THE CONDITION OF BRITAIN

IPPR

REPORT

BENEFITS TO BRICKS

MOBILISING LOCAL LEADERSHIP TO BUILD HOMES AND CONTROL THE BENEFITS BILL

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Institute for Public Policy Research

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ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR's dedicated thinktank for the North of England, operating out of offices in Newcastle and Manchester.

The purpose of our work is to assist all those who want to create a society where every citizen lives a decent and fulfilled life, in reciprocal relationships with the people they care about. We believe that a society of this sort cannot be legislated for or guaranteed by the state. And it certainly won't be achieved by markets alone. It requires people to act together and take responsibility for themselves and each other.

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SUMMARY

During the course of this parliament, 95 per cent of government spending on housing will go through the benefit system, with just 5 per cent invested in new homes. This more than reverses the balance of spending in the late 1970s, contributing to the undersupply of homes and a rising housing benefit bill. Without a change of course, rising house prices are set to put homeownership further out of reach for millions, especially young people, and the share of households facing higher private rents will grow. Even as the economy recovers, the housing benefit caseload is set to rise by 150,000 by 2019, with more recipients in work unable to pay their rent without a subsidy. The housing benefit bill is projected to rise in real terms throughout the next five years, reaching £25.4 billion by 2019, settling at a level around £8 billion a year higher in real terms than before the recession.

The overwhelming priority for addressing each of these issues is to dramatically increase housing supply so there are more homes to rent and buy overall. This requires capital investment and land market reform, with the kind of partnership between the public and private sectors that consistently delivered more than 200,000 new houses a year in the postwar decades. Boosting supply is a precondition for addressing the structural growth in housing benefit spending. However, shifting from 'benefits to bricks' also requires institutional reforms capable of connecting housing supply, the shape of local housing markets and the drivers of benefit spending in particular parts of the country. These connections vary from place to place, underpinning our case for local mobilisation, with greater powers to shape local housing markets and financial incentives that reward success.

The failures of affordable housing strategy over the last three decades

Over the last three decades, the affordable housing strategy pursued by governments of all parties has relied on the benefits system to finance affordable housing and on the agency of Whitehall to control and direct its delivery. This strategy comes under particular strain when – as now – the gap between housing supply and demand is large, public expenditure is constrained, and variations between local housing markets are substantial.

The weaknesses of a benefit-driven expenditure strategy

Housing benefit promotes choice, flexibility and mobility, while allowing public support to be well targeted. It ensures those on the lowest incomes can afford a home, taking account of variable housing costs and being responsive to cyclical need. Rent subsidies will rightly continue to play a major role in meeting affordable housing needs. But a benefits-driven affordable housing strategy has a number of major weaknesses.

- **It leaves the public finances vulnerable to an economic shock:** The extent of the spike in housing benefit spending following the recession – up £6.4 billion in real terms over five years – was the result of long-term upward spending pressure from housing market factors: in particular, the growing share of claimants in the private rented sector and above-inflation rent increases in the private and housing association sectors. Despite sustained economic growth and a lower caseload, housing benefit spending *rose* in real terms from £10.1 billion in 1992 to £18.5 billion in 2008.
- **It contributes to not building enough homes:** Indirectly funding affordable housebuilding via rent subsidies – 'letting housing benefit take the strain' – has driven up spending but not output. This strategy has become even less plausible as the share of money going to private landlords has increased: now almost 40 per cent of all housing benefit expenditure, over £9 billion a year. Private developers have not filled the gap left by the retreat of publicly supported housebuilding. Undersupply has pushed up house prices, reducing homeownership and therefore increasing the numbers potentially eligible for housing benefit.

