Successes, Failures, and Prospects for Public Housing Policy in the United Kingdom

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Abstract

This article discusses some of the main changes introduced for public housing in the United Kingdom since 1980. They include the sale of more than a quarter of the homes to their occupiers, large-scale transfers of public housing into the ownership of new nonprofit organizations, a greater emphasis on resident involvement in the management of their homes, a switch in government support from producer subsidies to personal subsidies to the tenants, increased support for housing associations as alternative social housing providers, and new steps toward a more holistic approach to urban regeneration.

As a result of these policies, coupled with economic and social change during the same period, public sector housing—and the social housing provided by housing associations—have increasingly become occupied by people having the lowest incomes and suffering the greatest difficulties. There is anxiety that this increasing concentration of deprivation within public housing estates will replicate problems of lawlessness, social exclusion, and the creation of an "underclass" described by observers in the United States.

Keywords: United Kingdom; Low-income housing; Policy

Introduction

This article gives an overview of some of the main housing policy developments in the United Kingdom since the advent of the first Thatcher government in 1979. It does not present a detailed and comprehensive picture, but rather draws out some of the main themes, looks at their successes and failures, comments on the evolution of policies during the intervening years, and examines the common elements in the prospects for policy development that are likely to find expression regardless of the outcome of the next U.K. general election.

While the main focus is on policies related to public housing, the development of those policies in the United Kingdom can best be understood in the context of policies relating to both homeownership and private rented housing. The single most important feature of U.K. housing policy over the past 15 years has without doubt been the overwhelming priority given to the promotion of homeownership throughout the 1980s, and the subsequent retreat from that policy in favor of policies seeking to reverse the century-long decline of the private rented sector in the United Kingdom.

Public housing was viewed by government in the 1980s as a residual sector for households unable to enter homeownership despite a panoply of schemes designed to aid that process. In contrast, current housing policy debate is more concerned about the balance of the roles between a diversified public sector charging submarket rents and a private sector charging market rents.

Definitions and numbers

The terminology and institutions that predominate in the U.K. housing market are markedly different from those in the United States, and this section gives a short introductory guide to U.K. definitions for readers unfamiliar with the basic structure of the U.K. housing market.

Although this article discusses developments in the United Kingdom as a whole, in some cases it focuses on the particular developments in England (which accounts for five-sixths of U.K. households). The legal framework and housing policies are generally similar in England and Wales, but there are some significant differences in housing law and policy in Northern Ireland and Scotland. This article indicates only the main differences in housing law and policy between the main "territories" of the United Kingdom.[1]

In the United Kingdom, "public housing" is usually defined as accommodations owned and managed by public—that is, governmental—bodies. Until the 1980s, the principal providers during this century had been the municipalities—the 400 or so democratically elected local authorities. The other substantial suppliers of public housing were the New Town Corporations, although those bodies have now passed the ownership of their properties to local authorities (or, in a few cases, to other nonprofit organizations).

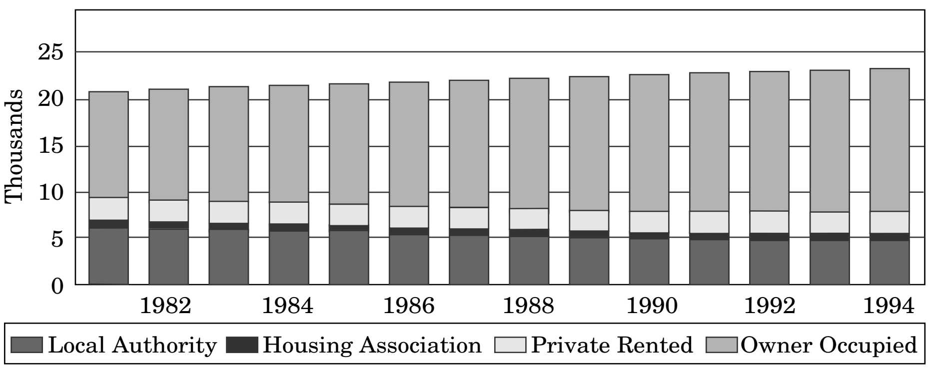
[1] For a more complete summary of the distinctive characteristics of housing policy in Scotland and Wales, see Smith and Williams (1995) and Maclennan and More (1995).

In contrast to most developed countries (outside of Eastern Europe), public housing in the United Kingdom has dominated the rented sector since World War II. Public housing reached a peak at 32 percent of the nation's homes during the late 1970s.

"Social housing" is a term used throughout the member countries of the European Union to refer not just to public housing but to other accommodation subsidized by public sources. In the United Kingdom, social housing can embrace public housing (often called "council housing") and also the homes of housing associations. Housing associations are not-for-profit private corporations, many of which are also registered charities, and are similar to community development corporations in the United States.

Housing owned by housing associations, however, was relatively insignificant in comparison with public housing until recent years. Housing associations have been increasing their share of the national stock, but in 1994 local authorities still held almost five times as many properties as housing associations (see figure 1).

Figure 1. **Dwellings by Tenure in Great Britain**



Source: Housing and Construction Statistics.
Note: Figures refer to December of each year. Local authority includes New Towns.

In the United States, "public housing" is distinguished from "publicly subsidized housing," properties owned by private landlords but subject to a subsidy (a rent certificate or voucher or below-market-rate loan) for a number of years. The U.K. private rented sector—in which about a third of the stock is still subject to rent control—contains many households that receive rent allowances to help them pay their rents, but these homes are not typically described as "publicly subsidized" in the United Kingdom or in other European countries.

The private rented sector in the United Kingdom is about the smallest in any developed country, at around 10 percent of the stock. It declined rapidly throughout the century, having comprised some 90 percent of the stock in 1914, under the combined impact of slum clearance programs, rent controls, and unfavorable tax regimes for renting relative to house purchase (Greve 1965).

