

Policy: report

# Bricks or benefits?

Rebalancing housing investment



# Shelter



# Foreword



Back in 1966, housing was described in *Cathy Come Home* as the ‘Cinderella of the Cinderella’s’ of the welfare state – and since then little has changed. Whenever cuts have to be made, housing investment is always first in the queue. Since the 1970s, successive governments have reduced capital investment in new homes – while presiding over a corresponding rise in the housing benefit bill. Housing benefit has always been complex and controversial. Now it is undergoing the most dramatic reform in its thirty-year history – after a series of major cuts and restrictions, it will soon be combined with a range of other benefits in the new Universal Credit.

There is now widespread consensus that the housing benefit bill has grown too large. At the same time, everyone agrees that there is a real need to build more homes to meet the needs of a growing and aging population. Yet investment in new homes and spending on housing benefit are rarely considered together.

At a time when housing investment has once again been cut back dramatically, and the housing benefit bill is under scrutiny as never before, it is surely right to take a step back, to look at spending on housing in the round, and question whether we have struck the right balance between these two uses of public money.

This report seeks to do just that. It reveals where housing benefit came from, how it evolved, and why the cost has risen over the years. It explores the complex arguments around work incentives and the poverty trap. Most of all, this report sets a challenge to policy makers now and in the future: how can we ensure that public spending on housing achieves the best possible results for taxpayers and beneficiaries alike?



**Campbell Robb**  
Chief Executive, Shelter

## Bricks or benefits

# How we can rebalance housing investment

May 2012

*Written by Kate Webb*

Cover photograph: Andrea Testoni

To protect the privacy of Shelter clients, a model has been used in the photograph.

© Shelter 2012. All rights reserved. This document is only for your personal, non-commercial use. You may not copy, reproduce, republish, post, distribute, transmit or modify it in any way without prior written permission. Application for permission for use of copyright material, including permission to reproduce extracts in other published works, shall be made to the publishers. Full acknowledgement of publisher and source must be given.

# Contents

<b>Foreword</b>	<b>3</b>
<b>Introduction</b>	<b>6</b>
<b>Policy context</b>	<b>7</b>
<b>The development of support with housing costs</b>	<b>8</b>
<b>The future of housing benefit</b>	<b>8</b>
<b>Analysis – dominance of housing benefit</b>	<b>9</b>
<b>The function of housing benefit</b>	<b>11</b>
<b>The cost of housing benefit</b>	<b>12</b>
<b>Why have costs risen?</b>	<b>13</b>
<b>Tenure shifts</b>	<b>15</b>
<b>Impact on individuals</b>	<b>16</b>
<b>How housing benefit creates work disincentives</b>	<b>16</b>
<b>Real world caveats</b>	<b>18</b>
<b>Exploring alternatives – investing in supply</b>	<b>19</b>
<b>The case for subsidising supply</b>	<b>19</b>
<b>The place for a housing benefit</b>	<b>20</b>
<b>Conclusion and Recommendations</b>	<b>21</b>

# Introduction

Housing benefit has attracted a vast amount of political and media attention since the Government's Emergency Budget in June 2010. The debate has focused largely on benefit dependency, framing rising expenditure as a symptom of individual failures rather than an indication of the underlying cost of housing or the inability of the market to meet the needs of low and middle income households.

Nearly one in five households in Great Britain are now reliant on housing benefit<sup>1</sup> – this is not a marginal issue but a debate that strikes at the heart of how to enable low and middle income families to house themselves adequately.

Current reform is focused on supporting benefit recipients into work and improving the interaction between multiple benefits. The Government is right to address how the benefit system may act as a barrier to work, although tackling the current lack of jobs is as important as improving work incentives. Because housing benefit is an in-work benefit, increasing employment rates will not dramatically reduce expenditure, unless rents and wages are better aligned. If the ambition is to reduce the housing benefit bill and dependence on income subsidies then the Government must ask more fundamental questions about why so many households are now in receipt of housing benefit and what the underlying drivers of expenditure are.

As this report sets out, housing benefit expenditure has risen as the result of a sustained policy choice to direct subsidy away from bricks and mortar and on to individuals with low incomes. Over the same period housing costs increased across all tenures. As a result, and as anticipated at the time, an increasing number of low income households became reliant on housing benefit to 'take the strain'. The bill has inevitably increased, resulting in an annual spend in excess of £20 billion.<sup>2</sup>

In this light, the rise of housing benefit can be seen as a function of relying on improved access to the private market in order to provide housing for lower income households. This move was made on the not unreasonable assumption that the market would adjust supply to respond to government-supported demand. Housing benefit has to an extent protected

tenants from rising rents and provides highly progressive support for those on the lowest incomes. However, the market has failed to respond by increasing supply to affordable levels at the lower end of the sector; although the private rented sector has undoubtedly grown from its 1980s slump, it has not done so to any where near the degree necessary to bring down rents.<sup>3</sup> Costs have increased in both rented sectors necessitating higher housing benefit payments, with little analysis of the value for money this provides.

The reliance on the private rented sector in particular has seen housing benefit paid to expand the portfolios of private landlords, rather than reinvested in public housing stock. While housing benefit may bridge the gap between incomes and housing costs for individuals, solving a crude economic problem, it risks wider disadvantages. Households must navigate an extremely complex benefits system, which minimises the returns from work and for some can act as a barrier to employment all together. Too often, poor administration has put those on the lowest incomes at risk of debt and eviction and discouraged private landlords from letting to this section of the market.

The Government is set to introduce substantial reforms to the social security system, via the introduction of a single Universal Credit to replace housing benefit and most other benefits. This will address the poor interaction between various benefits and make the transition into work easier for low income households. Shelter broadly welcomes

1 4,909,510 households claim housing benefit (Department for Work and Pensions (DWP) figures: August 2011) out of approximately 26,148,000 households in GB (CLG, Table 401: Household projections, UK, 1961–2033).

2 DWP, benefit expenditure tables, Budget 2011, 2011.

3 Shelter response to the Private Rented Sector investment review call for evidence, March 2012.

Universal Credit, although it is regrettable that it will incorporate cuts to housing benefit set out in the 2010 Emergency Budget. However, the housing needs of low and middle income households will not be met by welfare cuts and reform alone. It is time to ask whether housing benefit is the best policy response to meet the needs of such households, or whether fundamental reform of the use of public money to generate truly affordable housing is required.

This report looks at why some form of subsidy is necessary to support housing costs and how housing benefit has come to dominate government policy, at the expense of investment in bricks and mortar. It examines how this has led to an increased overall spend on housing benefit and the factors underlying the rising bill. It explores the impact of housing benefit on individual claimants, questioning its claims to efficiency. Finally it calls for a shift in subsidy in favour of investment in supply.

## Policy context

### The need for subsidy

‘Housing benefit is there to take the strain for those who cannot pay’.<sup>4</sup>

Successive governments have accepted that some form of subsidy for housing is necessary to ensure people on low incomes can afford adequate housing. Past attempts to leave households entirely at the mercy of the market led to a proliferation of slum housing and unscrupulous private landlords. Homes can be subsidised by reducing the cost of housing at source to make them more affordable for households on low incomes, for example by investing in council houses; or by increasing households’ incomes such as through housing benefit to enable them to access accommodation or cope with a temporary loss of income.

Demand side subsidies tend to be efficient and progressive, being targeted at an individual and means-tested. They also have the advantage of being portable, allowing a household to move without losing its subsidy. This mobility is particularly useful in encouraging work, as it enables a household to move across whole towns or regions in search of employment. For those unable to work, it can also allow people to move near to care networks.

The mobility and choice enabled by individual subsidies helps promote mixed communities, providing low income tenants with access to

areas which otherwise lack sufficient social housing. This contrasts with the historical experience of supply side investment, which has seen social housing concentrated in large estates. Individual demand side subsidies support access to housing in areas lacking sufficient social housing, such as rural areas.

However, the efficiency of housing benefits brings its own drawbacks. Individual means-tested subsidies will always create work disincentives<sup>5</sup>, forcing policy makers to accept trade offs between cost, efficiency and incentivising employment. Strict means testing, especially if eligible rents are increasingly linked to an artificially low end of the market, can also disadvantage households who are unable to qualify for an individual subsidy but nevertheless struggle to access affordable housing in the private sector.

By definition, supply subsidises help increase the supply of available accommodation, including that at sub-market rents. This lowers costs and reduces the need for an additional, usually means-tested benefit, and in doing so avoids the work disincentives associated with housing allowances and reduces the cost of housing benefit.

However, supply side subsidies are also open to criticism, largely for lacking the positive advantages of individual allowances. The subsidy is intrinsically linked to a particular property, creating a potential bar to mobility and providing little incentive for under-occupiers to downsize. The Government is also increasingly concerned that this allows households who could afford to access market housing to benefit from an economic subsidy. The shortage of social housing in recent years and subsequent rationing has also been criticised for contributing to stigmatisation of social tenants and perverse incentives to access the tenure.<sup>6</sup>

The reasons why people need a subsidy will vary. Some households, for example the recently unemployed, will require short-term support when a temporary drop in income means they can no longer afford housing, at either market rates or below. Other households, such as pensioners, will be on reduced incomes for a sustained period of time and need a longer-term solution. Finally some households may be on apparently adequate incomes but still unable to afford sufficient housing because they live in areas where housing costs are high.

4 Sir George Young MP, Housing Minister, House of Commons debate, 20 October 1993.

5 Haffner, M, and Boelhouwer, P, *Housing Allowances and Economic Efficiency*, International Journal of Urban and Regional Research, 2006.

6 Hills, J, *Ends and Means: The future roles of social housing in England*, 2007.

## The development of support with housing costs

Housing benefit was introduced under its current name in 1982, providing a national scheme of assistance with housing costs, administered by local authorities. Although identifiable as the first national housing benefit scheme, it was not the first system to support tenants with housing costs.