- **It delivers poor value for taxpayers' money:** The current strategy of lower capital grants to housing associations in return for higher rents (and higher rent subsidies) is projected to cost around £17,500 per property extra in housing benefit over 30 years. In the private rented sector, housing benefit provides a subsidy for privately owned assets, with no return on any capital gain it supports. Moreover, the unit cost of rent subsidy is rising as caseload growth concentrates in private and housing association properties, where average awards are highest. As an illustration, if caseload growth in the private rented sector between 2009 and 2014 had instead attracted average social rented sector awards, housing benefit spending would have been £3.5 billion lower in total across those five years.
- **It is bad for work incentives:** Housing benefit contributes to high participation tax rates for those moving into employment and high effective marginal tax rates for those increasing their earned income. Universal credit aims to tackle this, but the amount claimants who are receiving a rent subsidy will be able to earn before support is withdrawn will be far lower for those not receiving help with housing costs. Overall, higher rents are bad for work incentives, as they increase out-of-work income and require households to have higher earnings before they are free of means testing.
- **It is politically vulnerable:** Public hostility to housing benefit has enabled this government to significantly cut rent subsidy for low-income households with few political costs (arguably with the exception of the so-called 'bedroom tax'). In the face of proposals for further cuts, defending the status quo would be a mistake: the dynamics driving up housing benefit spending have serious downsides. Anger should to be turned away from claimants and pointed towards a system that poorly serves both claimants and taxpayers.

In summary, an affordable housing strategy so heavily skewed towards the benefits system has become market chasing, not market shaping. Given that the vast majority of public spending on housing is driven by demand, it can hardly be called a strategy at all.

The limitations of a centrally driven policy strategy

The growing dominance of rent subsidies has also cemented the grip of policy centralisation. Local authorities have responsibility for meeting housing need but no control over the overwhelming share of housing resources spent in their area. Councils are largely an administrative arm of the benefits system and a delivery arm of central government policy. They retain important functions – such as planning – but in other areas their powers are subject to substantial central constraints.

Housing benefit is not a flat-rate national entitlement, like other benefits, with levels of support varying between areas. But these levels are determined in Whitehall, with decisions applying uniformly across the country. Capital grants for affordable housing are administered by the Homes and Communities Agency (outside London); local authorities have limited scope to shape their private rented market; and, despite generally strong balance sheets and low levels of housing debt, council borrowing is tightly controlled. National government has a key role in meeting affordable housing need but a centrally driven strategy has two serious weaknesses.

- **It is unresponsive to variations in the housing market:** There are large variations between local housing markets that significantly affect the level of housing benefit spending needed to meet a given level of housing need (as distinct from differences in underlying housing costs). This means that the optimal balance between subsidising rents and building homes differs between areas, depending on local housing and

labour market conditions. Centrally driven policy cannot respond to these factors – it only reacts to them. A strategy that instead *shaped* local housing markets and *drove* value for money would *require* policy variation and innovation rooted in local knowledge and connections.

Levels of per capita spending on affordable housing should vary across areas, ideally varying by levels of disadvantage and underlying housing costs. However, our analysis suggests that this is often not the case, with differences in housing benefit spending between areas reflecting other housing market (and labour market) factors. These other drivers affect whether housing benefit delivers good value and so also highlight where local action to generate savings might be most productively focused.

- **The split between owners and renters:** Local areas with higher rates of homeownership have lower rates of per capita housing benefit spending, although these are not necessarily areas with higher average incomes. For example, average house prices and shares of the local population on out-of-work benefits (a strong proxy for deprivation) are very similar in Guilford and Ealing. However, the owner-occupation rate in Guilford is 18 percentage points higher than in Ealing, while per capita housing benefit spending is £519 lower (£773 a week in Ealing compared to £254 a week in Guilford).

  This suggests that in areas where the income-to-house price ratio is not high but rates of homeownership are relatively low, providing targeted support to those who want to buy would meet the aspiration for homeownership while reducing potential reliance on housing benefit. By contrast, in areas where low rates of homeownership are likely to be a function of high prices, increasing housing supply is essential to improving affordability.

- **The gap between average housing benefit awards across tenures:** There is no simple relationship between the share of claimants in the private rented sector and per capita housing benefit spending. The key factor is the *gap* between average housing benefit awards in the private and social rented sectors, which is driven by patterns of housing demand and household incomes. There are 26 local authorities where this gap exceeds £50 a week (or £2,600 a year), in London and the South East. In these areas, securing a better deal from private landlords and reducing reliance on the private rented sector would generate savings. As an illustration of the impact of tenure patterns, housing benefit spending would be over £2 billion *higher* a year if inner London claimants living in the social rented sector received the prevailing average local housing allowance rates.

