providing poor quality 'toy town' solutions, have lead to a deep mistrust of any housing investor/provider from the private sector.

Any non-state organisation is therefore treated with suspicion. And systems are put in place to institutionalise this – more than enough bureaucracy and red tape to protect the public from the nasty private sector.

But this mistrust is patently wrong. The private sector is a broad church. The motivations of a retail house builder who has hungry shareholders seeking maximum returns and who therefore needs to keep costs to a minimum, are entirely different to long term 'patient money' investors who want to grow their asset over a long period of time. The former needs a speedy return and is not interested in long term success. The latter, by the very nature of their business plan, has an inbuilt requirement for quality and success at the outset and over the long term.

Efforts should be made to welcome the quality investor/providers, with incentives to bring more of these organisations into play, alongside incentives for local government to trust and work in partnership with them.

Freeing regeneration from red tape

Large scale social and economic regeneration solutions require an approach which is innovative, imaginative, and entrepreneurial. The ability to be fleet of foot is crucial.

However well-intentioned government strategies and methods are, by their very nature, large and centrally driven bureaucracies just do not have these characteristics. The private sector is less centralised, less process driven and less hide-bound by bureaucracy. Private sector investors with these characteristics are therefore better placed to invest and deliver regeneration objectives.

However the private sector cannot take on such huge challenges alone. It does not have and probably will not be concerned with having, the totality of social, economic and professional skills required to pull together the diversity of organisations needed for successful regeneration. This strategic enabling role belongs squarely in the public sector. Nevertheless, the private sector can deliver the component parts – from the first stage master planning service to neighbourhood and housing management services, post completion.

Furthermore, provided the offer is clear, the rewards realistic and the business plan coherent, there is capacity for significantly up-scaling partnership working. This is important for the achievement of strategic neighbourhood prevention policies, because – and this is not widely understood – there is potentially, a very substantial pool of funds available for investment.

Public sector funding inflexibilities are well documented. Good practice guidance may suggest that regeneration plans need to be flexible and methods fluid. However, major problems arise when the funding which underpins projects is not.

The public sector as an investor has inevitable constraints on the use of public funds due to the need to be accountable to the taxpayer. It also tends to be forced into shorter term 'current account' attitudes – a tendency to think in terms of spending rather than investment. It has to constantly meet short term targets which fit in with both local and central government policies and spending constraints.

Accountability – shareholders or stakeholders?

The private sector investor is also accountable, but perhaps to a more clearly defined set of stakeholders. As embodied in the corporate structure through which an investment is made, it is certainly accountable to its clients for the quality of its service delivery, failure against which can lead to significant financial penalty and thus diminished investment returns. It is also accountable to its employees for the security of their employment, their welfare in that employment and as a good employer for the enthusiasm and energy with which they engage in the task. Finally and ultimately it is accountable to its shareholders.

Shareholders are concerned to secure a return on their investment. The quantum of that return is dependent on the risk profile of the investment. The greater the anticipated risk, both in relation to the specific investment opportunity and relative to other alternative investment opportunities, the higher the return will need to be to compensate for this risk.

The long term investment implied by regeneration means sensible apportionment of risk between public and private sector. This focuses the private sector on taking those risks for which it should be responsible.

For a long term investment, it is the overall return over the full term that is critical. Allowances can therefore be made for the variances that occur from time to time. The private sector is both able and willing to respond to unpredictable surprises or changes in the housing market or the economic fortunes of the area. An example of this can be found in Pinnacle Regeneration Group's response to events which occurred in one of the PFI projects entered into through its joint venture with developers John Laing – named Regenter.

Case study – buying a supermarket to get right of way

A regeneration scheme ran into difficulty when a right of way was discovered – previously not anticipated – to a supermarket on the periphery of the scheme. The private sector bidder and the local authority entered into what was looking like protracted negotiations with the supermarket company to identify a solution.

Lawyers were about to be engaged and consultant negotiators hired. The process alone was looking at high costs and the potential delay could have threatened the viability of the scheme and importantly, lost the confidence of the community. As the solution seemed to be somewhat elusive, the investor Regenter – Pinnacle Regeneration Group's joint venture with John Laing – made an offer to purchase the supermarket which was accepted.

This is an action which would not usually, or easily be available to a public sector agency using public funds. Yet it is a good example of how a direct decision can be taken at the workface in a very short space of time. A tangential matter – on the face of it – but one which could have severe implications on viability of a regeneration scheme.

Private sector investment is not siloed. There is therefore no need to fit the regeneration objectives around funding pre-requisites, as is often the case with the public sector.

Long term private sector players

It is important not to bundle the whole private sector as one entity, but to recognise that it is a broad church. This is the case both in terms of the types of funding that can be drawn on as well as the skills and entrepreneurial approach that are sought.

What is required is a private sector partner that can engage, at their own risk, the range of private sector resources and skills that will provide the most effective long term solution – on the best possible terms to the community and the public purse.

This means thinking of the private sector as a facilitator and provider of long term capital rather than simply as (say) a house builder. The latter's perspective is not unreasonably a short term one, focused on building as many homes for the minimum costs which can then be sold for the maximum price.

For the retail housebuilder cast in the role of developer, the objectives are simple: build a house, sell it on the open market or to a housing association, move on. This activity presumes and generally involves no long term involvement or consideration of social and economic factors essential to the on-going success of the neighbourhood.

The long term partner must take a different approach. Their perspective is to see the overall financial return generated from say a 30 year period maximised. The cost of their capital, which will be accessed from their own resources as well the banks and third party investors, will depend on the clarity with which the obligations and responsibilities of the project are identified. There is much more than the initial intensive development phase to consider. Once this is achieved and the long term risks sensibly apportioned, the project can be phased to introduce capital.

In the first instance, this is risk capital as the project will not have the profile to attract annuity investors. But once a track record of meeting targets and budgets is met and an investor can look to a steady and predictable stream of income, long term capital can be introduced at relatively low margins acceptable to pension fund investors. In this way, short term capital can generate returns from development activity sub-contracted at a fixed price to a house builder/contractor using their specialist skills to build homes according to the partnership's specification – not the house builder's.

The second group of private sector players are the longer term investors. Large scale institutional investors (including for example, pension funds) look for revenue streams over a long period of time, perhaps 30 years. Such long term institutional investors operate through respected intermediary private sector companies, who have the expertise and track records in particular fields.

How do long term private investors operate?

Unlike most UK house builders, the long term investment company will be searching for management and maintenance agreements, as well as for quality and durability requirements and will therefore be keen to become involved in a broad range of activities with long term sustainability in mind.

Long term capital can be introduced to fund the acquisition and development of both existing and new social homes and community facilities. Tenancy structures and policies may remain intact but management of these homes and ancillary services can nevertheless be outsourced to the private sector.

In Europe, the US and North America, most large scale, longer term private sector players, engage in large regeneration projects involving residential property. Here in the UK, the market is less mature than elsewhere in Europe but investor interest is growing.