A recent attempt to attract individuals to invest in renting through private companies, by giving them tax breaks coupled with wider measures to remove rent controls and restrict security of tenure, proved quite successful over the six years ending in 1993–94. But this experiment—although it provided 80,000 extra homes for rent—was not targeted at those with low incomes. The tax concessions covered nearly 40 percent of the cost to the landlord company (averaging more than £18,000 per letting), but rents were at market levels and the renting arrangements were only required to remain in place for five years (Crook, Hughes, and Kemp 1995).

Nor did the scheme prove to be targeted effectively to "entrepreneurial" private landlords; almost half of the lettings under the scheme were made either by housing associations or by university companies set up to provide student accommodation. The scheme has now been discontinued. Over the past two years, the tax advantages of homeownership have been reduced, and it is currently proposed to establish "housing investment trusts," with rather more modest tax breaks, in an attempt to maintain the limited resurgence of private renting that has occurred since 1989.

Policy change for public housing

During the Thatcher years of the 1980s, public housing declined dramatically in importance for British housing. Today it accounts for almost 30 percent fewer homes than at the beginning of the 1980s. This phenomenon followed from central government decisions based on an inherent dislike of public sector provision and a desire to "roll back the frontiers of the state." There has been an era of conflict between local authorities—where councils have frequently been controlled by the Labour Party or the Liberal Democrat Party—and central government. This conflict has inclined the central government to use its statutory and financial powers to limit the role of the local authority (Bloch and John 1991; Young and Davies 1993).

On the housing side, local authorities were deemed to have failed to supply high-quality homes, a view endorsed by the public at large with respect to the substantial estates of high-rise blocks and unpopular system-built estates constructed in concrete in most major cities in the 1960s and 1970s, some of which were demolished within 20 years of building. Those estates were not, however, typical. At the end of 1977, only 30 percent of council housing comprised flats rather than houses, and less than one-fifth of those were high-rise flats (Department of the Environment 1979).

If that stereotypical image of council housing was far from accurate, it was also the case that existing and emerging problems of social polarization and physical deterioration affected a wider range of council estates, including peripheral estates of terraced and semidetached houses. While estate design and restructuring can reduce crime and improve security, the relationship between social and housing management problems and the built form is far more complex than some architecturally led theorists have wished to believe (Coleman 1985).

The Conservative governments since 1979 have favored the expansion of owner occupation on social and political grounds, believing, as American politicians have also, in a “property-owning democracy.” Insofar as subsidized rented housing was a necessity, these administrations favored providing it through the more pluralist housing association sector rather than through the local councils, which were seen as monopoly suppliers in most localities (Rao 1990).

Right-to-buy sales

The sudden decline of public housing was achieved principally by giving the council tenants the opportunity to acquire their homes, as a statutory right after two years of occupation, at substantial discounts (up to 60 percent off the market value for houses and up to 70 percent for apartments). This has led to the loss from the public sector of 1.5 million homes in Great Britain (table 1), out of a total of 6.4 million in 1981.

The effects of this substantial shift in tenure have been mixed. First, it has given many households the opportunity for a successful transfer into owner occupation on extremely favorable

Table 1. **Right-to-Buy Sales in Great Britain**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Cumulative Total
Local authorities	568	79,430	196,430	138,511	100,149	92,230	89,251	103,309	160,569	181,370	126,214	73,365	63,986	60,274	64,332	1,529,988
New towns	227	2,427	3,963	3,638	2,655	2,113	1,656	2,277	3,275	4,608	2,522	1,501	1,182	1,192	1,417	34,653
Housing associations	1,417	2,476	3,936	5,059	4,409	3,985	4,949	5,462	10,221	10,242	6,757	4,259	3,199	2,921	3,201	72,493
Total	2,212	84,333	204,329	147,208	107,213	98,328	95,856	111,048	174,065	196,220	135,493	79,125	68,367	64,387	68,950	1,637,134

Source: Housing and Construction Statistics.

terms. Some of the new owners have taken a special pride in their homes, often borrowing additional money to make improvements.

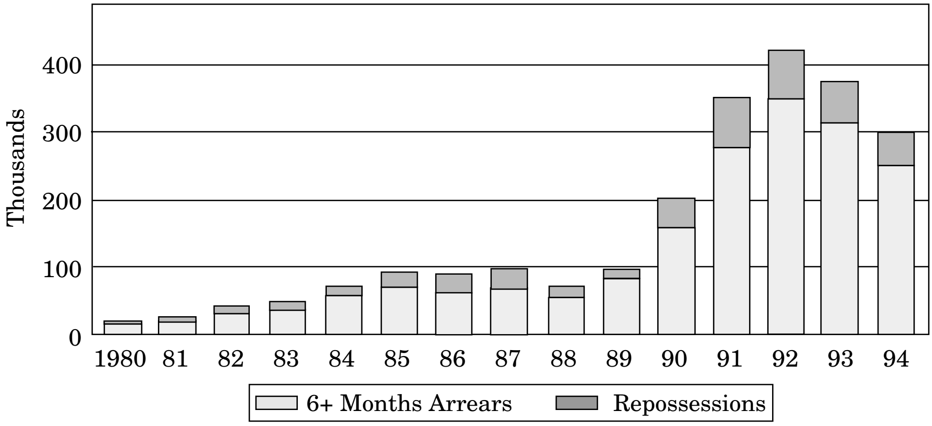
Second, it has led to a mix of tenure on most council estates, thus retaining people within these communities who might otherwise have moved out to gain the advantages of owner occupation elsewhere. In terms of creating mix and balance within such estates and helping develop leadership skills in people who have a direct interest in the quality of the estate, the outcome appears to be generally positive. However, the level of sales has inevitably been much higher on the most popular estates, where these skills are more plentiful; few sales have taken place in the least desirable estates, particularly those that comprise only apartments, not houses. As a result, the social impact of sales has been mixed (Kerr 1988).