  At the other end of the spectrum, there are 16 local authorities where the gap between average housing benefit awards in the private and social sectors is less than £1 a week. These tend to be weaker housing markets, such as Middlesbrough, Ribble Valley and St Helens, where average awards are low across the board. In these areas, boosting the employment rate among housing benefit claimants is likely to generate greater savings than shifting the tenure mix. Where the gap between local authority and housing association rents is high, providing higher capital grants in return for lower rents would reduce benefit expenditure.

- **The employment status of local housing benefit claimants:** Per capita housing benefit in the 20 local authorities with the lowest employment rates is around twice as high as in the 20 council areas with the highest employment rates. For example, average house prices, rental affordability and owner occupation are almost identical in Hyndburn and Pendle. However, in Pendle the share of

the local population on out-of-work benefits is two percentage points lower than in Hyndburn, while per capita housing benefit spending is 17 per cent less (£294 compared to £356 a year). In areas with a high proportion of residents on out-of-work benefits, getting more people into employment would significantly reduce local housing benefit spending (especially where claimants are on inactive benefits, like employment and support allowance or income support).

The extent to which a high employment rate limits local housing benefit caseloads and expenditure depends on local housing affordability. In general, the share of housing benefit recipients in work is higher where rents are less affordable, relative to earnings. In these areas, higher rents are likely to be a key driver of local housing benefit spending (such as in Harrow, where 42 per cent of housing benefit claimants are in work). Enabling such households to work or earn more would generate rent subsidy savings, as would downward pressure on average awards in the private rented sector and reducing dependence on this more expensive sector (assuming the gap with social rents is high).

- **Centrally driven policy means perverse incentives for local and central government:** If local authorities do take action that reduces the cost of meeting housing need, any resulting housing benefit savings accrue to the Treasury. Similarly, if councils are indifferent to local factors which are driving up rent subsidy costs – or actively pursue strategies that inflate them – they face no financial penalty. This would be less significant if housing benefit spending was simply a function of the economic cycle. However, local housing market dynamics – plus *structural* labour market factors – significantly affect levels of rent subsidy spending in different parts of the country over the long term, accounting for differences in underlying housing costs and levels of housing need.

  The distribution of power and incentives means that local government is left administering a rigid system over which it has little control, while gaining no rewards and facing no penalties for its performance. Meanwhile, to respond to higher housing benefit spending, the Treasury is limited to curbing generosity or entitlements across the board, in ways that are rarely related to the actual drivers of rising expenditure (for example, recent increases in housing benefit were not the result of a rising tide of unoccupied spare rooms).

A strategy for mobilising local leadership to shift from 'benefits to bricks'

Overcoming these problems will not be quick or easy. The biggest obstacle is the absence of institutional mechanisms and financial incentives capable of driving an adaptation of policy to the particular drivers of housing benefit spending across local areas. The central state's dominant currency of standardisation cannot accommodate this demand for spatial variation, even if it were possible for Whitehall to know the optimal policy mix for every area.

National government should set strategic direction for housing policy and expenditure. To support this, the Office for Budget Responsibility should undertake a detailed analysis of the various drivers of housing benefit spending and their relative significance. This process should also explore the sensitivities of expenditure to housing and labour market factors across different types of local area. In addition, a powerful cabinet committee, involving Treasury, CLG and DWP, should be established to drive Whitehall coordination and an appreciation of the links between the housing and labour markets and housing benefit spending.

However, deeper institutional innovation and a more substantial redistribution of power will be necessary to meaningfully shift from 'benefits to bricks' over time. Local knowledge and commitment must be matched with real powers and incentives for those capable of making a difference. This objective is hampered by the absence of strong, subnational governance arrangements, outside London and the devolved administrations. Therefore reform would need to be advanced in stages, consistent with local ambitions and capabilities.