Thus the motivations and the approach between the two types of private sector players is very different. The house builder will be looking for a retail relationship with a speedy conclusion. The community investor will be looking for the asset in which it is invested (the neighbourhood and the community) to appreciate – become more successful – over time.

The long term investment company wants to continually improve local assets to maintain and increase their value. High demand areas command a land and property premium. Using these 'community investors' to enhance demand in the neighbourhood therefore has an in-built quality control mechanism.

Engaging long term private sector community investors means taking a long term view on expenditure, real benefits to tenants, and comfort to lenders. It can also lead to more assured outputs and quality control and, importantly for the investor, gives a long term and secure rate of return.

A mature approach to risk and reward

Some public sector regeneration agencies proudly announce that they have passed on all of the risk to the private sector. Such statements may give comfort in the short term but this is very rarely the case in reality. In fact the financial risks to short term players, like house builders, are low as they usually invest in little else but raw materials and commodities such as land which on such schemes tend to have low or negative value. Costs of construction are fixed, so risks are easy to calculate. Real risks to their investment come from external factors such as interest rate rises.

Longer term investments depending on yields and 'patient capital' are less easy – but not more risky – to calculate. These investors require a different approach to risk from their public sector partners. Although the public sector is becoming much more sophisticated with regard to risk assessment and apportionment, the skills are underdeveloped. The real costs and benefits of risk and risk pooling are only beginning to be understood.

Risk always has a cost. Passing risk to the private sector, however comforting the phrase, will simply result in the costs of insurance against the risk being included in the overall contract sum!

The public sector will usually have to calculate for a portion of risk. However the skills for calculating, negotiating apportionment and pooling of risk need refinement to give assurance to long term private sector players. Indeed, as the public sector approach to risk is becoming more developed, there is a growing understanding that risk management does not mean risk-aversion and mistrust.

The public sector is also becoming more sophisticated in producing well–conceived outline business cases with robust costings and estimates. They are also enhancing their data collection and costing methods. This in part is recognition of the skills needed to ensure that the language of both players is interpreted and understood.

Mixed communities, mixed sector delivery partners

There is so much to commend the policy drive to replace single tenure, low income/deprived estates with a mix of income and different tenure households. Improving homes, schools, the public realm, retail, leisure and transport are classic regeneration objectives. They rightly will aim to attract potential owner occupiers to live in the area and hope to retain those residents who do well too.

Successful outcomes in all of the 'liveability' indicators lead to an area's improved economic value. The mixed communities' agenda is therefore an attractive proposition for the private sector investor.

At its core the appeal is the ability to share in the uplift in property and land values that mixing tenures and general area improvement can produce. This is easily understood by the private sector.

There can be clarity in the roles and relationships between both sectors for long and short term arrangements. The public sector holds land and property with infrastructure largely intact and is often able to withstand higher demands. The local authority can achieve regeneration or preventative action in partnership with the private sector, which can bring potentially unlimited investment to create new supply of different tenures. It can also improve the condition of existing social housing stock, the public realm, schools, health services and community facilities.

All of these activities are good regeneration objectives and are reinforced by investor desire for the long term improvement and maintenance of the neighbourhood as an asset.

In conclusion, if the UK wants to do more than simple fire fight in deprived neighbourhoods, it should learn not to overlook the advantages of engaging long term private sector investors to deliver lasting change.

Chapter 7

Flexible tenure neighbourhoods – a new approach to creating sustainable communities

Rupert Dickinson, Chief Executive, Grainger Trust plc

- Properties today are increasingly changing their tenure with no intervention or steer from government
- Homes built for renting are sold, homes built for ownership bought and rented out
- And equity is increasingly likely to be shared as older owners tap into their home's value
- Flexible tenure homes are the future
- Requirements for proportions of new development to have their tenure set in stone therefore seem outdated
- A better approach would be to create fluid tenure neighbourhoods, neighbourhood affordability agreements
- But this approach requires developers/investors with long term commitment to the area and its asset base. House builders have no stake in neighbourhoods once homes are sold

'It is of no or little economic interest to the retail house builder to ensure a mixed, sustainable community. Only developers with a long term interest in the success of a scheme will be able to take an overview and to ensure ongoing mixture of tenure.'

Flexible tenure neighbourhoods – a new approach to creating sustainable communities

When the Conservative government in the early 1980s created what they termed the property-owning democracy, this was to signal an historic social and economic turning point in the UK.

Low borrowing rates, the right to buy and rising aspirations rapidly changed the tenure pattern in the UK towards home ownership. But around the same time, homeless legislation and a raft of policy initiatives targeted at local government shifted the nature and landscape of remaining social housing.

Councils throughout the land, losing their stock through right to buy and effectively prevented from building new housing, began to take a very different approach to lettings. Rationing scarce and dwindling resource led to much tighter needs-based allocation systems.

Over time, this was to change the nature, purpose and reputation of social housing forever. Social housing's role was no longer that intended by post-war policies, where the 'doctor and dentist, shopkeeper and dustbin man' all lived side by side. Instead it became the tenure of only the most vulnerable and needy in society.

It increasingly became the tenure of last resort, where only those who were not able to own their home would end up. Over two decades, the map of deprivation in the UK came to closely resemble geographical concentrations of social housing. Far from its founding vision of 'housing for all', social housing became synonymous with terms like 'sink estates' increasingly containing those 'neighbours from hell'.

De-concentrating deprivation

In the early years of this new millennium policy makers finally began to recognise the severity of the problem. Increasingly, academic evidence from the UK and overseas showed the deepening social and economic cost, to the individual and to society, of policies which resulted in concentrations of deprivation in this way.

Economic evidence was highlighting the disproportionate consumption of state resources and ineffectiveness of expensive remedial efforts. It became clear that there were social, health and educational disadvantages of living in concentrated deprivation over and above the individual's poverty.

Subsequently, policy attempts have been and continue to be made to ensure that planning and housing interventions do not actively concentrate deprivation when building new communities.

Tenure being a proxy, generally speaking, of income, recent policies have been concerned to ensure a mixing of tenures on new communities. In regeneration schemes too, good practice is emerging on ways to de-concentrate existing areas of deprivation and introduce mixed tenure.

There is now a general recognition of the negative effects of concentrating deprivation, and inroads are being made to promote mixed tenure as a solution.

This chapter argues however, that new housing policies will only ever be partially successful unless policy makers challenge some fundamental, long-held traditional beliefs about what housing is for.

Housing is no longer just about shelter. A home can be an investment, a pension, a source of income, an asset or a financial liability. Housing and planning policies, to be successful, need to recognise and reflect this.

Tenure fluid neighbourhoods

In the 1970s you could be pretty sure that most neighbourhoods would be either rented or owned. Now, that will very rarely be the case. It could be argued that only at the extremes of the housing market – say, the top 20%, more highly valued properties and at the other end say 5% of deprived estates will tenures of the properties they contain be largely of one type.

For neighbourhoods containing the 80% between the two extremes, some form of tenure mix will already be apparent. This is a result of both national government housing and economic policy and of a buoyant property market, since the early 1990s. Right to buy, right to acquire, DIYSO, Homebuy, etc, have led to large numbers of properties ending up a different tenure to that which was intended when first built.