Third, some of the people who purchased, even on these favorable terms, have experienced problems of arrears, possession by the lenders, and homelessness. Economic recession, coupled with a severe slump in the property market at the end of the 1980s, left some purchasers who could not keep up their repayments also unable to find buyers for their properties. During the recessionary years, which followed a house price boom in the late 1980s, the incidence of mortgage arrears rose dramatically, and repossessions increased threefold between 1986 and 1991.

The position has now eased, but some thousand households are still losing their homes each week as a result of lenders' taking possession of properties. Right-to-buy purchasers represented 10 percent of homeowner households in 1991, and survey evidence suggests that, despite their substantially discounted purchase prices, they have been slightly more than proportionately represented among those with arrears. Some 30,000 right-to-buy purchasers had their properties repossessed during the 1989–94 period (Ford, Kempson, and Wilson 1995; Ford and Wilcox 1992) (see figure 2).

Fourth, for some, purchase has brought unexpected financial commitments. Individual apartments within larger blocks of rented housing are sold on 125-year leases, with councils retaining the overall ownership of the block (the "freehold"), and consequently control over the upkeep of the structure of the building. Where blocks were found to be in need of substantial repairs, the new apartment owners have faced huge bills for their share of the building works. More generally, some new homeowners

Figure 2. **Mortgage Arrears and Repossessions**



Source: Council of Mortgage Lenders.

have found themselves unable to cope with the cost of maintaining their properties.

Fifth, and probably most important, right-to-buy sales have diminished the pool of homes for rent. In particular, family-sized houses have been removed from the rented sector and are not available to those on the waiting lists of local authorities. The properties still exist, of course, so the shift does not contribute to overall shortage, but it means that opportunities are narrowed for those seeking rented homes. Also, house builders know that first-time buyers can now look to a new market of secondhand ex-council houses, rather than buying new homes. If the homes had been replaced by the provision of a balancing supply of additional rented housing, the whole exercise would have had far fewer critics.

Sixth, a spinoff from right-to-buy sales has been the repayment of debt by local authorities; the central government requires that three-quarters of the receipts that councils obtain from selling the property be used to repay outstanding loans on the council housing stock, thereby reducing the national debt. Altogether, receipts from council house sales have provided windfall gains to the Exchequer exceeding £30 billion. However, the downside has been the disposal of these publicly owned assets at only around half their open-market value, implying a transfer of value to the rather better-off council tenants and, thereby, a reduction in the resources (stock or capital) available for less affluent tenants in the future.

Transfers of ownership of public housing

The Housing Act of 1988 gave all the tenants of local authorities the power, collectively, to exercise “Tenants’ Choice” to select a new landlord who would be entitled to take over the ownership of their estate. The government expected housing associations to be the main contenders for the job of managing the stock of public housing. However, almost no tenants have taken up this opportunity. Even where the local authority was apparently acting as an incompetent landlord, and local housing associations appeared to offer a reputable alternative, tenants decided against exercising their new rights. Local surveys of tenants found that they had a firm attachment to the security and traditions of council housing, even when they were critical of the council’s insensitivity and inefficiency as a landlord. In only two minor—and somewhat unusual—cases have any estates changed hands through this measure. The government now proposes to abolish the Tenants’ Choice arrangements (through the Housing Bill 1996) (Institute of Housing 1990).

Instead, local authorities in some areas—mostly where local politics have coincided with the ideas of the Conservative central government—have decided voluntarily to pass over the ownership of their housing stock to a new enterprise created for the purpose. With only a few exceptions to date, the new enterprise has been in the form of a housing association.

This method—the large-scale voluntary transfer (LSVT)—has been subject to the agreement of tenants; in many cases, tenants have voted for the new arrangement. In contrast to the position of the Tenants’ Choice scheme—where tenants might be fighting against their council for control of their homes—the LSVT model has been initiated by the local authority itself and has been carried out with its full backing. The government has learned that the way to secure a change of ownership is not by trying to pit the tenants against their landlords, but by encouraging the landlords to take the step themselves.

Local authorities have strong financial incentives to make this change. Once their properties have shifted into the hands of such an arm’s-length separate organization—on which elected councillors can continue to exert some influence (but not control)—it becomes possible for the new body to raise funds in the private market and spend more on improving the condition of the housing stock. In accounting terms, the new landlords are private not-for-profit corporations with a minority public sector influence, and conventional loan finance is raised on the strength of future rent streams and the underlying security of the housing stock.

Many estates are in serious disrepair through a lack of investment (often attributed to government spending restrictions). For England as a whole, it has been estimated that roughly £20 billion would be required to undertake a comprehensive program of repairs and improvements to bring all council housing estates to current standards. That such public funds will become available is highly unlikely (Hawksworth and Wilcox 1995).

However, if the housing is transferred into the hands of the newly created organization—usually constituted as a housing association—it breaks free of the constraints on public borrowing. Government also gains, since henceforth the new organization's investment in old or new housing stock does not count toward the public sector borrowing requirement (the key U.K. government budget deficit measure), which government is constantly striving to reduce. Moreover, if a surplus is created from the sale proceeds, both the authority and—through repayment of debt—the central government can gain.

Until April 1995, fewer than 180,000 homes in England had been transferred out of the public sector and into new ownership in this way (Wilcox 1995, table 60). Tightening constraints on public spending will coerce more local authorities to consider this option. The arrangements for such a transfer can have beneficial side effects: The transfer can be to two or more organizations, thereby creating competition within the same area between new managers striving to provide the best service.

Diversification in the ownership of rented housing in big cities has brought with it the opportunity for tenants to become more involved in the management of their housing. Indeed the statutory requirement that tenants must be consulted and balloted prior to a transfer of stock has typically resulted in the presence of a number of tenant representatives on the managing bodies of the newly created housing associations (Mullins, Niner, and Riseborough 1995).

Between 1988 and March 1995, 40 local authorities in England undertook LSVT. However, councils there have made no large-scale stock transfers in Wales and only one in Scotland, where the financial arrangements for council housing are markedly different. An alternative approach in Scotland has been the transfer of a number of individual council estates into the ownership of tenant cooperatives.