Government subsidies were used in 1919 to boost the supply of new homes, but there were no attempts to target this new accommodation at the least well-off. The slum clearances of the inter-war years led councils to increasingly house poorer households directly in public housing. This created pressure for rent rebates (effectively a housing benefit) to help low income households meet their new rents, which at the time were often higher than in the private rented sector. However, political support for rent rebates remained low.<sup>7</sup> Households of all incomes continued to enjoy the benefit of supply side investment in new council housing.

In the 1950s the Conservative Government encouraged councils to extend rent rebate schemes for low income tenants, while also increasing rents for council housing, thereby increasing the need for rebates. This began the shift away from investment in new supply towards means-tested benefits.<sup>8</sup> Allowances became increasingly complex, with some local authorities running rent rebate schemes for their own tenants and others not. Out of work households were also able to apply to the National Assistance Board (latterly the Supplementary Benefits Commission) for assistance which included support for housing costs. This resulted in a system of support which was inconsistent and prone to confusion.

The 1971 Fair Deal for Housing white paper concluded that the nation no longer faced an 'acute overall housing shortage'.<sup>9</sup> Ministers remained committed to ensuring that everyone had access to a decent home within their means, but how this was to be achieved underwent a 'radical change'. The report advocated 'a central policy of subsidising people, not bricks and mortar' as the most appropriate form of housing subsidy for the future.

As a result, in 1972–73 the Heath Government made it mandatory for local authorities to provide rent rebates and for the first time gave working tenants in privately rented unfurnished properties access to rent allowances to subsidise their accommodation.

This has been identified as the first national means-tested system to support housing costs, although it differed from the current regime.

Rent allowances and rebates continued to sit alongside supplementary benefits for those on very low incomes, which also included an element for housing costs. The housing benefit scheme introduced in 1982 amalgamated the two schemes and attempted to resolve this inconsistency. The process was roundly criticised as rushed and many local authorities struggled to absorb the additional caseloads.<sup>10</sup>

The two structures were eventually rationalised under the Social Security Act 1986, which introduced wider reforms to social assistance benefits. The housing benefit regime introduced in 1988 became the clear foundation of the current system. This was fully established with the Social Security Contributions and Benefits Act 1992, which remains the legislative framework for the existing scheme.

Although the overall reliance on housing benefit as the solution remained, the scheme itself has been subject to near constant revision – in the five years between 1994 and 1999 there were nearly 20 separate reforms to housing benefit.<sup>11</sup> The Labour Government of 1997 entered office with ambitions to modernise the housing benefit system and secure further cost savings. Despite a comprehensive analysis of the shortcomings of housing benefit, Ministers pulled back from far-reaching reform in the face of the realisation that it is a 'very, very complex allowance'.<sup>12</sup>

## The future of housing benefit

By 2017 housing benefit will cease to exist. Housing costs will instead be supported through Universal Credit for working age households and Pension Credit for older claimants.

Universal Credit is the keystone of the Coalition Government's welfare reform programme, designed to simplify the benefit system and improve the interaction for claimants moving in and out of work. It will replace most means-tested benefits with a unified payment, withdrawn via a single taper. This way, it will aim to avoid the overlapping tapers of multiple benefits that can reduce the gains from entering work and is intended to ensure that work pays and is seen to pay.

7 Malpass, P, and Aughton, H, *Housing Finance: A basic guide*, 1999.

8 *ibid.*

9 Department of Environment, *Fair Deal for Housing*, 1971.

10 Malpass and Aughton, 1999.

11 *ibid.*

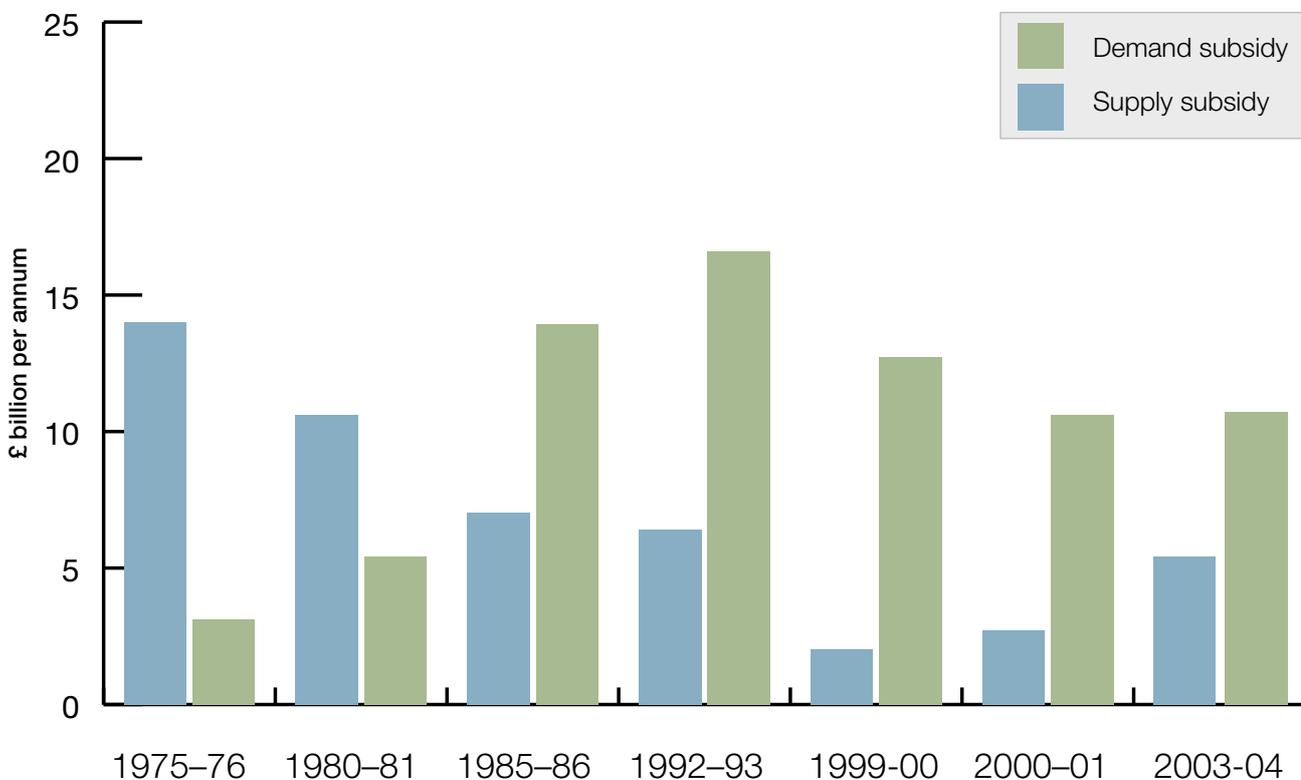
12 Quoted in Kemp, P, *Housing Benefit and Welfare Retrenchment in Britain*, *Journal of Social Policy*, vol 29, issue 2, 2000.

All claimants will receive a standard allowance, with additional amounts included to cover housing costs, as well as for children and other needs such as ill-health. For households in rented accommodation the amount for housing costs will, in the short to medium term, be based on the existing system of housing benefit. In this way, the material level of support low income tenants receive will not differ considerably. However, the way in which they interact with the benefit system will be overhauled. Such large scale reform provides an appropriate moment to consider how housing benefit could be improved upon but also to pause and question the role of individual subsidies in supporting low and middle income households into accommodation.

### Analysis – dominance of housing benefit

Housing benefit is widely recognised as having facilitated a switch from supply side to demand side subsidies.<sup>13</sup> The period following 1975 saw a move away from investment in bricks and mortar with a corresponding rise in expenditure on housing benefit. This was not an accidental shift. Successive governments remained committed to the idea that support should be targeted at individuals rather than bricks and mortar investment to increase the supply of housing.

Figure 1: Historic trends in housing subsidy<sup>14</sup>



Housing benefit enables a greater role for the market by helping to ensure that private tenants can pay the rents required. Without an additional subsidy, and in light of the lack of truly affordable housing, many households would be unable to afford adequate

accommodation, even while in work. In this sense, housing benefit eases the ‘central dilemma’ of the private rented sector – the rent levels that are necessary to attract landlords to the sector are out of reach for many of the households living in it.<sup>15</sup>

13 Hills, 2007; Stephens, M, *An assessment of the British Housing Benefit system*, European journal of housing policy. Vol 5, No 2, 2005; Kemp, P, *The Role and design of income related housing allowances*, International Social Security Review, 2000; British Social Housing Federation (BSHF), *Support with Housing Costs: Developing a simplified and sustainable system*, 2010.

14 Hills, 2007, Table 6.1.

15 Marsh, A, ‘Promoting a healthy private rented sector’, in Marsh, A, and Hills, J, *Housing Finance Aspects of the Green Paper*, 2000.

Social tenants pay below market rents, but many still require housing benefit due to their low incomes and because of previous policies that have increased council rents.