The buy to let phenomenon is the most striking example of market forces changing the nature of UK neighbourhood tenure patterns. Some estimates claim over £100 billion of investment is now tied up in such property. It is a big industry which has created a demand for supporting services such as letting and managing agents.

Government policies and investors, both institutional and individual, have created tenure change on an unprecedented scale. The typical UK neighbourhood will now contain a number of homes which have changed tenure, at least once, since being built. Homes that were once owner-occupied are now are being let and vice versa.

It is not uncommon for a home that was originally a council house to have been purchased under right to buy, changing to owner-occupied, then on resale being brought by a private investor, and being rented out. Housing tenure is no longer fossilised. What we increasingly have in the UK are **tenure fluid** neighbourhoods. Whether by design or happy coincidence, in national policy terms it is a welcome consequence as it generally will have the effect of mixing tenures, mixing incomes and de-concentrating deprivation.

Flexible tenure homes

We now have the highest level of elderly home owners in UK history. The trend towards increased home ownership, coupled with demographic projections, can only mean a massive increase in this household type. This increase comes at a time when we are increasingly realising that the incomes of this group will generally be insufficient to maintain them throughout their retirement.

As the numbers of asset rich/income poor swell, the equity release sector is developing competitive and attractive products and mechanisms. Not too many years ago, some equity release products were disproportionately advantageous to the lender and the whole business acquired a dubious reputation.

However the industry is maturing rapidly and is now dominated by more ethical investors and well regarded high street finance providers. Grainger Trust's Tenancies For Life are an example of a popular product. The occupier can release equity – part or all – tied up in their property at current market value and in return are able to remain in the property, rent free, until death or sale at which time the property ownership or part of it, passes to Grainger.

Such products are becoming increasingly popular and the market is set to grow substantially. Providers of such products are beginning to follow in the footsteps of a number of housing associations who are offering similar products to their non elderly shared ownership residents.

Low income home owners such as shared equity residents are often much more vulnerable to changes in circumstances. As an alternative to repossession, housing associations – and now a number of lenders/investors – as well as enabling the shared owner to 'staircase up', enable residents to staircase down to a lesser percentage ownership or to full renting.

Thus, the UK is increasingly seeing not only tenure fluidity within neighbourhoods, but flexible tenure *within properties*. There is a broad consensus that this tenure fluidity and tenure flexibility is socially and economically desirable for individuals, localities and UK social and economic policy.

If we assume that tenure fluidity and flexible tenure are desirable objectives per se, then we can assume that central and local government would wish to nurture and encourage such activity. At the very least it needs to ensure barriers do not exist to achieving the objectives. In addition consideration should be given to the provision of subsidy where such an approach could prevent unnecessary homelessness.

Planning reform to support flexible tenure

Given the desirability of flexible tenure/fluid neighbourhoods, planning policies require updating in response. When a residential planning application is made, as part of the planning department's planning gain strategy (usually played out through what is known as a section 106 negotiation), the local planning authority will generally specify that a percentage of social or affordable housing should be built on site.

The policy objectives of endeavouring to deconcentrate deprivation are applied well via this simple and straightforward practice. Despite often protracted negotiation, developers can usually accommodate the local authority's wishes for the social housing requirement, which can be anything from 10% to 50%, depending on the area, the demand, and the land value.

However, whilst this policy objective is laudable, the practice at local authority level to insist on retention of this precise number in perpetuity is out of step with other government initiatives on tenure and tenure mixing. It therefore assumes adherence to an outdated concept. As has been discussed, in reality, tenures will no longer easily be fossilised in this way. It seems wrong then, for planning to work in the opposite direction.

In perpetuity clauses require that the percentage of required affordable housing agreed at the time of granting planning permission will remain so for ever. But as discussed above, homes will increasingly be likely to change tenure over time. This tenure change may be in response to an individual occupier's circumstances or, as in the case of buy-to-let, in response to market demands. This would seem to suggest therefore that in perpetuity clauses are no longer relevant in their current form.

It is recognised that local planning authorities, in endeavouring to meet need and demand from their local population, will wish to ensure that there is an adequate supply of housing for lower income households. Safeguards must therefore be put in place to ensure that sub market housing remains available in new communities. However current methods and crude application of 'in perpetuity' clauses are adhering to outdated notions of tenures being fixed over a property's lifetime.

Neighbourhood affordability agreements

Grainger Trust would like to develop an alternative method to ensure, in the longer term, an amount of affordable housing is available in its newly created neighbourhoods. It believes that this method goes with the grain of individual tenure choice and aspiration and housing markets, not against it. Grainger favours instead a neighbourhood affordability agreement.

The neighbourhood affordability agreement proposes that new housing developments (whether 25 or 2500 homes) should still be required to contain an element of affordable housing, but the precise type and location of that affordable housing should be flexible (whilst ensuring a mix appropriate to the locality's demands).

The mechanics of such a scheme are quite simple. At the outset the planning department agrees that a number, say 30%, of homes are to be affordable. But there is no requirement that the exact same properties be held within that tenure over their lifetime. (In reality of course, as has been demonstrated, it is highly unlikely that that will happen anyway.) At any one time, the same percentage of homes in the affordable bracket should remain as agreed. A review every five years submitted to the planning authority, will ensure that the percentage, although not tied to particular properties, is being maintained at the agreed level within the neighbourhood and that there is an appropriate degree of integration of tenures throughout the scheme.

We believe that the government should consider how they can encourage a new breed of long term housebuilding/investor/manager who can initially offer flexible tenure and can then sell and acquire property outright, or in shares, to meet the individual household needs and the areas economic needs. A simple covenant on the property so that the investor/manager is offered first refusal on sales would ensure that they can adhere to the neighbourhood affordability agreement.

Who runs the neighbourhood?

Could this be universally applied? Probably not. But it could be, if the right policy framework existed. The reason it could not be universally applied at the moment is the over reliance on a product supplier – house builders – with no after sales service or management.

The tenures and social composition of neighbourhoods have changed significantly over the last 25 years. But policymaking with regard to community or neighbourhood management and stewardship have failed to keep pace. This is an issue which urgently needs to be addressed by government as communities increasingly become mixed tenure and as local councils pull back from direct service delivery.

Social and economic sustainability of communities will require good neighbourhood management from organisations who understand the housing and neighbourhood service requirements of households in different tenures.

The retail nature of most house builders with their customers and with their clients and regulators (such as planners) means that they are inclined to take as little responsibility as possible for the social or economic sustainability of the communities they build.

This is precisely why we have witnessed some startling bad practice despite laudable planning policy intentions for mixed communities. For example, house builders selling 100% of their for sale housing, off plan to speculative investors who subsequently lease the properties back to the homeless persons department of the local authority (Minton 2004).

Also, the much documented bad practice of non-integration of tenures, or 'tenure apartheid' whereby the social housing requirement is sited next to the railway line/gas works/motorway in order to shield the home owners from the more unsightly parts of the scheme.