The government has now accepted that local authority councillors can play a more significant (but still not controlling) role than has been so far permitted within the newly created landlord bodies, and it can be expected that transfers to newly formed housing associations, or local housing companies, will accelerate in the years ahead (Wilcox et al. 1993).

More emphasis on resident involvement in management decisions

Tenant participation has been a muted theme in public housing for more than two decades. The late 1960s slogan "Power to the People" did not mean much in the housing world, but advocates of community development stressed the need for bottom-up decision making. Over the past decade, however, even as public funding has declined, government policies have favored greater resident involvement in management. For example, Department of the Environment funding for estate improvements, under the Estate Action program, has been conditional on greater tenant involvement.

During John Major's premiership, policies have been linked to the Citizen's Charter, the quasi-contractual relationship between the individual and the providers of public (and private) services. The charter is sometimes seen as an antidote to the overweening power of local or central government bureaucracies. Such measures raise consumers' expectation that the service providers have clear responsibilities toward them.

A variety of approaches to encouraging tenant involvement have been tested in the public housing sector, and a number of models are outlined below. While some of the models are well established, others are more recent innovations, at least in the United Kingdom.

The different approaches range from a higher level of informal tenant consultation—usually following devolution of management to local offices—to the creation of various forms of Tenant Management Organizations (TMOs) that enable tenants—while not becoming actual owners—to run their own affairs collectively, to a greater or lesser extent.

Community development trusts are bodies that are set up outside the structures of housing management but that seek to influence it regularly. They are managed by elected members from the community, and their activities are likely to stretch beyond participation in the consultative processes of estate management to campaigning for amenities and organizing community activities (Gibson and Todd 1993).

Participation of residents' associations has greatly increased in recent years, to the point that the whole estate decision-making process is directly affected. Access to good-quality, independent advice has often been crucial in unlocking the residents' initiative. A Technical Aid Network supplied consultants whose job was to empower residents. It is becoming more common for residents to be closely involved in the design of estate improvements—preparing design briefs independently of the landlord, meeting directly with the project architect, and monitoring outcomes. Design can capture the imagination of a group and prove a good route to wider involvement in local management (Watson 1994).

Some housing authorities use estate agreements as contracts without legal sanctions, to formalize the arrangements for delivering services. These agreements can cover repair times, appeal mechanisms, consolidation duties, and so forth. Sometimes, more ambitiously, an agreement can embrace other agencies handling social services such as education or policing. Interagency collaboration, with a need for coordination across a range of governmental activities, can be hard to formalize. Nonetheless, it represents an important next stage and a successful involvement of residents in managing their estates (Zipfel 1994).

Estate Management Boards involve both the tenants' representatives (usually drawn from elected residents' associations) and the municipal authorities' officials. The housing authorities' delegates to these boards make decisions on management and maintenance matters, sometimes with substantial budgets.

Residents' Democracy is a fairly recent model imported from Denmark. Key to this model is formation of a residents' board that meets regularly with a local manager and has formal input from residents. The estate budget is developed by agreement between the board and the manager, but the landlord retains full responsibility for service delivery (Aldbourne Associates 1994).

This landlord responsibility distinguishes the Residents' Democracy model from tenant management cooperatives, in which tenants collectively take over direct control and responsibility for day-to-day management and repairs on their estates. However, the landlord generally retains responsibility for the upkeep of the basic structure of the buildings and for major repairs (Power 1988).

Weaving all these strands together, it can be seen that public housing in the United Kingdom is gradually evolving toward a model in which tenants are at the center. In some localities, the process is far more advanced than in others. But everywhere the tenor of management is changing from treating tenants as passive recipients of the housing authority's munificence to considering them as customers or as partners in the enterprise.

These attitudinal changes have been reinforced by the 1993 introduction of a legal "right to manage" for those council estates with properly constituted TMOs. These can take the form of either Estate Management Boards or tenant management cooperatives in their constitutional makeup, but they are more like the cooperatives in that they assume the direct responsibility for day-to-day management and repairs (Newell 1994).

In the long run, these changes, which involve a shift in the balance of power toward tenants, may prove to be as important as any other alteration in public housing in the late 20th century.

A switch from "bricks-and-mortar subsidies" to "personal subsidies"

In the past, general subsidies to public housing producers have ensured relatively low rents (probably half the market levels). This situation has led to accusations that many of those housed have been subsidized unnecessarily—they could afford to pay more.[2]

Over recent years, the subsidy arrangements have been transformed. Local authorities have been pressured to increase rents well in excess of inflation on the basis that the U.K. Housing Benefit scheme would enable lower income tenants to meet the cost of higher rents. For tenants with very low incomes, at or below the level of the basic state assistance provided by the Income Support scheme, Housing Benefit generally meets the full rent. For tenants with slightly higher incomes, the level of Housing Benefit is progressively reduced.

[2] This criticism of "bricks-and-mortar" subsidies has lost some of its sting as so many of the better-off council tenants have purchased their own homes, but there remain some tenants for whom higher rents would not present an intolerable burden.

Now instead of central government providing general subsidies, the policy shift toward higher rents has led many local authorities in England and Wales (with the benefit of low historical capital costs) to move from deficit to surplus. These surpluses are artificially generated, however, in the sense that constraints on local authority borrowing have made it impossible for councils to spend more on rectifying deficiencies in the current stock; they have been compelled to generate surplus income from rents, which they are then obliged to use to reduce the cost to the central government of providing Housing Benefit to poorer tenants. In 1995–96, for example, council rent surpluses will meet almost a quarter of the total costs of Housing Benefit for council tenants in England and Wales. Between 1980–81 and 1995–96, general subsidies to council housing in Great Britain fell from £4.8 billion to a net figure of £–0.3 billion (at 1995 prices).