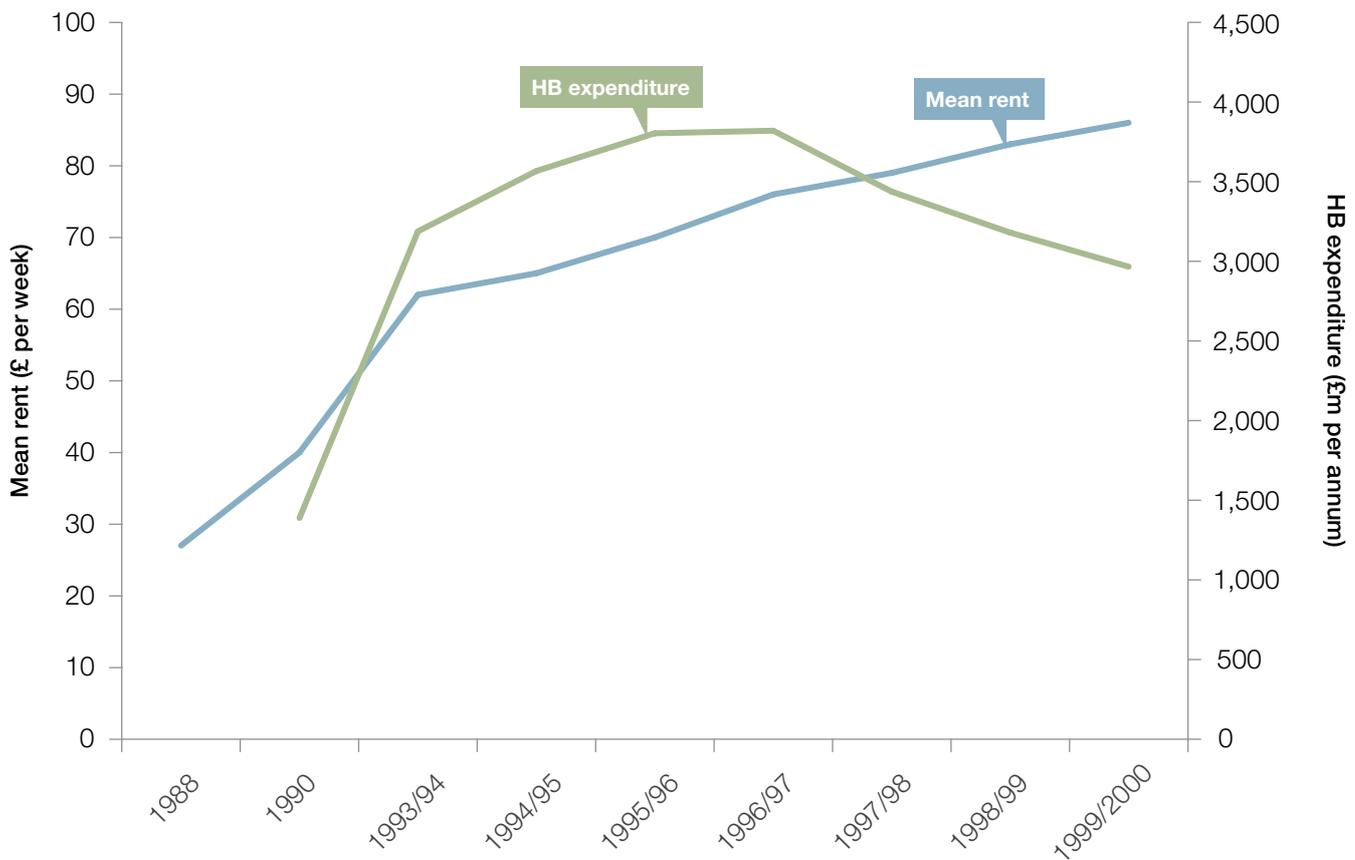
Costs were placed under pressure in the private rented sector by the decision to deregulate rents in the 1980s. This move was taken to reverse the decline in the rented sector and was successful in increasing supply, albeit of a more expensive product. This was accompanied by the assumption that housing benefit would absorb increases and

enable low income working families to remain in an increasingly expensive sector.

The then Secretary of State for the Environment, Nicholas Ridley, summed up the Government's position:

'In the private sector, rents will move towards market levels. Any government support will focus on tenants, rather than on property, through the housing benefit system...Housing benefit will be available for all those whose incomes are low enough to qualify for full or partial benefit'.<sup>16</sup>

**Figure 2: Impact of rent deregulation of average rent growth<sup>17</sup>**



Ministers acknowledged that a group of middle income households would be ineligible for housing benefit and adversely affected by rising rents. However, it was assumed they would take advantage of mortgage interest tax relief to become owner-occupiers.<sup>18</sup> Today, constrained lending conditions and much higher house prices mean homeownership is no longer a viable alternative for these 'held back

households', who are instead increasingly reliant on the expensive private rented sector.<sup>19</sup>

The shift from supply side investment to demand side allowances was in many respects deliberate, and Ministers accepted that the housing benefit bill would 'inevitably' rise as the result of housing policies. This was justified with the belief that 'a more effective

<sup>16</sup> House of Commons debate, 30 November 1987.

<sup>17</sup> CLG, *Survey of English Housing 1999/2000: preliminary results*, Table 9, 2000; Wilcox, S, and Pawson, H, *UK Housing Review 2010/2011*, Table 112, CIH, 2011. Lack of reliable and consistent data makes longer term comparison of private rents problematic.

<sup>18</sup> Nicholas Ridley, House of Commons debate, 30 November 1987.

<sup>19</sup> Hughes, N, *Held-back households*, Shelter, 2012, see shelter.org.uk/policylibrary

use of public resources is to move away from indiscriminate bricks and mortar subsidies towards more sensitively directed personal subsidies'.<sup>20</sup> However, it is hard to believe that past governments anticipated the bill would increase to the extent which it has, due in large part to rising costs and lack of supply. Successive governments did move to control expenditure<sup>21</sup>, although it has proved very difficult to reduce overall housing benefit spend in practice. This contrasts with the ease with which capital investment can be cut. The decision to disinvest in public housing interacts with demand-led rises in housing benefit spending to further exaggerate the planned shift from supply side to demand side subsidies.

### The function of housing benefit

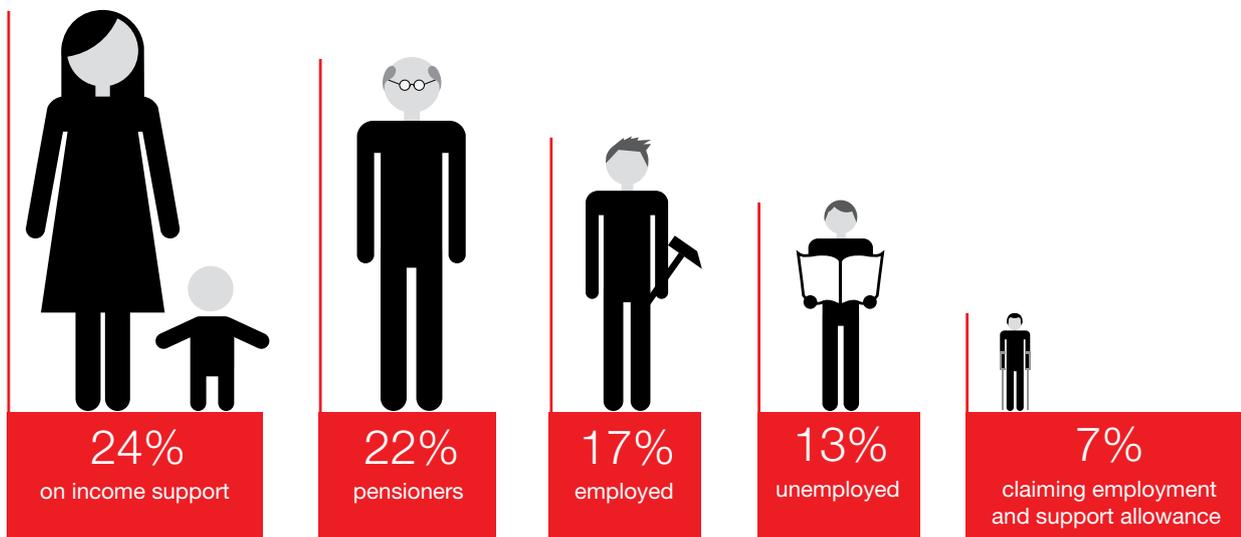
In appearances housing benefit mimics other social security benefits. Responsibility sits within the Department for Work and Pensions (DWP) and any budgetary increase or savings are a concern for the Secretary of State. The DWP has the power to design the scheme to suit its needs and can choose to target expenditure at households on the lowest incomes only, in the manner of Job Seeker's Allowance or Income Support, or to extend support further up the income scale in the manner of tax

credits or child benefit, by altering the rate at which housing benefit is withdrawn and the level of rent eligible for assistance.

The individual subsidy increases the spending power of low income households, enabling them to access housing in the social or private rented sector, solving an immediate need for accommodation. Because housing benefit is only payable on rent, the entire subsidy is transferred to the landlord with no financial benefit to the claimant, although the benefits to well-being from living in suitable accommodation may be substantial.

For some tenants, housing benefit will only be needed to top up their income for a short period of time. For this group, a separate housing-specific benefit is required as other social security benefits such as Income Support or Job Seeker's Allowance make no allowance towards housing costs, which in any case geographically vary too much to be adequately accommodated in a flat-rate benefit. For other claimants, housing benefit subsidy is required for a prolonged period of time, even while the tenant is in work. This raises the question of how to balance housing benefit's role as a social security benefit providing a safety net, and a long-term subsidy performing a broader affordability function.

### Make up of housing benefit caseload<sup>22</sup>



Figures do not add up to 100% due to additional non-passported claims whose circumstances are unknown

Housing benefit is intimately linked to the wider housing system, and its design and application can support or undermine government housing policy decisions. Conversely, expenditure on housing benefit is indirectly, but strongly affected by housing

policy decisions, such as levels of rent in the social sector, supply across all tenures, and the overall balance in housing tenure. Problematically for the DWP, its Secretary of State has no budget for supply and little capacity to influence many of the

<sup>20</sup> House of Commons debate, 16 March 1994.

<sup>21</sup> Stephens, 2005.

<sup>22</sup> DWP, Housing Benefit caseload, December 2011.

underlying drivers of housing benefit expenditure, which, combined with the demand-led nature of the subsidy, leaves the DWP budget vulnerable to increases. At the same time, the Housing Minister has no direct influence over housing benefit policy, even though it may be crucial to underpinning wider housing objectives, such as reducing homelessness, promoting mixed communities or making housing more affordable for low and middle income households.