As such, this paper proposes a phased plan for giving local areas powers and incentives to make the shift from benefits to bricks to the extent and in the ways most appropriate given their local housing and labour markets. We propose four separate phases, which could also serve as a menu of options for different parts of the country. Where possible, we give a sense of potential impacts using illustrative examples, although these do not necessarily reflect the modelling or intentions of the areas mentioned (unless specifically stated).

Phase 1: Enable earn-back deals between local councils and the Treasury to share the proceeds of local action to reduce housing benefit spending relative to forecasted costs.

Under their existing powers, local authorities can affect the level of housing benefit spent in their area, but have no direct financial stake in doing so. Therefore, as a first step, the government should create **a framework for local authorities to agree multiyear 'earn-back' deals with the Treasury**, allowing savings generated from local action to better meet affordable housing need to be shared. Such deals should be available to all local authorities with housing responsibility, with scope for them to be struck across multi-authority areas, including as part of wider city or county combined authorities.

Local authorities agreeing earn-back deals should also be given **greater scope to borrow responsibly against their housing assets**, to provide an injection of additional local housing investment that can help to reduce the pressure on housing benefit in their area. Estimates suggest this could support the construction of between 12,000 and 17,000 new affordable homes a year, depending on the scope allowed for reallocating spare 'headroom' within existing housing revenue account (HRA) caps or allowing councils to borrow up to their prudential limits.

Alongside existing locally held powers, the kinds of options available to local areas under phase one would include the following.

- Using planning powers, public land, responsible borrowing and the New Homes Bonus to increase local **housing supply**, including the building of new social housing. This could involve using the release of public land and section 106 agreements to secure deals with developers for more affordable housing or long-term lower rent. *Southwark Council plans to build 10,000 social homes over the next 30 years. If this led to a switch of just 100 tenants from the private to the social rented sector, it would generate savings of over £200,000 a year (at current benefit rates).*
- Using their role as a large-scale purchaser of tenancies on behalf of housing benefit claimants and a potential provider of property management and landlord services to drive better value for money from the **private rented sector**. *If Lewisham Council curbed average housing benefit awards in the private rented sector by £2 a week, by signing up private landlords to its property leasing service, gross housing benefit savings could be generated of around £22,000 per week, or over a £1 million a year.*

- Reducing management costs and reliance on expensive private properties for the purposes of securing **temporary accommodation** to discharge their homelessness duty. *Highland Council is aiming to save £1.4 million annually from their homeless budget by building properties to better meet temporary accommodation needs. Even more could be built if they were also able to retain a share of housing benefit savings*.
- Supporting out-of-work housing benefit claimants into **employment**, especially those on inactive benefits, where there are established local relationships between the council and claimants through housing and other local services. *If Nottingham City Council, for instance, supported an extra 10 single claimants on maximum LHA into work and off housing benefit, annual savings of £47,500 would be generated.*

Phase 2: Allow local authorities to redraw the broad rental market area (BRMA) for their area and revert to benefit payment to landlords, retaining a share of any savings locally.
Under phase two, local authorities entering into earn-back deals should be able to take on further powers to drive value in the private rented sector that would enable a more significant shift from benefits to bricks.

Broad rental market areas (BRMAs) are used to determine local housing allowance rates, but their large geographies render entitlements insensitive to variations in local housing costs. Landlords in some areas are able to overcharge the taxpayer, while completely pricing out housing benefit recipients elsewhere. Therefore, local authorities should be able to **replace the BRMA covering their boundary with one or more 'local rental market areas' (LRMAs)**. Based on local knowledge, this would enable councils to reduce the level of variance between local housing allowance rates and actual rents across its area. *Modelling by Sheffield City Council has identified around 1,500 properties where the local housing allowance paid is in excess of its market rental value. Bringing payments into line with such market values could deliver savings exceeding £300,000 a year*.