In Britain, no allowance is made for housing costs in basic social security payments. This policy means that persons who depend on the government for their weekly income—pensioners who receive only the state pension, single mothers with no other income, unemployed households, people with disabilities who are unable to work—can all receive Housing Benefit to cover their rent in full, in addition to their basic social security payments (whether in the form of Income Support, Unemployment, or Incapacity Benefit).

As rents rise in real terms, the burden of these "targeted" Housing Benefit payments—coinciding with a rise in the number of unemployed—generates public expenditure almost equivalent to the savings from cutbacks in the general subsidies to producers. Between 1980–81 and 1995–96, for example, the gross cost of Housing Benefit to council tenants rose from £1.9 billion to £5.5 billion (at 1995 prices). It has been a matter, therefore, of passing the parcel between government departments and programs, but without significant savings (Wilcox 1995).[3]

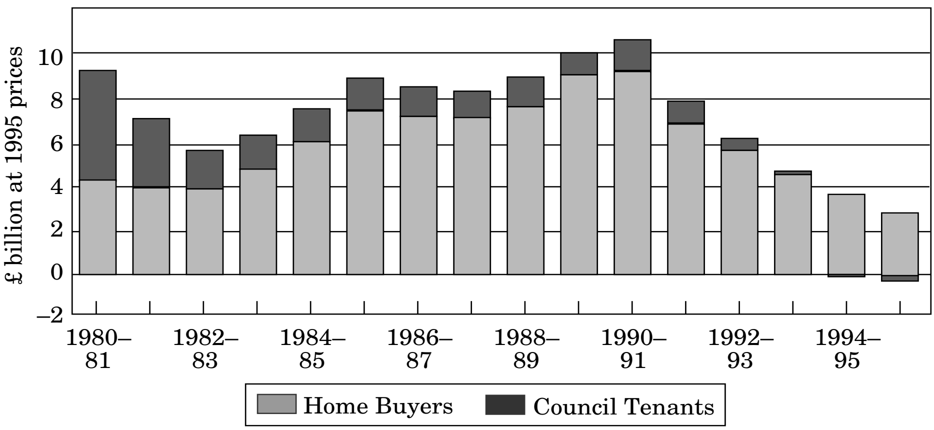
Meanwhile, the other housing subsidy not targeted—the tax relief on mortgage repayments for homeowners—is also being cut back. This subsidy proved costly and inefficient. With the departure of Margaret Thatcher, the great champion of subsidy for homeownership, mortgage interest tax relief (MITR) has been eroded by lowering the rate of relief for eligible mortgage interest costs against tax, from a maximum of 40 percent in 1990–91 to just 15 percent in 1995–96.

[3] The Department of the Environment is responsible for both producer and benefit subsidy for council tenants, while the Department of Social Security is responsible for benefit subsidy for housing association and private tenants.

In part, these reductions were made possible by the fall in average mortgage interest rates from 15.0 percent in 1990 to just 7.7 percent in 1994, so that average net mortgage payments fell substantially despite the cutbacks in MITR. The government's resolve to press ahead with the MITR cuts has been reinforced by its commitment to low inflation as a cornerstone of economic strategy and by a recognition of the dangers to that strategy posed by the instability of house price cycles.

In real terms, the cost of MITR has fallen rapidly, and dramatically, from its peak of £9.2 billion in 1990–91 to just £2.7 billion in 1995–96 (all figures at 1995 prices) (see figure 3). But that fall resulted as much from the reductions in prevailing interest rates as from the policy cutbacks in MITR rates.

Figure 3. **Phasing Out General Subsidies**



Source: Wilcox (1995).
Note: All figures refer to Great Britain.

Housing associations have faced a similar transition in financial support. Since they are not public bodies, the government cannot control them directly. Nevertheless, when the government cuts housing association grants, these organizations are obliged to raise rents (from levels that were already higher than council rents). The high-rent, high-benefit-dependence regime affected the housing associations much as it affected local authorities, even though these not-for-profit organizations are generally loath to impose financial burdens on their tenants.

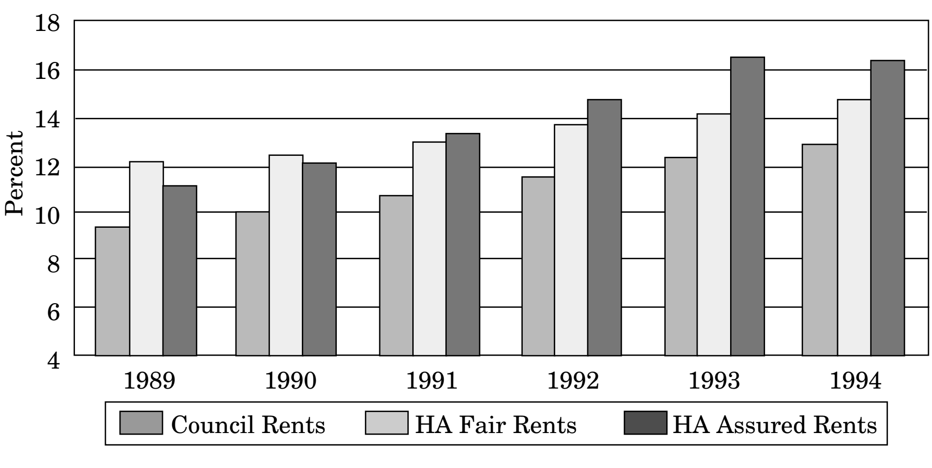
Some shift in subsidies from providers to users had been advocated by the Inquiry into British Housing chaired by the Duke of

Edinburgh, which reported in the mid-1980s (National Federation of Housing Associations 1985). However, when this same Inquiry produced a second report in the early 1990s, it raised anxieties about the extent to which this policy had been pursued and pointed out the disadvantages of taking this switch too far (Joseph Rowntree Foundation 1991).

It has now become apparent that this policy can have adverse effects. First, to operate a system of means-tested subsidies for millions of individuals, rather than a formula-based subsidy system for hundreds of landlords, is administratively more expensive and more bureaucratic—as well as more likely to cause delays and mistakes.