### The cost of housing benefit

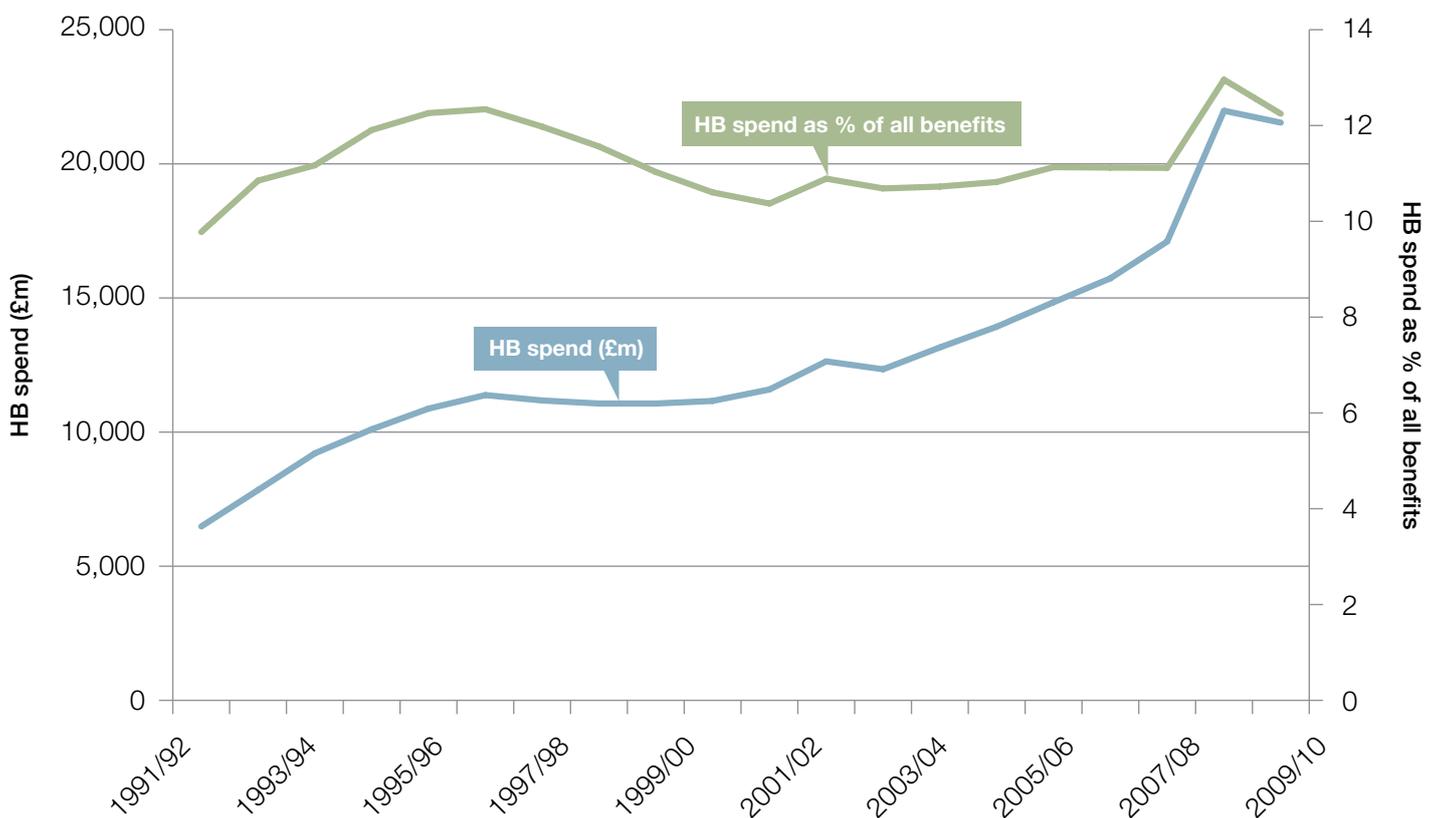
Housing benefit spending has nearly doubled in the past decade to an estimated £21.6 billion.<sup>23</sup> Despite significant cuts to housing benefit entitlement, the DWP does not expect the overall cost of housing benefit to fall below £22 billion a year.<sup>24</sup> Successive governments have raised concern at the escalating

cost of the scheme and a frequent attack is that the bill has ‘ballooned’ and the scheme would be unsustainable without significant reform.

Claims of a ballooning housing benefit bill imply that the cost has risen without justification and beyond any reasonable expectations. An analysis of the factors underlying the increase in expenditure points to clear, if undesirable, drivers and not out of control excesses in the system – despite some atypical but highly public exceptions.

It is true that the overall cost of housing benefit has risen, but when compared to all benefits the trend is less stark, although a post-recession spike is evident.<sup>25</sup> Furthermore, the cost of housing benefit today forms a smaller proportion of GDP than it did throughout the 1990s, when it rose far more sharply than it has in the last five years.<sup>26</sup>

**Figure 3: Overall housing benefit expenditure<sup>27</sup>**



23 DWP, Benefit expenditure tables 2011.

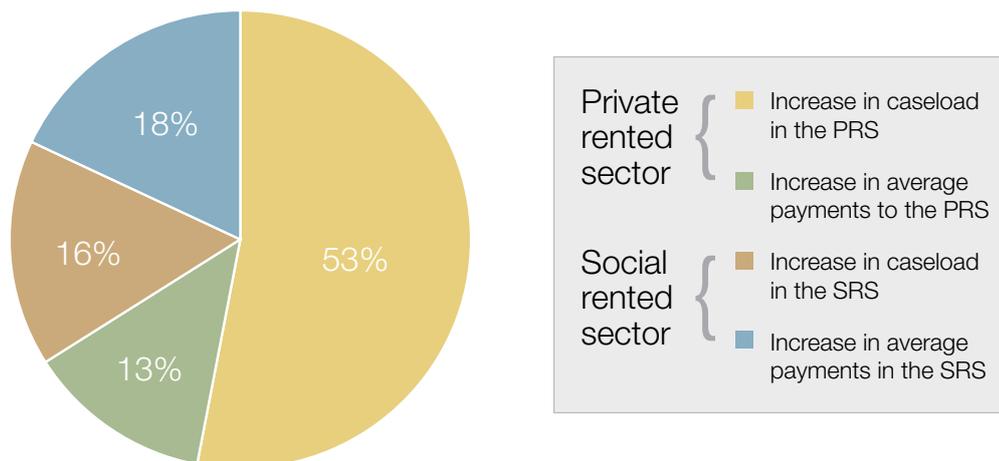
24 *ibid.*

25 Wilcox and Pawson, 2011.

26 Shelter, evidence to Work and Pensions Select Committee, 2010.

27 Wilcox and Pawson, 2011, Table 114.

**Figure 4: The drivers of the increase in housing benefit spend 2008–2010<sup>28</sup>**



### Why have costs risen?

Pressures on the housing benefit bill can be better understood by examining the underlying drivers of expenditure.

#### Rising caseloads

Even if rents stay static or fall slightly, the overall cost of housing benefit will increase if more households apply. Unlike capital investment, but in common with other social security benefits, housing benefit is demand led. Expenditure tends to stabilise during periods of economic prosperity and rise following a downturn. Total spending on housing benefit remained relatively static at around £12 billion per annum during the period of economic stability from 1995–96 to 2003–04.<sup>29</sup> However, the number of claimants began to rise sharply following 2007, mirroring the economic downturn. It is estimated that between November 2008 and April 2010, 70 per cent of the increase in housing benefit expenditure can be attributed to a rise in claimant numbers.<sup>30</sup>

This is problematic for governments because it is during an economic downturn that the greatest pressure arises to curb costs. This leads to:

‘a familiar cycle – of reductions in bricks and mortar investment, higher unemployment, increased housing benefit caseloads and costs, followed by scheme cutbacks’.<sup>31</sup>

In this context it is unsurprising that two of the biggest cost-saving reforms to housing benefits – the introduction of the Local Reference Rent and Single Room Rent in 1996 and Local Housing Allowance (LHA) reforms of 2010/2011 – have followed a recession.

Although this feature of housing benefit may be undesirable from the Treasury’s point of view, it is precisely this responsiveness to economic need that makes housing benefit an essential safety net and a very efficient benefit. Other social security benefits make no allowance for housing costs, meaning the housing benefit system is the only resource many families have to call upon to avoid homelessness.

#### Rising rents

Housing benefit is responsive to rising rents and much of the historic increase in housing benefit expenditure can be attributed to higher housing costs in both the private and social rented sectors. Rents in the private rented sector rose by 70 per cent between 1997–98 and 2007–08<sup>32</sup>, compared to CPI inflation of 20 per cent.<sup>33</sup> This fed through into higher average housing benefit awards for private tenants. It is notable that average awards increased throughout the period of economic stability at the turn of the century but the overall cost of this was mitigated by a marked fall in claimant numbers.<sup>34</sup> The underlying and unaddressed cost of private rented housing became an unacknowledged liability which fed through into increased overall costs when claimant numbers rose following the economic downturn.

<sup>28</sup> BSHF, 2010.