The direct payment of local housing allowance to claimants has increased costs and risks for private landlords, leading some to exit the housing benefit market altogether. Therefore, local authorities should be able to **revert to payment of housing benefit to landlords in return for lower rents**. This should also cover housing associations, which now fear rising arrears caused by the introduction of direct payments under universal credit. To achieve this change under universal credit, local authorities should be allowed to trigger the wider use of 'alternative payment arrangements'. *In piloting direct payments, the housing association Wakefield and District Housing (WDH) found rent shortfalls rising from 3 to 11 per cent. Wakefield Council could potentially secure lower rents or greater levels of new build from WDH in return for stopping the estimated £3.1 million of annual losses that could result from direct payments.*

Phase 3: Devolve housing capital budgets to combined authorities along with greater control over social rent-setting, to allow better value 'grants for rent' deals to be struck.
Under phase three, local authorities – acting together at a strategic scale – should be given powers to begin a *structural shift* from benefits to bricks, through a cycle of greater level of social and affordable housebuilding, in addition to negotiating the kind of bespoke savings outlined above.

To ensure that public investment in housing is aligned to local strategies for generating housing benefit savings, **housing capital budgets should be devolved to city and county**

combined authorities, conditional on agreeing an earn-back deal. Drawing on phase one and two powers, this would provide a further lever for cities and counties to strike deals with developers and housing associations that reduce reliance on rent subsides. *If Greater Manchester Combined Authority used some of its share of capital spending to finance new social homes in Stockport, savings of around £125,000 per year could be generated for every 100 tenants switched from the private to the social rented sector (or equivalent extra costs prevented if new need was not channelled into the private rented sector).*

While a national formula should continue to apply under this phase, local areas should be able to **pursue negotiated exemptions from social rent-setting rules, including to implement local 'pay to stay' policies.** A small minority of social housing tenants are on high incomes, but capital subsidies are harder to efficiently target than revenue subsidies. Therefore, in order to retain some flexibility within an overall shift to 'bricks over benefits', local areas should be able to allow social landlords to charge higher rents for tenants on higher incomes. This would boost their income, enabling them to cross-subsidise their social mission with a broader rental offer. *Research by the Centre for London estimated that £300 million a year in additional revenue could be generated in London by imposing a premium on social rents for 115,000 households on higher earnings (while protecting their social tenancy).*

Phase 4: **Provide cities and counties with an upfront, multiyear Affordable Housing Fund, to meet local housing needs through building homes and subsidising rents.** In contrast to earn-back deals, under phase four it is proposed that city and county combined authorities would have control over all housing expenditure earmarked for their area – on top of the powers and resources given under earlier phases – to strike a balance between building homes and subsidising rents. This would provide the maximum scope for directing public spending to most effectively meet affordable housing needs, given local housing and labour market conditions. Local areas would have multiyear funding certainty, enabling early investment, while savings generated would be available to local areas *immediately and entirely*, unlike under an earn-back deal.

Under phase four, local areas would be responsible for providing a system of rent subsidy to local people unable to pay their rent and for determining the rates of support available. A national eligibility minimum should guarantee that households with entitlement to out-of-work benefits (and, in time, maximum universal credit) will receive help with rental costs. Control over housing expenditure would give combined authorities far greater potential to bargain collectively on behalf of private rented sector tenants and a much stronger hand in striking 'grant for rent' deals with housing associations about new affordable housebuilding (including through local control of social rent setting).

Further options for combined authorities under phase four would include:

- retaining an equity stake or the freehold on new housing built on publically released land to capture a share of capital gains
- bringing empty properties into use, switching suitable properties from commercial to residential use, or directly purchasing properties where available at a good price
- investing in better housing solutions for those with specific needs, such as older people, disabled adults or ex-offenders (reducing local service duplication).

As part of the next spending review process, combined authorities should be invited to submit an **Affordable Housing Plan** to central government as the basis for securing an Affordable Housing Fund. These should set out how local control over resources would enable housing need to be better met – such as by expanding affordable housing supply

or driving value from the private rented sector – and how new rent subsidy and social rent-setting powers would be administered. Local **Affordable Housing Panels**, comprising residents and other housing stakeholders, should have a formal role in developing and scrutinising these plans.

The first round of Affordable Housing Fund allocations should be based on projected housing benefit spending in the combined authority area plus its share of housing capital investment. As an illustration, this could mean almost £1.5 billion for West Yorkshire, over £1.4 billion for Greater Manchester and Liverpool, just under £1 billion for South Yorkshire and just under £700 million for the North East. Future allocations should reflect a **formula based on local population, deprivation and housing costs**, to create the right incentives and not penalise high-performing areas. Public spending on housing should vary by area factors, with a strong redistributive dimension. Areas with high levels of deprivation and high underlying housing costs should receive the most per capita funding.