It is of no or little economic interest to the retail house builder to ensure a mixed, sustainable community. Only developers with a long term interest in the success of the scheme will be able to take an overview of the social and economic aspects, as well as overall management of the scheme.

Organisations like Grainger, who trade within their stock, have a clear economic incentive to ensure that the asset is maintained and enhanced. This requires not only good housing management and maintenance but attention to the neighbourhood generally (public realm, community safety etc) to ensure it is of high quality. This supports and maintains the assets value or increases its value.

Long term residential property investors will want to ensure their asset is well managed. Debt financed retailers will have no interests beyond the sale of the product.

It follows therefore that if governments are to be more proactive in their encouragement of tenure flexible and fluid neighbourhoods, then a new approach is needed. Not only to creating such sustainable communities, but also to managing and maintaining the social and economic aspects as well as the property assets of such neighbourhoods.

Organisations and investors, whether private, public sector or partnerships between the two, already exist to take on this more strategic approach. Such organisations can trade in terms of sales and acquisitions, both within the neighbourhood and between neighbourhoods they own, not only for investment purposes, but to ensure a broad range and mix of homes for different income groups.

Incentives and regulations which discourage the crude retail nature of providing new communities and encourage long term investment and stewardship of communities are one way to encourage quality and neighbourhood affordability.

Chapter 8

How can high street lenders help extend home ownership?

Peter Williams, Deputy Director General, Council of Mortgage Lenders

- Government has only recently begun to back low cost home ownership consistently
- Lenders have a track record supporting initiatives similar to today's – they are willing to consider options
- But there are also concerns over how the new intermediate 'stepping stone' market being created will mature and how it might weather any downturn
- First time buyer numbers are down, but this reflects lifestyle and demographic factors as well as affordability
- It may be better for some buyers to enter the market later when better prepared than to do so in ways that creates a risk of default or repossession

'Tenure mix is not driven by government policy even though it is a requirement of government policy on new developments. It has always existed in many areas. Home ownership is now the most diverse tenure on most measures. Half the poor are already home owners.'

How can high street lenders help extend home ownership?

The housing and neighbourhood agenda is a complex one with many different strands. Despite the best efforts via a range of initiatives, we are a considerable way from understanding what makes a neighbourhood succeed and indeed what makes one fail.

It is widely believed that tenure mix is central to neighbourhood success. Clearly this is not unimportant but perhaps this is a necessary – rather than a sufficient – condition for neighbourhood success?

This chapter will leave this wider question for others to address. Here I want to explore how mortgage lenders are contributing to neighbourhood tenure mix through the funding of low-cost home ownership – both in terms of government backed schemes but also more directly through mainstream market transactions.

Home ownership – a diverse sector

Home ownership has become a very diverse tenure. Lenders are today funding borrowers with a very wide range of incomes and backgrounds. Supporting a range of government initiatives, they have in recent years lent to right to buy purchasers, shared owners and tenants taking up rent to mortgage or right to acquire schemes. Most recently they have been helping to finance shared equity schemes.

Home ownership is now the most diverse tenure on most socio-economic measures. Half the poor are home owners (Burrows and Wilcox, 2000). As recent DWP research shows, many of them have had to face reductions of income since they became home owners (DWP, 2005).

Tenure mix is not driven by government policy even though it is a requirement of government policy in terms of section 106 sites. It has always existed in many areas. With the growth in the buy to let market, the mix of renting and owning has probably been sustained in some areas, although overall the evidence seems to be a move towards homogeneity, reflecting the rise of home ownership. Moreover (and here policy is significant), in some previously mono-tenure council estates mix has increased sharply through the right to buy, a programme the lending industry has found to operate with relatively few practical problems from a lending point of view.

A popular choice, even without tax breaks

Home ownership remains the tenure of choice for the vast majority of households in the UK as surveys have shown. This is despite the Labour government now completely scrapping mortgage interest tax relief, one of the key 'perks' enjoyed by home buyers. Although other tax benefits remain, eg exemption from capital gains tax, it is now the case that home ownership has a broadly neutral position regarding tax benefits and costs (Wilcox, 2005a).

The recent introduction of working tax credits offers the prospect of support for working home buyers who lose part of their income. However, to date, the poor take up by this group and the problems with running the tax credit system have rather nullified what could be an important step forward.

Despite the popular impressions of the impossibility of entering home ownership and the decline in the proportion of first time buyers (reflecting the buoyancy of the existing owner market) and the increasing age of buyers in this group, the number of first time buyers annually is currently running at around 350,000 (CML revised estimates for 2005 put it at 370,000).

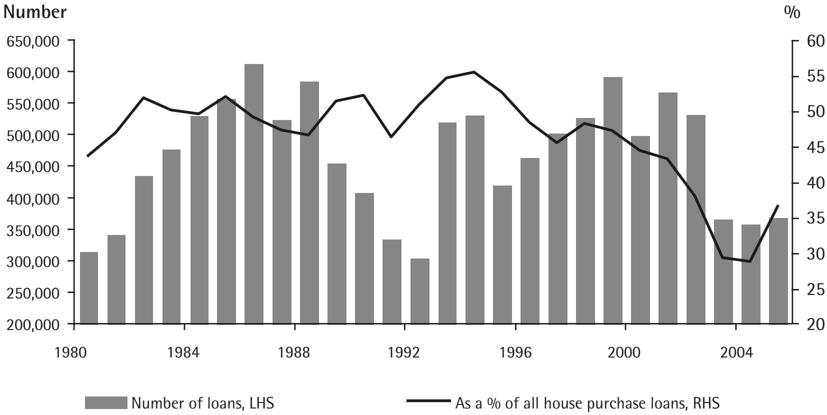
As Figure 1 shows this is a reduction on numbers in the first few years of the decade, but this does tend to a cyclical measure reflecting both the economy and demography (see Smith et al, 2005). So the fact that large numbers of first time buyers continue to enter the market means there is a continued – but albeit probably selective – flow of such households bringing diversity and mix to a range of neighbourhoods already.

First time buyers and affordability

In recent years affordability pressures faced by first time buyers have been seen as a signal of a fundamental shift in the structure of the housing market. This has led some to question the long-term size and health of the home ownership market. The government has recently pledged to increase home ownership levels to 75% and to tackle the constraints on delivery identified in the Barker Review (Barker, 2004).

There is real evidence of affordability pressures, particularly in some parts of the UK (see Wilcox, 2005b). The overall position has worsened according to many indicators. But this issue does need to be approached with some considerable care (eg, taking account of changes in household structure).