<sup>29</sup> *ibid.*

<sup>30</sup> *ibid.*

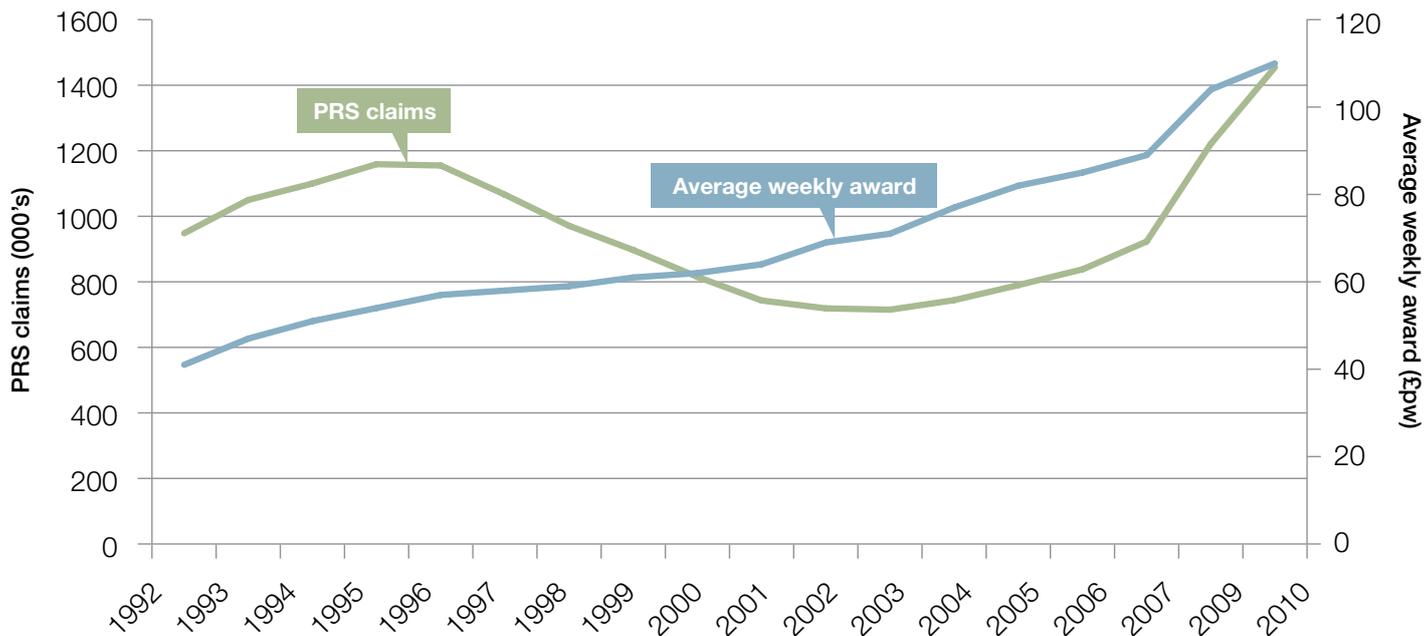
<sup>31</sup> Kemp, P, *The Role and design of income related housing allowances*, International Social Security Review, 2000.

<sup>32</sup> CLG, *Survey of English Housing 2007/08*, 2009.

<sup>33</sup> Fenton, A, *How will changes to Local Housing Allowance affect low-income tenants in private rented housing?*, Cambridge Centre for Housing and Planning Research, 2010.

<sup>34</sup> Wilcox and Pawson, 2011, Tables 116a and 116b.

**Figure 5: Patterns in PRS claims and average awards<sup>35</sup>**



It is estimated that 13.2 per cent of the increase in housing benefit expenditure between November 2008 and April 2010 is attributable to rising rents in the private rented sector alone<sup>36</sup>, and this was at a period of relative calm in the sector. Increased pressure on the market created by the fall in homeownership and the shortage of social housing suggests this trend will only intensify in the short to medium term.

Average claims for LHA households are falling as a result of the 2010 LHA reforms.<sup>37</sup> However, this is because of the move to set LHA rates by the 30th percentile rather than the median of local rents, and the removal of the £15 excess. There is as yet no evidence that this has resulted in reduced rents across the board and may prove to be untenably low in the long-term.

Rents have also increased in the social rented sector, driven by government policies, including stock transfer and rent convergence. Local authority rents rose 52 per cent in the decade to 2008–09.<sup>38</sup> Overall it is estimated that between 2008 and 2010 rent rises in the social rented sector accounted for 18 per cent of the increase in housing benefit expenditure.<sup>39</sup>

The way in which housing benefit is means-tested means that higher rents (as long as they are reflected

in maximum housing benefit levels) will increase the number of working households who are eligible for assistance with their housing costs. This means that even if welfare reform and increased sanctions and conditionality succeed in moving economically inactive households into employment, they will still remain eligible for support with housing costs, reducing the potential cost savings from a fall in economic inactivity.

The disparity between rents and earnings means that 55 per cent of local authorities are now unaffordable to private renting households on average incomes.<sup>40</sup> The mismatch between rents and wages has seen the proportion of working claimants increase dramatically from 10 per cent in 2008 to 17 per cent in 2011.<sup>41</sup> The number of working claimants in the private rented sector is more pronounced at 32 per cent, reflecting higher housing costs.<sup>42</sup>

LHA reforms attempt to make the benefit less sensitive to rent increases by up-rating rates by CPI rather than actual market rents from April 2013. However, unless this succeeds in reducing rents in the private rented sector it will reduce average housing benefit claims at the expense of low income households, who will be liable for increasingly

35 *ibid.*

36 BSHF, 2010.

37 DWP, HB and CTB caseload tables, January 2012.

38 Wilcox and Pawson, 2011, Table 73.

39 BSHF, 2010.

40 Reynolds, L, *Shelter Private Rent Watch*, Shelter, 2011, see [shelter.org.uk/policylibrary](http://shelter.org.uk/policylibrary)

41 DWP, HB and CTB caseload tables, November 2011.

42 House of Commons, 25 November 2011, c638W; DWP, HB and CTB caseload tables, August 2011.

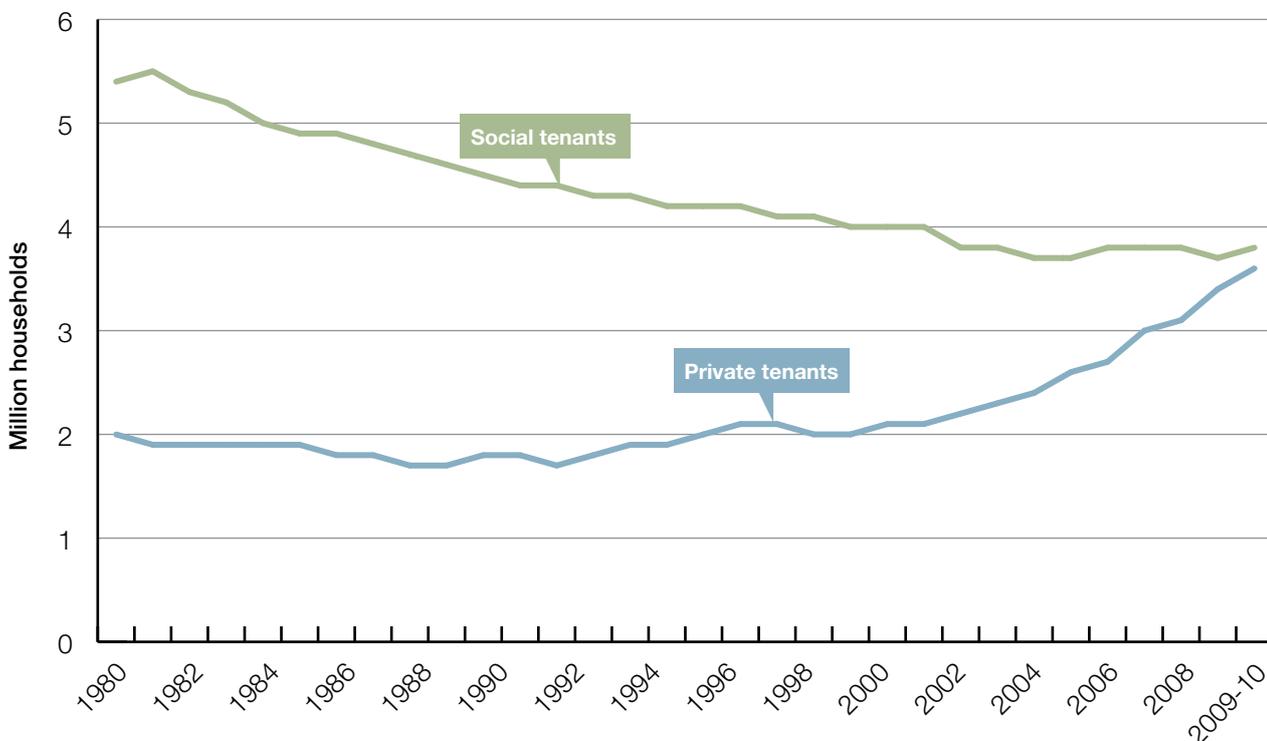
unaffordable private rents. If landlords refuse to accept depressed rent increases, the private rented sector is likely to become increasingly inaccessible to low income renting households. The Government has acknowledged that such an approach may be unsustainable and will have to re-link LHA rates to local markets if a 'critical lack' of affordable housing develops.<sup>43</sup>

### Tenure shifts

The increasing reliance on the private rented sector to house families on low incomes has been a significant driver of increased overall expenditure. This has been caused by rising house prices pricing people out of owner occupation and a decline in public housing

alternatives, with 1.8 million households now on council waiting lists.<sup>44</sup> Low income households who would benefit from genuinely affordable housing are in many cases not able to access it due to a lack of supply, with the result that the number of housing benefit claimants living in the private rented sector has increased by more than 870,000 households since 2003.<sup>45</sup> The rise has not just been caused by overall growth in the sector; the proportion of private rented sector tenants requiring housing benefit has increased from 19.5 per cent in 2008–09 to 24.6 per cent in 2010–11.<sup>46</sup>

**Figure 6: The changing size of the private and social rented sectors<sup>47</sup>**



New claims in the private rented sector account for the majority of the increase in claimant numbers over the past five years and private rented tenants now represent 32 per cent of all housing benefit claimants, up from 18 per cent in 2003.<sup>48</sup> Rents in the private

rented sector are on average £4,212 year higher than in the social sector.<sup>49</sup> It is estimated that the rising caseload from the private rented sector is responsible for more than half of the recent increase in housing benefit expenditure.<sup>50</sup>

43 Lord Freud Minister for Welfare Reform, House of Lords, 14 December 2011.

44 CLG, Live table 600, 2011.

45 DWP, HB and CTB caseload tables, November 2011; Wilcox and Pawson, 2011, Table 116a.

46 CLG, *English Housing Survey Headline Report 2010–11*, supplementary table 4, 2012.

47 *ibid*, figure 1.

48 DWP, HB and CTB caseload tables, November 2011; Supplementary evidence from Shelter at the Work and Pensions Select Committee Inquiry into Housing Benefit, 2010.