Second, subjecting those in low-paid employment to a means-tested benefit—which is withdrawn as income rises—is the equivalent of taxing earnings at a prohibitive level (see figure 4). The bus driver, post office worker, or bricklayer may now require Housing Benefit to afford a rented home, but once the benefit is accepted, the individual will lose up to 97 pence from every £1 earned when the benefit is withdrawn after payment of income tax and national insurance contributions.

Figure 4. **Rents Rise as a Percentage of Average Manual Male Earnings**



Source: Wilcox (1995).
Note: HA = housing association.

Higher rents have extended the income range over which such work disincentives operate, although there have also been some limited measures to ameliorate those problems, particularly with respect to child care costs, introduced in the last few years. More fundamental benefit reforms to ease work disincentives are held back by the lack of hard evidence on their behavioral impact and by concerns about public expenditure (Wilcox 1994).

Third, higher rents make public housing a less attractive option for households who can afford equivalent accommodation outside the sector. This situation leads to a flight of those who are employed, intensifying the poverty on council estates and accelerating the marginalization or "residualization" of council housing, particularly on estates that have not attracted significant levels of right-to-buy sales.[4]

Fourth, there are wider implications for public spending. Because the rents are met for so many households through Housing Benefit, the cost of switching subsidies does not present much of a saving to the government. But because rents are part of the calculation for the Retail Price Index, upon which various wage claims, social security payments, and index-linked pensions are based, higher rents increase costs to employers and to the government well beyond any savings (Meen 1994).

There is now a general view that the policy of targeting subsidies to individuals, rather than paying similar amounts to housing providers, has run its course in the United Kingdom. The policy is now having negative effects on individual households and the national economy. Indeed, in the 1995 budget, government ended the upward movement in council rents and took measures to restrain housing association rents (Best 1994a).

Increased support for housing associations

For the decades up to the middle of the 1970s, public housing through local authorities was the dominant method of providing affordable homes. At its peak, in 1964, council house building reached 200,000 homes in a single year. Housing associations had built only 50,000 homes over the previous 20 years.[5]

Following the Housing Act of 1974, the then Labour government greatly increased the role of housing associations. Associations were to be found, operating on a small scale, in many areas, and

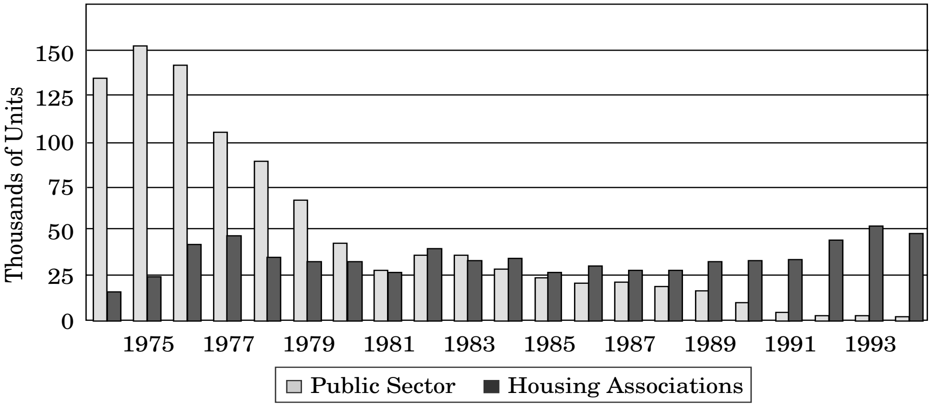
[4] In terms more familiar in the United States, these higher rents are among the factors leading to segregated ghettos of benefit-dependent households.

[5] Housing associations are the not-for-profit agencies with unpaid committees that were set up by churches, community groups, or citizens keen to see improvements in local conditions.

the oldest of these organizations were charitable trusts that dated back several hundred years. They saw their work program magnified by substantial injections of public money in the 1970s, to the point that they were obtaining approvals for up to 50,000 homes in a single year by the end of the decade.

With the Conservative administration's arrival in 1979, the production line of local authorities was fairly swiftly phased out: Their program of house building fell from 65,000 homes in 1979 to just a handful by 1994. Meanwhile, the housing associations, while not experiencing a corresponding growth, nevertheless saw their work program broadly maintained and then increased in the early 1990s (see figure 5).

Figure 5. **New Social Housing Provision for Great Britain**



Source: Housing and Construction Statistics.
Note: Housing association figures include both new build and rehabilitation schemes.

With funding through the Housing Corporation (and equivalent bodies in Scotland and Wales), associations were encouraged to meet the needs of homeless families, elderly people, and people with a range of special needs. They also undertook a low-cost homeownership program based on the "shared ownership" model, in which occupiers purchase a share in the ownership of their home and pay rent for the remaining share.

This growth, however, was obtained at a price. First, to get more homes for the available public money, levels of grants to housing associations for each new scheme were cut back. This meant associations had to borrow more money to undertake each development, which led to the higher rents shown in figure 4. More than 80 percent of new housing association tenants now rely on Housing Benefit to pay their rent (Housing Corporation 1994).

Second, the pressure for growth led to intense competition between housing associations and some undercutting of costs. Each association can bid for the available resources, and those who can produce the most homes for the lowest cost can be rewarded with housing association grants. As a result, some associations charge rents approaching market level but also cut quality standards, particularly space standards (Karn and Sheridan 1994).

Third, to secure the private loans they need, housing associations pledge the equity from their older property as security for their borrowing. Eventually the associations run out of equity and can pledge no more; as this moment approaches, they become anxious that their capacity to fund further new developments will be exhausted.