Figure 1: First Time Buyers – number and percentage, 1980–2005

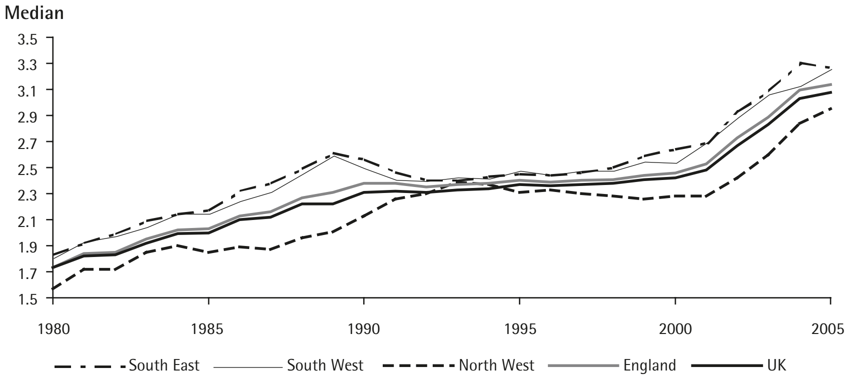


Source: Survey of Mortgage Lenders, Regulated Mortgage Survey

There are major questions yet to be answered on how an increase in supply might restore affordability to what might be deemed acceptable levels. Figure 2 provides an illustration of the problem using a selection of English regions and the UK. We can observe the upward shift over a long period of time using the very conventional first time buyer income multiples. Figure 3 then views this in a different context, the debt servicing capacity of first time buyers. Here we can see the effect of ever lower interest rates through the 1990s, then the pick up in rates from 2003 returning purchasers to relatively high proportions of income spent on housing.

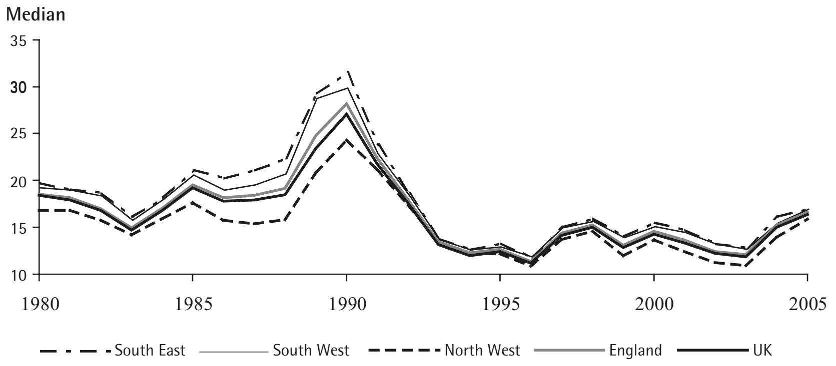
This point about interest rates is a key one. There is no general agreement as to what a reasonable income multiple might be in an environment with interest rates below 5%. Three times income was often applied when interest rates were 10%. But there would be a considerable media reaction if lenders had universally moved to six times income with rates at 5% for all borrowers. For a number of reasons including their own prudence born of experience and FSA regulatory pressures, the industry has been reluctant to push multiples out too far. It has also shifted from simple multiple calculations to more complex affordability calculations.

Figure 2: First Time Buyers – income multipliers, selected areas, 1980–2005



Source: Survey of Mortgage Lenders

Figure 3: First Time Buyers; Interest payment as a % of income, selected areas, 1980–2005



Source: Survey of Mortgage Lenders

As this begins to suggest, affordability is a very complex issue. It is in lenders' best interest to continue to support and sustain access to the home ownership market. Given the continued decline in the number of first time buyers, the industry has been concerned to help tackle reversing this trend.

It is important to note that the decline in first time buyers is caused by a number of factors, not just by affordability. As Holmans makes very clear, we were expecting a decline because of changing demography (see Smith et al 2005, also GMAC-RFC, 2005). Changing social attitudes and circumstances have also played their part. Student debt, higher levels of job mobility, stronger consumption-driven lifestyles and the existence at least in some families of an older generation of home owners who may assist entry at some later date (through gifts, loans or inheritance – see Tatch, 2006) – all have contributed to the decline in numbers. This suggests that the move towards later entry into home ownership is both a product of choice and constraint.

New ways to help first time buyers

Independent research shows that the UK mortgage industry is relatively efficient and innovative compared to most countries. It offers the widest range of products tailored to the UK's wide spectrum of borrower types (Mercer, Oliver, Wyman, 2003).

In recent years lenders have been working to create loan structures that work for first time buyers. One of the biggest problems they face is saving a sufficiently large deposit. The 100% loan has in the past been a feature of the UK market, but as the 1990 recession showed, this can create a considerable vulnerability. The 100% loan is one of the key predictors in repossession cases (Burrows, 1998).

Recent alternatives to 100% loans have included:

- using parental guarantees or part parental payments
- combining house sharing friends' incomes into a single purchasing unit
- interest only mortgages
- fixed rate mortgages
- sub prime and self certificated mortgages
- cashbacks
- higher loan multiples
- lending without the higher loan fee used to purchase an insurance backed indemnity guarantee.

All of these arrangements play a part in easing different borrowers through the affordability constraints. However, despite both the long term changes in demand and product and process innovation, it is clear there are still groups that face considerable difficulties in entering the home ownership market. It is here the industry has moved to work with government to help create new opportunities.

Through the Sustainable Home Ownership initiative, lenders and insurers have improved the quality of mortgage payment protection insurance products and increased their market penetration (Solomon, 2005). A proportion of first time buyers have this cover and lenders are keen to ensure that any moves taken to increase home ownership must be sustainable – and should not, unless backed by increased supply, substantially increase market demand.

Low cost home ownership

Lenders have always been active in this market, as is evident from the perhaps surprisingly high level of activity in 'market renewal' areas (more accurately low income – ODPM, 2004). Lenders have also backed, to varying degrees, lending to the government's shared ownership and shared equity programmes. As the government's Home Ownership Task Force found, lenders have faced some difficulties with these schemes (HOTF, 2003). Shared ownership in particular has proved the more problematic model. For a period the number of lenders providing mortgages for part owners declined. This reflected a higher than normal rate of default, problems related to the 'shared ownership' lease, notifications and information passing between lenders and housing associations. Over the last two years many of these problems have been addressed and it is noticeable the number of lenders has increased recently.

As Bramley et al (2002) show, both lenders and consumers have tended to prefer the Homebuy scheme (75% mortgage, 25% equity loan) over shared ownership (typically 50% mortgage and 50% rent). This is partly because it is simpler – two parties rather than three.

The number of households benefiting from both these schemes is small by comparison to right to buy (around 100,000 since introduction, compared to two million), but they are valuable nonetheless. Over time, the appetite of both the government and, in England, the Housing Corporation, to run these schemes has fluctuated.

Periodically there have been cutbacks, although in the last few years we have seen expansion in England in a targeted way through the Starter Home Initiative and the more recent Key Worker Living initiative. As this might suggest, there has been a lack of policy clarity around low-cost home ownership and it is only in 2004/5 that government has finally taken up this agenda with any alacrity. This uncertainty has been a contributory factor in the way lenders have viewed this market.

Most recently the industry has been working with the government to extend Homebuy. This is currently built around the outwardly simple proposition of lenders and government sharing the 25% equity loan and thus effectively doubling the programme. Three lenders are currently developing products with a view to launching this new scheme in October 2006.

The implementation process has proved quite challenging, not least because there have been some complex technical issues to resolve within the regulatory framework lenders must follow. But these are now being resolved. Opening up a new market raises a lot of questions, not least around market demand and borrower behaviour. Pricing the product really flows from the assumptions made about these things.