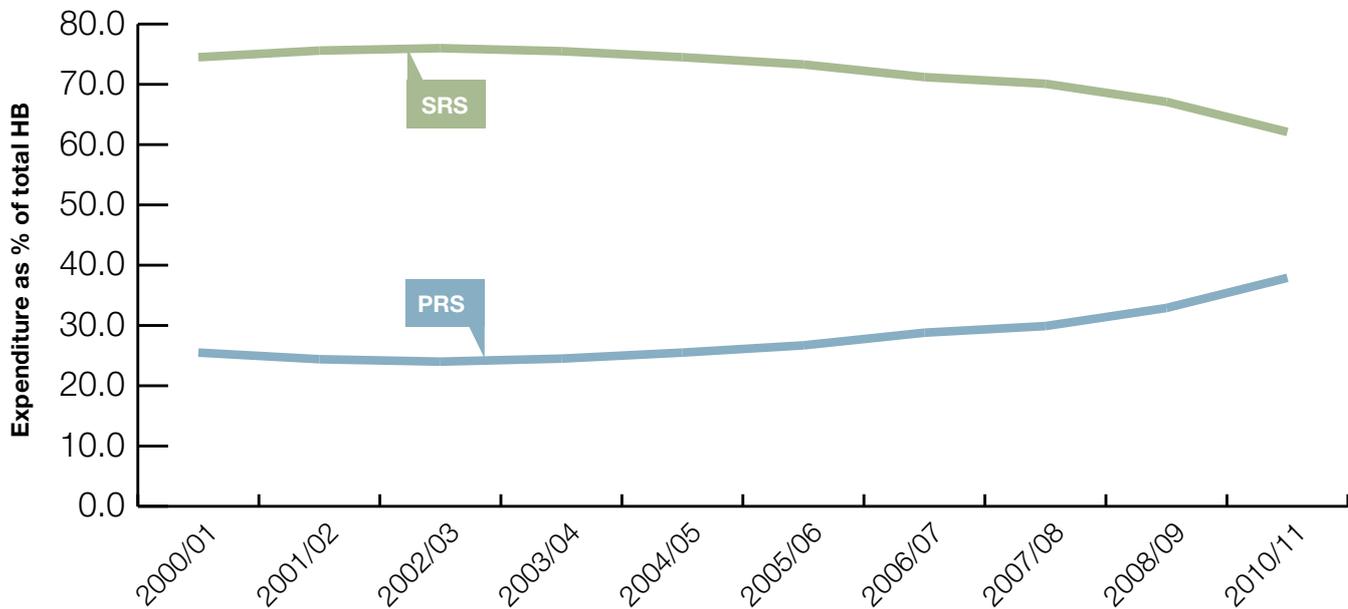
49 CLG, *English Housing Survey: Household report 2010–11*, 2012.

50 BSHF, 2010.

A high prevalence of low incomes mean social tenants remain the largest recipients of housing benefit. But the increasing use and cost of the private rented sector means the share of housing

benefit expenditure going to claimants in the PRS has increased. This in turn makes it less likely that expenditure will be reinvested in new stock or maintenance.

**Figure 7: The proportion of housing benefit spent in each tenure<sup>51</sup>**



High reliance on temporary accommodation to house homeless households, fuelled by a shortage of social housing, also drives up housing benefit expenditure. Pre-recession it was estimated that a tenth of the housing benefit bill related to rents in temporary accommodation. Expenditure on temporary accommodation costs amounted to £587 million in 2005–06, up from £116 million in 1997–08.<sup>52</sup>

### Impact on individuals

The reliance on housing benefit has created an undesirable bill for the Government, but it also impacts negatively on households dependant on the benefit to meet their housing costs. It is inevitable that work disincentives will occur when affordability is obtained through means-tested income top-ups, as the subsidy must be withdrawn at some point to remain efficient.<sup>53</sup> In addition, households claiming housing benefit are drawn into the administrative

maelstrom that surrounds it. The alternative would be a universal benefit which incurs considerably higher costs and inefficiency.

### How housing benefit creates work disincentives

Benefits for low income households can create work disincentives via an unemployment trap or a poverty trap.<sup>54</sup> An unemployment trap exists when the decision to move into work from unemployment would not make the claimant any better off, because the pay gained from work would be less than the benefits that are lost. The housing benefit taper is designed to ensure that households do not experience a sudden and complete loss of housing subsidy when entering paid work. It is true that the loss of passported benefits, such as free school meals or prescriptions, combined with in-work costs, such as childcare and increased transport costs, can

<sup>51</sup> Pawson, H, and Wilcox, S, *UK Housing Review 2011/12*, Table 122, Chartered Institute of Housing (CIH), 2012.

<sup>52</sup> Hills, 2007.

<sup>53</sup> Haffner, M, and Boelhouwer, P, *Housing Allowances and Economic Efficiency*, International Journal of Urban and Regional Research, 2006.

<sup>54</sup> Hills, 2007; Malpass and Aughton, 1999; Gibbons, S, and Manning, A, *The incidence of UK housing benefit: evidence from the 1990s reforms*, LSE, 2003; Taylor, C, and Stroud, P, *Dynamic Benefits: Towards welfare that works*, Centre for Social Justice, 2009.

mean that in practice claimants may be materially worse off in work than not. However, this is not a flaw that can be directly levied at the housing benefit system in itself, but a reflection of the wider benefit system and the poor returns from low-paid work, which Universal Credit is intended to help address.

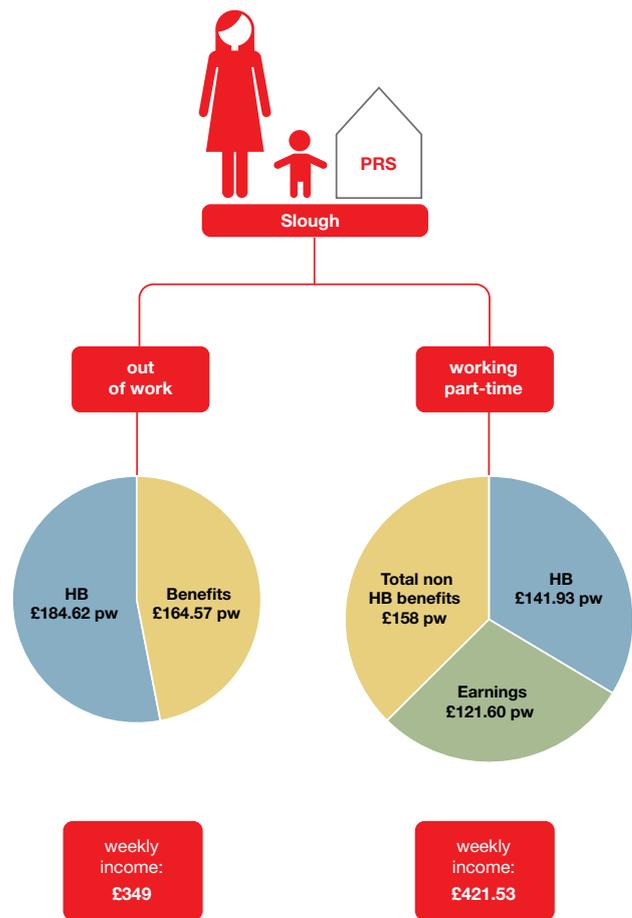
The poverty trap is arguably the more common barrier for housing benefit claimants. The poverty trap exists when increased hours or earnings do not make the claimant significantly better off, and occurs because of the loss of benefits as income from work rises. The 65 per cent taper applied to housing benefit has been widely criticised for creating a very deep poverty trap. It means that low paid workers on housing benefit will only be £3.50 better off for every £10 extra they earn, before the loss of other benefits is even taken into account.

At the same time high rents for the growing number of claimants in the private rented sector extend the income range over which housing benefit is payable, creating a wider poverty trap. Looking ahead, the introduction of the Affordable Rent programme will also 'theoretically extend' the poverty trap for more households in the social rented sector.<sup>55</sup>

For example a lone parent with one child under nine and paying £120 per week in rent would need to earn £470 per week before they could lose all entitlement to housing benefit and afford to pay their rent independently. However, if their rent was reduced to £70 per week they would escape the poverty trap when earning just £224 per week.<sup>56</sup>

Work disincentives arising from housing benefit are made more acute because of its interaction with other benefits. While the housing benefit taper is steep in itself at 65 per cent, the interaction with council tax benefit results in a loss of 85p in benefits for every pound earned. When households are also in receipt of tax credits the effective marginal deduction rate increases further, with some households losing 95.5 pence in every pound.<sup>57</sup> Put another way, for each additional £10 earned, a claimant would gain just 45p. As a consequence housing benefit is open to the charge of creating 'very little incentive' to take on low paid employment.<sup>58</sup>

For example, a single mother with one child living in private rented accommodation in Slough could be eligible for £349 per week in benefits if out of work, including £184.62 per week in housing benefit.<sup>59</sup> If she takes a part-time job working 20 hours a week, her housing benefit will fall to £141.93 per week. Overall her income will rise to £421.53 per week, making her £72.53 a week better off.<sup>60</sup> If childcare costs were factored into the equation, then work may become financially unviable.



55 CLG, *Impact Assessment for Affordable Rents*, 2011.

56 Wilcox and Pawson, 2011, Table 119, applies as of April 2010.

57 HM Government, *State of the Nation Report: Poverty, worklessness and welfare dependency in the UK*, 2010.

58 Malpass and Aughton, 1999.

59 Based on Direct Gov benefits calculator 2012/13 rates, April 2012 LHA rate.

60 As above, assuming no childcare costs and working for minimum wage.

As well as reducing the steepness of the housing benefit taper, incentives within the benefit system can be improved by increasing earnings disregards. This enables households to earn more before they begin to lose housing subsidy. Housing benefit has low levels of earnings disregards, particularly for single, childless claimants. Current disregards have not been up-rated since 1998 despite the introduction of, and increase to, the minimum wage and a considerable rise in the cost of living, which make the current £5 disregard for single people insignificant. The Universal Credit does propose more generous disregards for families with dependant children, but the headline rates will be reduced when a household also receives support for housing costs.