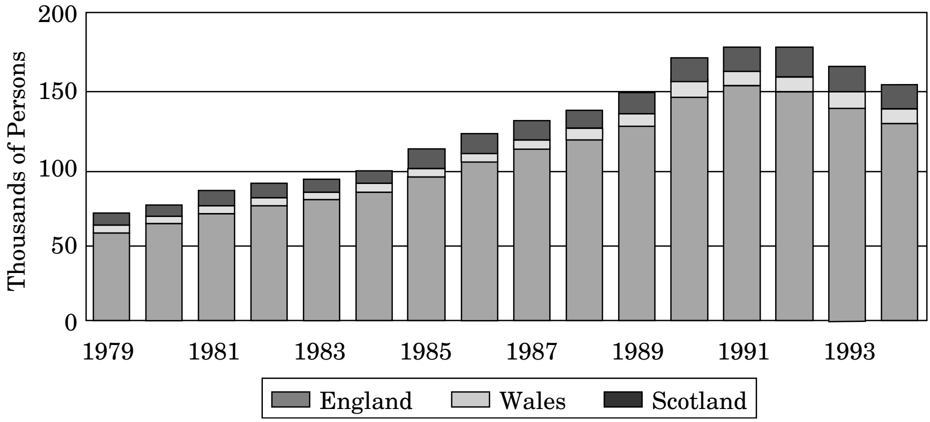
Fourth, to gain economies of scale, housing associations, in many cases, developed larger estates than in the past, thereby leading to concentrations of low-income households, with the inevitable problems of overload for the statutory services and the communities themselves. While the problems are not on the scale of those on the residualized—and least popular—council estates, it is a remarkable achievement of current policies that associations have found themselves dealing with similar social and community issues on new estates from the first days of their occupation (Page 1993).

Unmet housing needs

Despite the growth in housing association new building, the far greater decline in new council house building and the impact of right-to-buy sales in diminishing the existing council sector stock contributed to a significant rise in the incidence of recorded homelessness during the 1980s. Other key factors were the continuing decline in the private rented sector and a rise in mortgage-to-income ratios for house purchases. Even so, the recorded homelessness does not generally reflect trends in single-person homelessness or the limitations of programs to provide “care in the community” for people previously housed in large mental institutions (Evans, Dix, and Allen 1994).

More recently, the incidence of “statutory” homelessness, a situation in which local authorities have accepted that they have a legal duty to secure accommodation for “priority need” households, has fallen slightly since peaking at just under 180,000 in 1991 (see figure 6). This easing of a still-severe shortage

Figure 6. **Rise and Fall in Level of Statutory Homelessness**



Source: Wilcox (1995).

corresponded with a modest reversal in the century-long decline in the private rented sector, a fall in house-purchase entry costs, and the boost in lettings to new tenants in 1992–93 and 1993–94, primarily as a result of a one-time increase in housing association investment. As a result, social sector lettings to new tenants were 20 percent higher in 1993–94 than in 1989–90.

The one-time increase in housing association investment was, however, part of a budgetary package designed primarily to ameliorate the economic and political impacts of the then-prevailing private housing market recession and was introduced following the expulsion of sterling from the European Exchange Rate Mechanism in 1992. It did not signify a renewed political commitment to the provision of social rented housing, and subsequent budgets have seen successive cutbacks in the provision for new housing association investment.

Consequently, the shortfall in the availability of social sector rented housing is now set to grow again, as the numbers of lettings fall, because of those cutbacks and the increasing impact of right-to-buy sales on the vacancies available to new tenants from the remaining council sector stock.

Holmans' authoritative study of demographic and housing market trends in England concluded that close to 100,000 new social sector rented dwellings must be built each year over the next decade to deal with the shortfall in dwellings likely to be provided by the homeowner and private rented sectors under current policies.

That analysis assumes some growth in the private rented sector in response to the effective demand arising from the trend for younger households in the United Kingdom to be more likely to rent than to buy. Otherwise, however, under the current tax and subsidy arrangements, there is no other expectation that the sector is likely to grow.

Compared with that analysis, under current expenditure plans new housing association investment (in all its forms) will produce only about 40,000 additional lettings each year. Unless there are further policy initiatives, whether they are to boost the provision of public or of private housing for lower income households, levels of homelessness and density of occupation will increase, as will the pressures on access to social sector housing (Holmans 1995).

Urban renewal: Resources and competition

Housing has, until recently, been at the heart of government investment strategies in urban areas. But urban renewal strategies have gone beyond demolition and replacement and are quite distinct from the slum clearance programs popular in the United States during the 1960s and 1970s.

In targeting public investment on urban regeneration, government has sought to secure both the maximum impact for every public pound spent and the involvement of private sector interests. Turning away from local authorities as the main instruments for delivering urban renewal, government established new Urban Development Corporations in the 1980s, with board members drawn from the business communities. The emphasis has been primarily on physical regeneration, with efforts to leverage private sector investment.

One of several recent initiatives in England has been the City Challenge scheme. This scheme required those bidding for public resources to form coalitions, with involvement of the public, private, and voluntary sectors.[6] In response to competitive bidding, the government allocated more than £1 billion, spread over five years, to 31 City Challenge schemes. Although those whose bids failed have expressed considerable disappointment, some have argued that the exercise in partnership has been beneficial to their city. The same pattern reportedly has occurred in the

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[6] Some emphasis was placed on participation by local communities themselves, although this has been a somewhat muted theme.

United States with failed bids for empowerment zones. The schemes' targets relate to generating employment and reclaiming land as well as to building or improving housing. While focusing primarily on housing to rent, some 10 percent of the new or improved housing has been for homeownership (Department of the Environment 1995).

Recent research commissioned by the Department of the Environment to consider the impact of investment in the 57 designated "urban priority areas" indicates that the City Challenge approach worked well where there was local consensus but was undermined where there were conflicts between local interests. Local authorities were placed at the center of these initiatives and, after many years of feeling undermined by financial restrictions and poor relationships with the central government, expressed some enthusiasm for these arrangements.