Going forward to expand access to ownership

With progress being made on products and schemes designed to expand shared equity, we are on the verge of seeing a bigger intermediate ownership market in the UK. It is to be hoped that this market will represent a transitional phase to full ownership, a 'stepping stone' market.

The new emphasis has encouraged housing associations to bring a new professionalism to their work on low cost ownership. Increasingly local authorities are asking for it to be part of any section 106 developments they agree to. This is partly in response to the push towards mixed tenure, partly a response to local market demand.

With an increased scale of activity it will be even more important that schemes are managed and maintained properly and that there is an effective secondary market – ie that owners can sell up and move on into the mainstream market.

There are concerns some low cost property may take on attributes which make sales more difficult. Given that in any new build scheme all the properties are built at the same time and populated by people in similar circumstances, it should be no surprise if there can be times when there is a glut of similar property on the market. Going forward, housing associations, lenders and government will need to keep a close eye on how this new market operates over the economic cycle. It is likely that a strong buy back policy by associations will help keep the market liquid and assist recycling homes to those who most need it.

What we are seeing now is a real appetite amongst housing associations, funders and others to be innovative around low cost home ownership. The Budget 2006 announcement of a government Shared Equity Task Force is a timely intervention which hopefully should draw all this together, evaluate it and set out a new and altogether more structured and stable agenda. It seems at last we are making real progress. It has been long overdue but it is welcome nonetheless.

The views in this article are those of the author rather than of his employer the Council of Mortgage Lenders. Thanks to Jackie Bennett for her comments.

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Chapter 9

Using public assets to break up deprivation – lessons from Belfast

Paddy McIntyre, Chief Executive
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- Housing and planning policies are powerful tools to combat the harmful effects of social, religious and economic segregation and promote stability. More proactive opportunities should be explored to further diversify tenure on existing estates
- Social housing isn't the only answer to affordable housing. New management and partnering arrangements which embrace private renting offer better prospects than an adversarial approach
- Public sector agencies hold billions in unused assets. But 'selling the family silver' is not the only way to raise capital
- We need to move beyond being reactive with costly curative approaches to regeneration, to strategic leverage of public sector held assets
- Freedoms and flexibilities in the local use and leverage of public sector held assets are needed to bring broad community benefits

'The more effective utilisation of public sector assets sits at the centre of programmes to combat deprivation. Changing tenure patterns, creating a critical mass for local services, facilitating the creation of those services, and developing opportunities to engage and build capacity can be framed around the better use of these assets.'

Using public assets to break up deprivation – lessons from Belfast

In 1974 Belfast had the worst housing conditions of any city in the UK. The housing policy was to replace obsolete private rental areas with new social housing areas. Population relocation and dislocation had begun to create a view that old, poor neighbourhoods were bad while new poor neighbourhoods were good.

Yet planning policy many years earlier had already precipitated the decentralisation of industry and population from the city. By the advent of Belfast's urban renewal programmes (which by their nature could not replicate the densities of the past), suburban and satellite development had already taken off. These were to become an important escape route from deprived areas for some.

The ethno-religious geography of Belfast based on being 'safe and segregated' was given impetus by civil unrest. Such unrest only served to exaggerate patterns of spatial deprivation driven by demographic change, economic difficulties and the housing problem.

These factors interplayed to create a concentric spatial deprivation pattern in the city. As is often the case in other cities, outer private rings were dotted with large, peripheral, social housing estates.

The relationship between social housing estates and deprivation was cast in concrete. Escape routes had been opened up not only for the relatively better off but also the less well off seeking social housing opportunities in the more peaceful surroundings of peripheral estates. Both communities claimed their respective co-religionists were getting out and 'trying to pull the ladder up after them'.

Did the new social–private separation outside the centre represent historical continuity, with social housing simply replacing private renting? Or did it mark a fundamental shift in social mix, creating a 'ghetto' tag to deprived areas? It is certainly true that household profiles became more unbalanced in the deprived areas at this time.

While this sounds like a familiar city experience, Belfast had a further dimension – religious segregation. But this segregation did not represent differences in health, education or employment outcomes between communities. The ethno-religious geography of the city concealed quite distinctive demographic trends affecting everyone

– areas with an ageing population coping with abandonment and areas where housing demand was intense.

Perversely the former creates opportunities to restructure and reinvent neighbourhoods. The latter has to look more inwards to community capacity to effect change or to relocation.

The policy responses

A blend of public policy responses to combat spatial deprivation developed in response to the patterns I have just outlined. These were based on what appear have become common current approaches:

- spatial planning policy should constrain suburban and satellite expansion and thereby sustain growth in the city
- tenure diversity in new and existing neighbourhoods could improve the social mix and thereby increase stability
- building form should promote mixing rather than constrain it
- integrated, targeted programmes which improve local service delivery and empower communities could raise the quality of life and life chances of poorer residents.

This brought a bottom-up perspective which could be applied at neighbourhood level and top-down by targeting resources and limiting or widening housing choice at a city wide level.

These views were given strategic and operational effect. A regional development strategy provided a new spatial planning framework which would set housing growth indicators and recognise the need to sustain the city.

The Making Belfast Work initiative, which targeted deprived areas, would develop sectoral partnerships to promote and help deliver local plans. By 2005 this had given way to a Neighbourhood Renewal Strategy (launched by the Department for Social Development). This seeks to provide a more integrated and strategic focus on the deprived areas but still underpinned by community empowerment.

From 1997 new urban renewal areas would be mixed-tenure and with building forms capable of re-producing social mix. Opportunities to diversify tenure in existing social housing estates would be identified and actioned.

What was the impact?

Some argue that nothing has changed as a result of these approaches. The deprived areas are still deprived. Others argue that there is only change. Using the Nobel indices (a measurement of deprivation) the evidence supports the former. Using housing market analysis, investment patterns and 'confidence measures', the evidence supports the latter.

We can see a ten-fold increase in private housing investment, a physical fabric and community infrastructure at its best for many decades and the stabilisation of many areas considered in decline. There is a strong sense that things are not the same (you can see it, hear it, and feel it).

The impact has been greatest in areas which were at the point of managed decline. For some other areas' programmes have not yet worked their way through the development timeline.

Perhaps the most significant change is a demand from those neighbourhoods which have observed the process of change elsewhere but not embraced its significance to seek to engage in more positive and radical forms of intervention. A fear of loss of local identity and culture still however exists.

This is particularly the case in older areas which have only recently reaped the consequences of physical obsolescence and limited building forms. The demand for a mixed-use, mixed tenure, mixed blood (old and new residents), model of intervention is widely accepted – provided dislocation is minimised through special policies to retain existing home owners.

Using the assets

Within this process of change the role of public sector assets is worthy of note. Early public intervention to drive the private market was built upon the release of public sector lands including through clearance of social housing areas which had failed and encouraging relationships with private developers.

Communities reacted to the absence of any direct gains by local residents while acknowledging the general benefits to the neighbourhood. The method of disposal was changed to offer them the opportunity to be developers or to insist upon community support for private sector proposals.