Finally work incentives can theoretically be improved by reducing rents. This makes it easier for low income households to escape benefit dependency and reap the full returns from increased earnings. For this reason, council or housing association tenants face a much less severe poverty trap than those in the private rented sector.

For example, a couple with two children paying a private rent of £120 a week would gain just £23 if their earnings increased from £100 to £400 per week. The same couple paying a typical social rent would gain £55 per week.<sup>61</sup>

Additionally, the couple in social housing would require a lower income to be able to float off housing benefit entirely. As such, lower rents support the aim of enabling benefit claimants to ‘leap the ditch of poverty with one bound’ and ensure that work can pay without assistance from social security benefits.<sup>62</sup>

A couple with two children would require an income of £579 per week to pay a rent of £120 without an additional housing benefit top up. If their rent was reduced to £80 per week they could pay it independently with an income of £379 per week.<sup>63</sup>

The Coalition Government has attempted to tackle the perceived work disincentive of high rents by reducing the rents which can be covered by housing

benefit. However, this approach still leaves tenants potentially liable to pay high rents – and reduces the financial support available to meet them – and does not address the root causes of unaffordable housing costs. The bottom rungs of the private rented sector can still be considerably more expensive than council housing, particularly in London. Arbitrarily reducing LHA rates in an attempt to make the poverty trap shallower will do little to meaningfully support households who are still liable for unaffordable rents in the private rented sector and cannot realistically access more affordable housing or negotiate lower rents.

### Real world caveats

Despite these structural disincentives it is important not to present an overly simplistic view of individual motivations to work. The initial evaluation of LHA concluded:

‘The factors influencing a claimant’s decision about labour market participation are complex, and the housing benefit scheme has a very limited role in those decisions’.<sup>64</sup>

Attempting to draw out an individual’s motivations and barriers is extraordinarily complex. Studies have attempted to establish how rationally claimants assess the returns from work. Overall it appears that a person’s work ethic overrides purely financial calculations.<sup>65</sup>

The Department for Work and Pensions has conducted its own investigations into housing benefit and work incentives. One study of housing benefit claimants found the benefit had little impact on decisions whether to work or not.<sup>66</sup> Analysis suggested that the link between rent, housing benefit and work incentives was complex and rents were not the dominant factor in whether work was perceived as worthwhile. Instead the characteristics of the claimant and their job prospects were highly influential in determining whether the rewards from working would be deemed large enough.<sup>67</sup>

This could go some way towards explaining the elevated levels of worklessness in social housing found in the Hills Review. Hills’ report highlighted higher than average levels of economic inactivity, appearing to undermine arguments in favour of low

61 Hills, 2007.

62 Wilcox, S, & Sutherland, H, *Housing Benefit, affordability and work incentives*, 1997.

63 This applies to 2010 figures, Wilcox and Pawson, 2011, Table 119.

64 Rugg, J, Rhodes, D, and Wilcox, S, *Local Housing Allowance final evaluation 16: The housing and labour market impacts of the LHA*, DWP.

65 Ford et al (1996), quoted in Turley, C, and Thomas, A, *Housing Benefit and Council Tax Benefit as in-work benefits; claimants and advisers knowledge, attitudes and experiences*, DWP research report, no 383, 2006.

66 Cannizzaro, A, *Impacts of rents on housing benefit and work incentives*, DWP working paper, no 38, 2007.

67 Cannizzaro 2007; BSHF 2010.

rents creating work incentives.<sup>68</sup> However, as other studies have underscored, the depth of the poverty trap is not always the most fundamental factor in determining whether a household will work. In addition, the shortage of social housing has led in many areas to only those households with the highest levels of need entering the sector, which will go some way to explain lower than expected levels of employment.

### Exploring alternatives – investing in supply

Increased reliance on the private rented sector has driven up the cost of housing benefit and had a negative impact on households drawn into benefit dependency because of their housing costs. Although the private sector has expanded, individual subsidies to underpin demand have failed to feed through into sufficient supply to adequately house low income households. Instead rents have risen, reflecting the general increase in housing costs, leaving more working households reliant on an additional benefit. In addition, poor conditions and a minority of rogue landlords further undermine the suitability of the sector for some. This situation could be avoided for many households if the up-front cost of housing was reduced by investing in bricks and mortar. Regrettably this approach has failed to gain sufficient traction with successive governments to reverse the increasing reliance on the private rented sector.

Some 40 years after Fair Deal for Housing the balance of housing subsidies remains firmly tipped towards demand side housing allowances. By 2003–04 two-thirds of subsidy expenditure was spent on demand side investment, mainly through housing benefit.<sup>69</sup> Despite the visible impact, there are no signs of current government policy reversing this position, and some commentators have even called for a complete move away from capital investment leaving housing benefit to fill the gap. The move to the new Affordable Rent model has drastically reduced the subsidy available for the supply of new social housing, while implicitly accepting that higher housing benefit payments will be required to service rents set at near-market levels.

### The case for subsidising supply

Socio-economic change has increased demand for housing benefit but it is undeniable that take-up and expenditure has also increased in a context of rising rents in both tenures. In turn this has increased the number of working households requiring support

from housing benefit, which has more than doubled since 2009.<sup>70</sup> This threatens to undermine the Government's Welfare Reform programme, which focuses on achieving savings by moving households into work, as current trends suggest many households will continue to require an additional benefit to meet high rents. This raises questions of whether housing benefit has been the best means to support the growing number of lower income households who require an individual subsidy to meet their housing costs only because of a dysfunctional housing system. We should also consider the impact on the large number of households who are deterred from working because of the structure of housing benefit.

One of the key benefits of bricks and mortar subsidies is that if they are directed into affordable housing the cost of housing is reduced up-front. This reduces the need for an additional, usually means-tested benefit, and in doing so avoids the inevitable work disincentives. Lower rents would strongly support the Government's aim to make work pay and be seen to pay, and can provide a springboard for people in low paid work to lift themselves out of poverty and benefit dependency. And of course, they lower the housing benefit bill.

Increasing investment in genuinely affordable housing would enable more households to move out of the private rented sector, and so reduce housing benefit expenditure. Initial analysis by Shelter suggests that if eight per cent of claimants in private rented housing moved to affordable social homes, the DWP would recover £200 million in savings. If 500,000 tenants, or 40 per cent of claimants, were able to move across, savings could be as high as £1 billion.<sup>71</sup> This would meet one tenth of the welfare savings the Chancellor has said are required by 2016<sup>72</sup> without any of the risk of homelessness or poverty that other cuts would likely entail – although an upfront one-off investment would be required.

Any housing benefit expenditure on social tenants also has the added benefit of enabling reinvestment in new stock, rather than simply benefitting private landlords. A frustration at present is that large sums are paid out to private landlords via housing benefit but this does not necessarily improve standards or stability for tenants. This is not a criticism of most landlords who are providing accommodation and operating within a private market, but it does mean that the value of LHA stops with the rent payment and any additional advantages are not being leveraged.

68 Hills, 2007, Table 6.1.

69 *ibid.*

70 DWP, HB and CTB caseload tables, December 2011.

71 Supplementary evidence from Shelter to the Work and Pensions Select Committee Inquiry into Housing Benefit reform, 2010.

72 George Osborne MP, House of Commons, 21 March 2012, Hansard column 794.

Better value for money could be obtained from housing benefit if more of the spend was captured for long-term investment in bricks and mortar. Historically the ability of housing benefit to cover actual rents at all levels in the social sector has supported long-term business planning and the development of affordable homes by housing associations. In particular, the security of housing benefit revenue streams enables housing associations to obtain preferential borrowing rates, supporting development of new supply. Wider policy changes, including moves to pay housing benefit to social tenants, risk undermining this somewhat, but the potential for reinvestment will remain.

In his review of social housing, Hills argued that the unregulated state of the private rented sector also justifies investing in social housing.<sup>73</sup> Housing benefit tenants in the private sector may be vulnerable to exploitation through high rents, poor maintenance and discrimination. Surveys show that the private rented sector has the highest proportion of non-decent homes of all tenures.<sup>74</sup> The housing benefit system is not responsive to variations in quality and it has been a source of frustration for housing ministers that housing benefit can be paid to rogue landlords or for substandard properties.<sup>75</sup> Attempts to combat this using housing benefit while maintaining a reliance on the unregulated private rented sector to house people on low incomes are fraught with difficulties and risk penalising tenants rather than landlords.

Investing in supply to reduce housing benefit expenditure is attractive in the long-term and is the only way to avoid further dysfunction in the housing system. But it has proven consistently difficult to persuade politicians of the merits of adopting such a far-sighted approach. The average annual housing benefit claim for a council tenant is more than £2,000 lower than for private tenants<sup>76</sup>, suggesting it would take approximately 30 years for the benefits of a tenure shift to compensate for the up-front cost of investment at traditional grant levels.<sup>77</sup> As a business case this appears sound; development finance markets traditionally price housing investment over

periods of 30 years or more. Over these timescales investing in new supply can pay for itself out of benefit savings alone. But for a government interested in five-year election cycles it is less appealing.

### The place for a housing benefit

It is important to acknowledge that a separate housing benefit – albeit incorporated into Universal Credit – will remain necessary for tenants on the lowest incomes. Around two-thirds of social tenants receive housing benefit despite sub-market rents.<sup>78</sup> Part of this is due to the doubling of local authority rents between 1980 and 1997. But growing underlying needs also appears to be a factor, demonstrated by the fact that 33 per cent of social tenants are now unemployed or economically inactive.<sup>79</sup> Social housing has a higher proportion of retirees than average – 32 per cent of social tenants are over 75 compared with 25 per cent in the general population – increasing demand for housing benefit.<sup>80</sup> Wider economic trends also include rising unemployment and more precarious employment, increasing numbers of lone parents, an increase in early retirees, and an increase in people with long-term health conditions. These factors have all contributed to growing needs, which have increased the importance of housing benefit.<sup>81</sup>

Welfare reform will attempt to reduce some of this caseload, but a persistent need will remain to some degree. As we have seen, welfare reform will do little to free working households from benefit dependency if they continue to require support to meet high housing costs.