This important new research, released in July 1994 (by the University of Manchester; John Moores University, Liverpool; and the University of Durham), indicates that sustained government investment does both increase employment opportunities and improve residential attractiveness. However, the research also indicates that in the most deprived areas, this input was not able to make significant inroads into socioeconomic problems. Indeed, the worst areas declined still further despite investment targeted at them, and "there is consistent evidence of increasing degrees of polarization between the worst and the best areas" (Robson et al. 1994).[7]

A more holistic approach to urban regeneration

Robson's study criticized urban policy both for its emphasis on the physical refurbishment of buildings and for the lack of coordination and coherence between the approaches of different central and local government departments to the problems of each area. The study also contributed to a growing awareness in policy debates that public housing investment is not just about keeping the homeless off the streets or keeping property in reasonable repair (though these remain important), but that it is also about the basis for "community," for civilized society.

As a result of these debates, programs for investment in housing have become increasingly linked with investment in the economic and social development of areas where employment and

[7] See Vale (1996) for parallel findings related to distressed American public housing developments.

other opportunities have been in decline. In 1994, the U.K. government integrated the regional offices of four government departments (Environment, Transport, Employment, and Trade and Industry) to provide a clearer focus for public funding to these areas.

The 20 individual regeneration programs from those four departments (plus one program from the Department of Education) were at the same time brought together into an agency referred to as the Single Regeneration Budget (SRB), which operates under the Local Development Group of the Department of Environment. The idea is to form the connections between education, training, and job creation, or between improvements to the environment, job creation, and the strengthening of the capacity of local communities.

This approach agrees with the thinking in the European Community about organizing the distribution of resources on a regional basis (e.g., metropolitan Birmingham). Integrated programs, with interagency collaboration between the different parties, are to be delivered at a local level but within the broader context of the region. The SRB is now attempting to channel resources in a coordinated fashion to achieve greater efficiency. While this effort has been broadly welcomed, officials operating in urban areas—now that they see the individual programs subsumed within this new budget—remain concerned that the total level of resources has been diminished in the process (from £1.6 billion in 1993–94 to £1.3 billion in 1995–96).

One of the main programs that the SRB inherited from the Department of the Environment was the Estate Action program. Estate Action schemes had a firm base of housing investment for major refurbishment works, and in many cases elements of demolition and rebuilding. The schemes, however, have also typically addressed housing management and community involvement, as well as wider issues such as crime, security, and traffic management.

The Estate Action program, which accounted for a fifth of all investment on renovation of council estates in England in 1994–95, is now being phased out by the SRB, while the new integrated SRB schemes are directed primarily toward economic and employment issues and generally have only a limited housing investment content (Dunmore, Ayriss, and Hughes 1996).

Looking to the future, in the steps that follow from the repackaging of available resources in these ways, a greater emphasis must be placed on the role of the local residents in tackling the problems of multideprived communities; this seems particularly important for the areas experiencing economic restructuring on an unprecedented scale following the collapse of major industries.

A comprehensive approach has been suggested that would blend support for economic and social recovery and would stress the ways the local communities could themselves be centrally involved. Current ideas include creating new community enterprise agencies owned and governed by the community, bidding for funds from a community enterprise corporation, and using local authorities as the sponsors and facilitators (Taylor 1995; Thake and Staubach 1993).

Conclusion

During the 1980s and early 1990s, the primary emphasis of government housing policy was on the extension of homeownership. Now at about 68 percent, homeownership exceeds that in the United States, but there are signs that its growth may have repercussions for the wider economy. Most homeowners have mortgages, and in the United Kingdom these are normally on a variable interest rate. Rises or falls in interest rates translate quickly to increased or reduced expenditure. When monetary policy is used to regulate the economy—raising or lowering interest rates—its impact is swift and unsettling.

Most people in the United Kingdom have the greatest part of their wealth tied up in their houses. If values are rising, the feel-good factor means that they save less and spend more. Correspondingly, if prices are falling, sometimes to the point where the mortgage debt is greater than the value of the property, the opposite holds true and the economy can be plunged into deeper recession.

Government now recognizes the economic instability and volatility created by the rapid growth in owner occupation. It has cut the level of support for homeownership paid through MITR. The value of these subsidies has fallen from nearly £8 billion in 1990–91 to less than £3 billion in 1995–96. This perception of the economic instability linked to homeownership has also resulted in calls for more emphasis on the rented sectors—private renting for those with better incomes but for whom the commitment of homeownership is not appropriate now, and social renting for those on lower incomes (whether from benefits or low-paid work) (Maclennan 1994).

However, this article paints a picture of the decline of the public housing sector in the United Kingdom. The Conservative governments since 1979 sought to diminish the role of local authorities as providers of housing, compensating slightly by boosting the work of the not-for-profit housing associations.

Although steps have been taken to expand the role of the private rented sector, the role of a revived private landlord has been seen principally as providing for middle-income, young, and mobile people. Private landlords are interested in relatively short-term lettings to secure the opportunity for sales with vacant possession, and in market rents that are outside the reach of people with low incomes. Efforts to use such short-term lettings to supply accommodation to families who need permanent homes and are in relatively low-paid work seem unlikely to succeed on any significant scale (Best 1994b).

Meanwhile, the local authorities that continue to provide public housing and the housing associations that have taken over development of new social housing are looking increasingly beyond the provision of rented homes. The interest is in area regeneration, with local authorities wishing to be at the heart of initiatives—like the City Challenge scheme—that produce partnerships for economic and social change, and the housing associations seeking to develop and strengthen communities, not simply to build houses (Page 1994).

It can be predicted that the trend for local authorities to transfer their stock voluntarily to newly formed housing associations or local housing companies—and thereby free themselves from restrictions on the amounts they can borrow and spend—will accelerate. And, with more similarities than divergences between the new thinking of the Labour Party and the post-Thatcher thinking of the Conservative Party, the striving toward an unfettered market-oriented approach of high rents and low subsidies would appear to have come to its natural end, both for local authorities and for housing associations. A growing consensus is possible based on the recognition that—in a more pluralist form—subsidized housing is necessary for perhaps 25 percent of the population, and that this is best delivered in a wider context of economic renewal, in cooperation with local communities.

Author

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