Developers have become obliged to trade improved local facilities (for example community centres/social economy projects) for community support. Increasingly communities wish to derive the development profit for local reinvestment with technical assistance from the public sector.

Social enterprise, using public sector assets to minimise entry costs, has begun to mature and offer local services which would otherwise not exist.

Public assets in the form of commercial property have proved particularly valuable. The threat posed by the reconfiguration of the retail sector has eroded. Instead the neighbourhood retail/service centre has begun to re-emerge as a key component of reinventing areas and an asset which can be traded for community and financial benefit.

Similarly using assets which were otherwise without value to assist communities in driving an environmental agenda has created a win-win situation.

The more effective utilisation of public sector assets sits at the centre of programmes to combat spatial deprivation. Changing tenure patterns, creating a critical mass for local services, facilitating the creation of those services, and developing opportunities to engage and build capacity can be framed around the better use of public assets.

Within both, the larger plan for urban restructuring and localised improvements the role of public sector assets (physical and intellectual) remains only partly tapped.

Where next?

Building on progress made to date would appear to be a reasonable approach to the future. However, new factors are emerging which challenge and threaten the impact of the existing policy framework.

Demographic change, particularly household fragmentation, is creating new housing demand pressures which in scale and nature could act to reinforce spatial deprivation. The growth in single person households is unlikely to significantly pull demand and supply into new geographic patterns. Rather the dominance of low income lone parents in social housing demand acts as a powerful concentrate for deprivation – diluting its impact is proving difficult.

Growth in private rental has both positive and negative attributes. Communities are reporting new tensions and problems emerging from the penetration of private renting in the deprived neighbourhoods including those only recently stabilised and improved.

Whether or not policies to engineer mix and balance will be undermined by private renting remains to be seen. Combating the threat through a control and enforcement approach to private renting is unlikely to produce the speed and level of impact required. New management and partnering arrangements which embrace private renting offer better prospects than an adversarial approach. Public sector technology and management assets could be deployed with private landlords to support cohesive neighbourhood services and policies.

House price inflation is drawing better off and aspirational households into the fringes of the deprived areas. Signs of a progression into affordability problems for local residents are evident. Plans for neighbourhood infill are under pressure to deliver preferential, private sector opportunities for local residents – a ‘sons and daughters’ policy.

Perhaps more importantly the shared experiences of the deprived areas may yet prove to be a powerful force to create a shared future across religious boundaries. The social interfaces which arise from building community engagement and capacity are already proving to be a positive development in breaking down absolute segregation.

The structures and programmes which underpin attempts to combat spatial deprivation have been consistently supported by the use of public assets. More creative and sophisticated utilisation of those assets may need to be called upon to meet the new challenges which face the more deprived neighbourhoods.

Chapter 10

Conclusion – headline ideas for reform

Tim Dwelly and Julie Cowans

- Action to dismantle 'social' estates
- A 'whole neighbourhood' approach to mixing tenure
- Action to bring in private investors with a long term commitment
- An end to 'social' tenancies
- A major rethink on homelessness

Conclusion – headline ideas for reform

In compiling this paper, we asked one simple question: is social housing working? Many contributors to this paper, with a distinguished long term record in this field, clearly believe it isn't.

Overall the view appears to be that the basics of the current approach are fundamentally flawed. This is because they are based on a welfare approach to housing which may have been appropriate in the 1950s and 1960s, but is now outmoded.

The unreformed social housing system, arguably, is sustaining rather than reducing welfare dependency, housing poverty, asset inequality and inherited deprivation.

In this paper contributors have offered their own perspectives on why and how the UK should modernise affordable housing policy. There are a wealth of interesting ideas here for policy makers to now explore.

Based on these contributions, we propose the following reform themes to frame the way forward:

1. Action to dismantle 'social' estates

A statutory obligation, and national strategy, to break up existing concentrations of deprivation in every local authority in the UK, beginning with estates dominated by social housing. Strategic open market sales should be made, with receipts used to commission/purchase/enable affordable housing in mixed communities and or enhance liveability of these estates to attract/retain would-be homeowners.

2. A 'whole neighbourhood' approach to mixing tenure

No more development of single tenure social housing schemes. A new 'tenure fluid' neighbourhood approach would be preferable to having individual properties fossilised by tenure at the outset. Homes should be able to change tenure depending on the circumstances of the occupier and to respond to local housing markets over time. This requires a more imaginative approach to mixed tenure than today's approach.

3. Action to bring in private investors with a long term commitment

An end to the presumption that only councils, housing associations or private housebuilders will provide affordable housing. There are other long term players who can provide quality affordable housing.

4. An end to 'social' tenancies
Reform of rented tenancies, phasing out assured and secure tenancies to create a wider single rented tenancy which does not necessarily assume a tenancy for life.

5. A major rethink on homelessness
Reform of homelessness legislation to break the link between temporary need for a home and long term right to a social tenancy, given that the latter does not appear to help prospects long term. Statutory duties to help, but in different ways.

If homeless reforms were introduced alongside changes to tenancy rights and initiatives to break up residualised estates, there could be a real impact on the profile of, and stigma attached to, social housing.

The long term aim, in essence, should be to remove the term social – and all this label represents – from the UK housing system altogether.

Below we explore some challenges resulting from our five key areas for reform.

A greater focus on tenure mix on existing estates
This requires a long term programme to create mixed and diverse communities, deconcentrate deprivation and destigmatise social housing. Initiatives to address high demand for new homes should not muscle out the importance of creating sustainable places. Quality should come equal first to quantity. The aim should be to provide as many *quality* homes as possible (those that help householders prospects – or at least do no harm) – not simply provide as many homes as possible.

We do not believe that the decent homes measure, useful as it is, is sufficient. The physical building itself, provided it does not pose a danger to health and safety, is less important than the quality of the place: the local school, community safety, infrastructure, access to health services/quality retail/leisure and importantly, connectivity to economic and employment opportunities.

Successful neighbourhoods score highly on such liveability indicators. Most housing professionals, however, will recount anecdotes of homes which meet the government's required 'decency standard' which they find difficult to let because the neighbourhood scores low on liveability. All individuals, irrespective of their current income and ability deserve communities which inspire confidence, wellbeing, provide opportunity and a decent quality of life.

Concentrations of deprivation, most commonly found in stigmatised social housing estates should be avoided at all costs. The government has made good inroads to meeting this objective for new homes via planning legislation and guidance, as well as Housing Corporation funding prerequisites. Every effort should be made to continue to emphasise this policy objective and police its implementation.

It could be argued that the harder nut to crack will be rectifying the mistakes of the past: what to do with *existing* problematic estates? There is no doubt that there is a need to increase supply of housing in the UK to meet growing demand. However, in policy terms, the supply of new homes dominates debate to the expense of policy solutions for existing problematic estates.

New supply constitutes a tiny fraction of the housing stock. Yet welfare dependency, asset inequality and the stubborn issue of intergeneration (inherited) poverty are government priorities. So it is curious that existing concentrations of deprivation in social housing-dominated neighbourhoods gets such disappointing policy attention. This must change.