An Affordable Housing Fund would turn public expenditure on housing into a 'DEL' budget, with special characteristics. Given that allocations would take account of labour market and demographic projections, local areas should be expected to use their scale and multiyear budget to manage small variations from the forecast. However, there should also be a pre-agreed **'valve' triggering increases in funding from the Treasury in response to cyclically driven spikes in need**. This would also ensure that the automatic stabilisers react quickly in the event of an unexpected recession.

Under this phase of reform, greater local expenditure control should be matched by **stronger homelessness protections,** so that a wider group of households are covered by a duty to have their housing needs met (through a rent subsidy or access to an affordable home). Stronger 'local connection' rules would be needed, to prevent local areas 'exporting' those with housing need and to protect high-performing areas from attracting those in need. This would require a framework for agreeing transfers between local areas, such as for work or family-related moves.

There should also be **accountability** for how public money is spent and an **affordability index** developed to assess the performance of local areas in meeting local housing need. As a last resort, there should be provision to **'renationalise'** housing resources and responsibility, if there is evidence of substantial malpractice or financial mismanagement. Finally, in areas covered by an Affordable Housing Fund, rent subsidy should be kept **separate from the universal credit**. This would mean one set of work allowances (the earnings disregard), while local areas could assess entitlement for rent subsidy on the basis of income after universal credit. In designing this interaction there would be a trade-off between responsiveness and simplicity.

These four phases of reform offer a route to shifting, over time, from benefits to bricks, with powers and incentives put in the hands of those who can make a difference. The options set out here only give a flavour of what might be possible, but we believe a substantial 'down payment' on long-term reform could be made during the next parliament. Moreover, this strategy aims to offer a plausible way for the next government to navigate the tough fiscal road ahead far better than has been the case over the last few years. The dangers of inaction, given the trends in the housing market and the state of the public finances, are frightening. A better affordable housing strategy will not be easy or achieved overnight, but we can and must do better.

1. INTRODUCTION: DEEPENING THE CASE FOR A SHIFT FROM BENEFITS TO BRICKS

In our 2012 report, *Together at home: A new strategy for housing* (Hull and Cooke 2012), IPPR set out the case for reversing the 30-year drift in public spending from building homes to subsidising rents. We argued that this dramatic, long-term shift has been a significant factor in a number of the current problems in the UK housing market, not least the undersupply of affordable homes and the rising housing benefit bill.

The negative consequences of this trend in policy and spending were partially masked during the years of economic growth before 2008. Rapidly rising house prices and rents drew investment into private housing developments, offsetting to some extent low rates of social and affordable housebuilding. Increases in housing benefit expenditure were less visible when tax revenues were buoyant, while underlying spending pressures were kept in check by growth in incomes and employment.

However, over the last few decades serious vulnerabilities were building up under the surface. Housing supply lagged well behind rising demand, meaning prices far outstripped incomes. This contributed to the rate of homeownership declining, meaning more households were renting and, therefore, potentially eligible for housing benefit. A growing share of those renters lived in the private sector, where rents were higher and rising faster than in the social sector. The financial model for affordable housebuilding relied, in turn, on large-scale government subsidising of rents.

Then, when the financial crisis hit, these vulnerabilities were exposed. Levels of housebuilding collapsed, due to a correction in house prices and (more importantly) a seizure in the supply of mortgage credit. This revealed our dependence on the private development sector and volatile land markets to meet the public need for sufficient homes. The recession saw tax revenues shrink and housing need rise, as employment contracted and wages flatlined.

An increase in the housing benefit bill was the inevitable – and necessary – consequence. But with such a large share of those needing help to pay the rent living in the more expensive private sector, the impact was substantially amplified. In response, the current government has hacked back at the generosity and eligibility in housing benefit, in ways that have caused hardship but are largely unrelated to the actual drivers of higher costs. For instance, the so-called 'bedroom tax' was not preceded by a sudden rise in the number of unoccupied rooms across the social housing stock.