It would be undesirable for subsidies to shift entirely from housing benefit to bricks and mortar investment. Individual support to cushion people through a drop in income provides a vital safety net and is not without wider advantages. Housing benefit is highly efficient and progressive, being targeted at individuals and means-tested. It also has the advantage of being portable, allowing a household to move without losing their subsidy. This mobility is particularly

73 Hills, 2007.

74 CLG, *English Housing Survey: Housing stock report 2009*, 2011.

75 Flint, C, *A state in society for all: better homes in stronger neighbourhoods*, The Purple Book, 2011.

76 Pawson, H, and Wilcox, S, *UK Housing Review 2011/12*, Table 118, CIH 2012.

77 HCA, *Corporate Plan 2009/10–2010/11*, September 2009.

78 CLG, *English Housing Survey: Housing stock report 2009–10*, 2011.

79 *ibid.*

80 CLG, *The Demand for Social Rented Housing*, 2007.

81 Kemp, P, *The Role and design of income related housing allowances*, International Social Security Review, 2000.

useful in encouraging work, as it enables a household to move across whole towns or regions in search of employment. For those unable to work, it can also allow people to move near to care networks.

## Conclusion and Recommendations

The past forty years have seen a deliberate decision to allow housing benefit to 'take the strain' for declining investment in social housing. Housing benefit should be seen not just as a social security benefit but as part of Government housing policy that has supported the resurgence of the private rented sector and shaped the evolution and declining supply of public housing. This overt strategy to disinvest from bricks and mortar to target support at individuals has led to inflated housing benefit expenditure – and yet Ministers are now attacking the size of the housing benefit bill without addressing the fundamental issue of supply.

To develop a rational approach to subsidies and housing policy it needs to be better understood that housing investment and housing benefit budgets are interlinked. Policies which result in savings for the Department for Communities and Local Government while increasing costs for the Department of Work and Pensions should be recognised as spending commitments. As part of this the Government should publish the likely impact on housing benefit levels of all housing policy decisions.

### **Housing benefit expenditure and housing investment should be viewed as expenditure to the same end and spending decisions taken accordingly.**

The shift away from investment reflects a belief, voiced clearly in the 1971 White Paper, that the problem is not with the structure of the housing market or poor conditions, but with individual incomes relative to housing costs. There has been a persistent belief that 'for most people, most of the time', the private sector provides an adequate solution to housing need.<sup>82</sup> But what appeared true in the context of a post-war housing boom has unfortunately been left unquestioned as supply has slipped to historically low levels. The housing market has failed to act rationally and supply has not kept pace with demand, leading to rapid price inflation. Subsequent governments have repeatedly failed to acknowledge the need for new housing and to invest in adequate supply, particularly of affordable housing.

Clearly for some people low income remains the primary problem, either temporarily or for a more sustained period of time. An additional housing benefit is required to meet the needs of this group and a switch to all bricks and mortar investment would be unfeasible. It is right to consider how housing benefit can be improved, and the complex way in which individuals interact with the benefit system is in desperate need of revision.

The introduction of Universal Credit will begin to address this concern by radically altering households' interaction with the welfare state. Within this agenda we cannot let the basic principle of housing benefit be undermined: it attempts to make housing affordable to people on low incomes by looking at their housing costs, income and needs and attempting to meet any reasonable shortfalls. Improved work incentives will also go some way towards reducing housing benefit spend as incomes rise.

### **The Government should continue with its plans for Universal Credit, including support for housing costs, to remove unnecessary complexity and improve work incentives. Universal Credit should cover actual costs for social tenants and ensure adequate affordability in the private rented sector.**

Housing benefit should not just be scrutinised with a view to reforming the welfare system. It is an admirable goal to help households who are able to move into work. But while rents and wages are out of step, households will not be able to escape benefit dependency just by moving into employment. Policy makers need to ask the broader question as to whether housing benefit is the best tool to provide access to affordable housing, or whether public intervention would be better directed towards increasing the supply of genuinely affordable homes. A range of indicators suggest that housing need itself is rising and that the aspirations of 'held back households' are increasingly frustrated. Housing supply has fallen to its lowest peacetime level since 1924 and politicians from across the political spectrum are at last acknowledging the need for increased supply to meet need and inject stability into the housing market.

<sup>82</sup> Malpass, P, *The wobbly pillar? Housing and the British postwar welfare state*, 2003.

In this context, it is no longer appropriate to focus interventions purely on the demand side. After 40 years of a philosophy which has led to an undersupply of genuinely affordable housing and inflated the housing benefit bill, it is time for a new approach which invests more in supply and relies less on means-tested benefits.

**The Government should back measures to substantially increase the supply of housing, and in particular genuinely affordable housing, with the aim of reducing the use and cost of individual subsidies.**

The challenge to the Government is to reduce the cost of housing in order to reduce the housing benefit bill and lift families out of housing benefit. It may be that increasing the supply of any type of housing will be sufficient to reduce house prices, and by association rents. The Barker review of 2004 estimated that an additional 120,000 properties a year were required to stabilise house price growth in line with the EU average, on top of what the private sector was then providing.<sup>83</sup> It may be hoped that this would filter through into stable private rental growth, although historically private rents tend to track earnings. However, it is unclear to what extent the housing market rationally adjusts to increased supply and in any case, such an effect would take years to be felt.

A more certain route to reducing rents is to invest in affordable housing. Research commissioned by Shelter estimated that an additional 67,000 social homes a year are required to meet new and emerging need, while there is also a backlog of 500,000 households who would benefit from genuinely affordable housing.<sup>84</sup> Building to this level would guarantee an increase in the supply of properties that will be rented at lower cost, reducing pressure on the housing benefit bill. It would also make it more likely that tenants who require housing benefit in the long term could be housed in the social housing sector, enabling housing benefit expenditure to be reinvested.

The arguments in favour of bricks and mortar investment over individual subsidies are not novel. Yet successive governments have failed to act in the long-term interest and invest in future savings. In some respects this is understandable when viewed politically – the up-front cost of new building will

always be unattractive to ministers when it is a future government that will enjoy the rewards of reduced housing benefit expenditure and increased supply. Even if the Government does invest in new homes, there will be a period before they come on stream, during which the Government is both paying for new investment and continuing to pay higher housing benefit payments to the private sector.

Combined with the current economic outlook, there is a perception that the up-front costs required to stimulate supply are unfeasible. This fails to take into account the short-term benefits that can be attained by investing in new supply. The average grant from the Homes and Communities Agency for an affordable home was £60,000 before the introduction of an Affordable Rent model.<sup>85</sup> This is a worthwhile investment when it is considered that every £100 spent on new housing generates £350 for the economy.<sup>86</sup> Construction also supports jobs and unlike other forms of economic stimulus, investment in housing has the benefit of being retained domestically.

But the Government's decision to cut investment in new affordable housing by over 60 per cent in 2010 suggests the arguments in favour of housing investment still need to be made. Although supporting supply does bring immediate economic benefits, this can be offset by the need for short-term borrowing or reluctance to prioritise long-term rewards. Greater political consensus in the role and value of genuinely affordable housing is required for governments to invest in new supply. The housing sector can have grounds for optimism – the long-term solutions are expensive but not politically unpalatable in the same way that proposals for a radical overhaul of, for instance, care or the health service may be.

The challenge to Shelter and other interested groups is to make the case for investment in new supply and pursue alternative models to increase the development of affordable housing, with a view to reducing up-front costs for tenants and subsequently the housing benefit bill. The challenge for Ministers is to think less like politicians focused on populist benefit cuts and short-term thinking, and more like business people working towards a long-term investment plan. As past decades have demonstrated, short-term savings on capital expenditure are likely to result in long-term pressures on housing benefit unless other policies can translate into sufficient supply to reduce costs at the lower end of the market.

83 Barker, K, *The Barker Review of Housing Supply, delivering stability: securing our future housing needs*, 2004.

84 Holmans, A, Monk, S, and Whitehead, C, *Homes for the Future – A new analysis of housing need and demand in England*, Shelter, 2008, see [shelter.org.uk/policylibrary](http://shelter.org.uk/policylibrary)

85 HCA, *Corporate Plan 2009/10–2010/11*, September 2009.

86 Lindsay, D, *Research Briefing: Housing Investment Part 1*, Shelter, 2010, see [shelter.org.uk/policylibrary](http://shelter.org.uk/policylibrary)

Shelter will continue to press the case for government-led investment in new supply, as historically this has been the deciding factor in determining the overall level of supply in all tenures. Changes in the Localism Act such as housing revenue account reform, the empty homes initiatives, and even proposals such as charging market rents for higher-earning social tenants, do provide new opportunities to leverage existing stock for new supply. But in the current economic climate it is clear that we also need to look at more creative models of investment.

Shelter encourages reforms to simplify the benefit system and make work pay, and there are advantages for both individuals and the Treasury of increasing employment. But welfare reform alone will not address the needs of households who only require support because local housing and employment markets are out of step. It is in their interest, and those of tax payers, that housing benefit reverts to being a safety net rather than a long-term crutch propping up a dysfunctional housing system.

## Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life.

Shelter believes everyone should have a home.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

Visit [shelter.org.uk](http://shelter.org.uk) to join our campaign, find housing advice, or make a donation.

We need your help to continue our work.  
Please support us.

Shelter  
88 Old Street  
London EC1V 9HU

0300 330 1234  
[shelter.org.uk](http://shelter.org.uk)

Registered charity in England and Wales (263710)  
and in Scotland (SC002327)

# Shelter