Those who defend social housing from the criticism that it stigmatises families often point to new mixed tenure pepper-potted developments. It is true, we have moved on. But that in itself, is not good enough, given that these new homes represent only 0.004% of the overall social stock. We should now own up to past mistakes, without blame or shame, and frankly discuss solutions to the huge swathes of concentrated deprivation that our current approach to housing has helped to create .

What is done to destigmatise existing older estates is therefore critical. We argue that a national strategy is required to deconcentrate deprivation. The first starting point – given that statistically concentrated deprivation occurs in neighbourhoods dominated by social housing tenancies – should be social housing estates.

Local authorities could have a statutory obligation to assess and continually monitor all of the neighbourhoods in their locality. They could categorise and classify neighbourhoods (for instance from *no intervention needed*, through to *cusp areas* through to *intervention* *required*). Then they could prescribe interventions that they can enable to happen (not necessarily carrying this out directly themselves).

The good thing about deconcentrating social housing is that it involves the introduction of mixed tenure (a proxy for mixed income). Mixing tenures on existing estates usually involves either or both using surplus land/infilling to accommodate market housing and/or sales on the open market of existing social housing.

Both of these methods generate cash receipts. Pooling across a local authority area, and tenders which involve the parcelling of the easier and the difficult areas could, in theory at least, mean no calls for additional state funding to meet this policy objective.

Housing associations too could be encouraged to rebalance their estates. Lessons could be learned from Joseph Rowntree Housing Trust's SAVE and MINC (Mixed Income New Communities) schemes. These see alternate properties on estates sold on the open market so that market housing is available in previously disadvantaged areas. Receipts can be used to secure affordable housing in mixed communities elsewhere.

Lessons can also be learned from market renewal pathfinders in many northern urban areas. Many are actively seeking to create fewer better (often owner-occupied or shared equity) properties, breaking up estates not only with tenure change but by masterplanning different streetscapes.

Ideas for tenancy reform

When the 1988 Housing Act phased out security of tenure in the private rented sector, dire warnings of the consequences were commonplace. But assured shortholds, with some faults, have worked and have a very important function within local housing markets.

One way to redefine the private rented sector is to cast housing associations as quality private landlords. In effect this could then begin to blur distinctions between private and 'social' renting. This could resolve once and for all the problem of how to bring about a renaissance in responsible private renting. The long term goal would be to have rented housing with no 'welfare' connotations based on the landlord.

All this suggests that to start to truly erode the stigma and negative impact of social renting, a single rented housing tenancy should be adopted. But this should not combine *all* the existing statutory and contractual rights of secure and assured tenants. Instead it should be scaled back and designed to remove benefit dependency. For the best chance of success, this in turn ought to be introduced with changes to the homeless legislation.

The case for a single form of tenancy has been made very effectively over the years. Bi-products of such an approach could include the removal of obstacles to making positive and strategic changes – stock transfer, development of common housing registers, initiatives to address and tackle anti social behaviour, etc.

In time this might help achieve transfer of the bulk of social housing out of the council sector, paving the way for a desired long term creation of a single 'rented sector' which draws fewer distinctions between the sector of the landlord.

A new common tenancy would adopt basic rights and obligations for all social tenants but would also remove others, bringing the sector in line with the private rented sector. The dilemma is how to do this while simultaneously encouraging self-reliance and self-help. Some kind of trade off may be necessary, with quality private landlords incentivised to offer the new tenancy in place of assured shortholds.

Such a new tenancy may have to be phased in, for new tenants only. Convergence of secure, assured and shorthold tenancies will obviously take many years. However, that should not be an obstacle to declaring this to be the long term goal.

Homelessness law overhaul

It could be argued that the statutory right to a tenancy for life because, at a single point in time, a household might face a temporary housing difficulty, is outdated. How does it chime with the other key strands of government policies such as welfare to work? Many homelessness professionals and academics have written about the housing needs of homeless people being a consequence rather than a cause of their difficulties.

At a vulnerable time in a person's life, for example following marital breakdown, domestic violence, temporary joblessness or ill health, although their housing need may be urgent, it is not necessarily permanent. As the evidence of concentrating deprivation shows, in the longer term, the solution we offer – as a statutory right – may be harmful to the individual's life chances and to the sustainability of communities.

Policy in this area needs to be more wide ranging. It should consider the long term needs of the individual rather than be a box ticking exercise to satisfy a statutory requirement.

Ideally the approach should better differentiate between what is urgent and what is important.

This is a contentious issue. The last wholesale reforms introduced by the Conservative government were comprehensively resisted by the social housing movement. They looked, to many, like a backdoor way of rationing affordable housing when investment levels were being cut. But if we ignore party politics and consider again the two key questions underpinning the original Conservative proposals, they could be summarised as:

- Do people suffering an urgent need for accommodation necessarily need a permanent social tenancy?
- Why is renting a home in the private sector seen as unsatisfactory (unlike in the rest of Europe)?

On the first point, one can find inspiring examples from homeless prevention teams who assist would–be homeless applicants to move to suitable short term accommodation, which best fits their aspirations and circumstances. Often all that is required is assistance with what is a short term problem.

On the second point we argue that in a well regulated environment such as we have for the private residential sector in the UK, private tenancies are a reasonable alternative – and sometimes superior in terms of quality and management – to social housing.

If homeless reforms were introduced alongside changes to tenancy rights and initiatives to break up residualised estates, they could start to have a real impact on the profile of and stigma attached to what we call social housing.

Future policy development questions should include:

- Should the link between homelessness duties and the letting of longer term rented housing be broken? Should homeless households be provided with temporary housing and helped to find a home in any sector? Should there be an end to an automatic right to have a council or housing association tenancy if you are homeless?
- Should more research be carried out to explore the link between existing council tenants and their children's aspirations?
- How should the safety net for vulnerable groups be maintained? Should there be a clearer distinction of the roles between housing and social services? Should social

landlords retain a duty if an individual has behaviour so challenging that they cannot hold a tenancy? What provision and assistance should there be for such groups?
- If homeless households are happy in suitable private rented or leased accommodation provided, should the council be able to cease its homeless duties? Was this provision wrongly reversed in the 2002 Act?

Means testing?

We do not advocate means testing of tenants and eviction of those who become too affluent or for those whom a landlord decides is ready to own not rent. Given that the aim is to remove stigma and promote prospects, this would be counter-productive. It would mean people always needed to move home to change their tenure or improve their prospects. On the contrary, those on higher incomes should be encouraged to stay: to contribute their skills and spending power to the local economy. If they wish to do so, they should be encouraged to remain, but to move to a different tenure arrangement more suited to their income and aspirations

Finally

Housing intervention should provide a hand up, not a hand out. Yet the evidence that the 'hand out' of a social tenancy helps the life chances and prospects of those who get one is scant, to put it mildly.

Yet this process is still treated as if it were a positive solution, the end of the process. It is surely time to question this assumption. Social housing in the UK should not be a system that accepts 'the poor will always be with us'. We can do so much better.

The Smith Institute
The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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