Even more perversely, capital investment in new housing has been subject to very large cuts, despite this constituting an investment in an asset likely to deliver long-term returns. Instead, the government has opted for a model of financing affordable housing that relies on a *greater* revenue subsidy via housing benefit. However, the concurrent squeeze on rent subsidy has made that model less attractive to housing associations in the short run – increasing their borrowing costs – and less sustainable altogether over the long run.

More broadly, the centrepiece of the government's housing policy – Help to Buy – is a market-chasing rather than market-shaping strategy. It *depends* on rising house prices, while the element of the scheme that is linked to new supply has been poorly timed. This could have given a welcome boost to the construction sector two or three years ago, but instead was introduced as economic recovery began to take hold. Finally, in a further attempt to boost private housebuilding, requirements on developers to build affordable rented homes have been relaxed, thus squeezing one part of the system that can absorb housing need at a relatively lower cost to the taxpayer (CLG 2013a).

In short, the factors that prompted our focus on the balance in public expenditure between building homes and subsidising rents when we wrote our previous report have only intensified. With all parties committed to further reductions in public spending during the next parliament, including a cap on non-cyclical working-age welfare, the need for a more strategic approach to housing expenditure is arguably even greater. Without a significant change of policy direction, the latest forecasts suggest:

- House prices will rise by 30 per cent per cent by 2019 (OBR 2013), with Shelter suggesting that average house prices could double to £446,000 in a decade (Jeffreys et al 2014).
- The growing mismatch between supply and demand will mean that homeownership continues to fall, dropping to 64 per cent by 2018 (down from a peak of 71 per cent in 2003) (OBR 2014) and could fall to 62 per cent by 2025 (Alakeson 2012).
- The share of private renters will rise by a further four percentage points by 2025, up from 18 per cent to 22 per cent (ibid).
- Rising demand for private rented housing will see private rents rise by 40 per cent by 2020, taking the average cost of private renting from around £9,000 per year now to £12,000 a year by 2020 (NHF 2013).
- The relative size of the social housing sector is set to fall to 16 per cent of households by 2025, down from 18 per cent in 2012 (Alakeson 2012).
- Even as the economy recovers, the housing benefit caseload is forecast to rise by around 125,000 between 2012/13 and 2018/19, while the number of people in receipt of jobseekers' allowance (JSA) is set to drop by more than 600,000 over the same period (HMT 2014).
- More housing benefit recipients will be in work, with a 40 per cent rise in the share of the caseload not also receiving an out-of-work benefit by 2019 (ibid), as fewer households find they are unable to afford their rent without a subsidy.
- The share of housing benefit claimants in the private rented sector will increase by two percentage points between 2014 and 2019, while the share in the lower-cost social rented sector will fall by an equivalent amount over the same period (ibid).
- By 2018/19, the housing benefit bill will be £25.4 billion, with real-term rises expected throughout the next five years of projected economic growth and falling unemployment. Rent subsidy sending is expected to settle at a level £8 billion a year higher in real terms than it was before the recession (2007/08).

Since we published *Together at home*, the principle of shifting expenditure from 'benefits to bricks' has generated considerable debate in the housing sector, with organisations such as Shelter also publishing analysis of this issue.[1] It has also received political attention. In a speech last year, Labour leader Ed Miliband echoed our critique of the status quo in a speech about his party's commitment to addressing the structural drivers of social security expenditure:

> **'We can't afford to pay billions on ever-rising rents, when we should be building homes to bring down the bill. Thirty years ago for every £100 pounds we spent on housing, £80 was invested in bricks and mortar and £20 was spent on housing benefit. Today, for every £100 we spend**

1 For example, Shelter published a report on the potential to reduce the housing benefit bill by investing in the supply of affordable homes: http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/bricks_or_benefits_rebalancing_housing_investment

> **on housing, just £5 is invested in bricks and mortar and £95 goes on housing benefit. There's nothing to be celebrated in that. Let me be clear: any attempt to control housing benefit costs which fails to build more homes is destined to fail.'**
> Miliband 2013

A similar argument has also been made recently by a senior Liberal Democrat MP, with party president Tim Farron stated in an interview with Inside Housing that:

> **'Housing benefit has gone completely out of control, but that's because rents have gone out of control … you could encourage social landlords to provide housing that is less expensive and therefore incurs a lower benefit bill by frontloading stuff you would have spent in benefits, potentially through a grant.'**
> Quoted in Apps 2014

However, despite considerable consensus about the problem we highlighted, there have also been doubts about whether reversing the last three decades of housing policy is possible, at least without the risk of major downsides. These doubts range from principled arguments in defence of rent subsidies and nationally uniform social policies through to practical concerns about the mechanisms for shifting the balance of spending and the capabilities of those potentially empowered to do so (in particular, subnational tiers of government). Throughout, the importance of not exposing those with less power and fewer resources to greater disadvantage has been rightly stressed.

In response to these challenges, we have deepened our analysis and refined our ideas. Our aim has been to provide a practical plan, addressed to political realities and capable of responding to reasonable concerns. To achieve this we have engaged with a number of local authorities – including Sheffield, Manchester, Blackpool and Stockport – in order to better understand the challenges and opportunities that exist across different local housing markets. We have discussed with them the potential for making better use of the public money that is spent in their areas in the service of making housing more affordable.

We believe this engagement has strengthened our analysis and proposals, the fruits of which are laid out in this report. And we are indebted to all those who have taken the time and effort to share their experiences and ideas. Two years on, we are if anything more persuaded of the need to strike out in a fundamentally different direction in strategies to meet affordable housing need. The contradictions of the current settlement are even more pronounced and the future looks even bleaker, at least in the absence of deep, structural reform.

Our thinking and ideas have developed in a number of areas, which are reflected in the chapters that follow:

- a stronger understanding of the links between local housing markets and benefit expenditure
- a more detailed analysis of relevant variations in housing markets across the country
- a better sense of the strategies that could reduce reliance on expensive rent subsidies
- a clearer set of options for how power and resources could be gradually redistributed to incentivise better use of public money to meet affordable housing need
- a series of protections that could help to prevent these powers being misused.

In this report we first explore the deficiencies of our heavy reliance on a lopsided, benefit-driven housing strategy, which are made worse by the tight control of housing expenditure in Whitehall. We then show how, through the gradual decentralisation of power and resources, local leadership and action could be unleashed to shift from central spending on rent subsidy to capital investment in local housing markets. Finally, we consider what impact this could make in practice and how reforms could be designed in ways that protect those people and places which could otherwise be exposed to further disadvantage.

Our proposals are driven by the desire to make housing more affordable, in ways that make better use of scarce public resources. We do not argue that the strategy set out in this report would solve all of the UK's housing problems, much less do so quickly. We are clear that it must be combined with action on a range of fronts to rapidly expand housing supply, reform the land market and reshape the private rented sector. However, we believe that more explicit connections between the housing market and the benefit system would be desirable, even if fiscal pressures did not require it.

We hope this report generates further discussion and debate. But most of all we hope it forces people from across the political spectrum to confront the scale of the weaknesses in current housing policy, while encouraging determined action to strike out in a new and better direction.

2. THE FAILURES OF AFFORDABLE HOUSING STRATEGY OVER THE LAST THREE DECADES

This report argues that the core strategy for securing affordable housing pursued by governments of all parties over the last three decades needs to be effectively reversed.

Broadly speaking, this strategy has had two main elements. First, an overwhelming reliance on the benefits system to finance affordable housing – both directly, by subsidising rents for low-income households, and indirectly, by subsidising the borrowing and revenues of housing associations. Second, confidence in the agency of Whitehall to meet affordable housing needs across the country, through national policies like housing benefit and via a mix of obligations and controls placed on local authorities and other local housing providers and landlords.

This chapter explains why both elements of this prevailing strategy have serious theoretical and empirical weaknesses. It shows how they come under particular strain when – as now – the gap between housing supply and demand is large, public expenditure is constrained, and key variations between local housing markets are substantial.

The weaknesses of a benefit-driven expenditure strategy

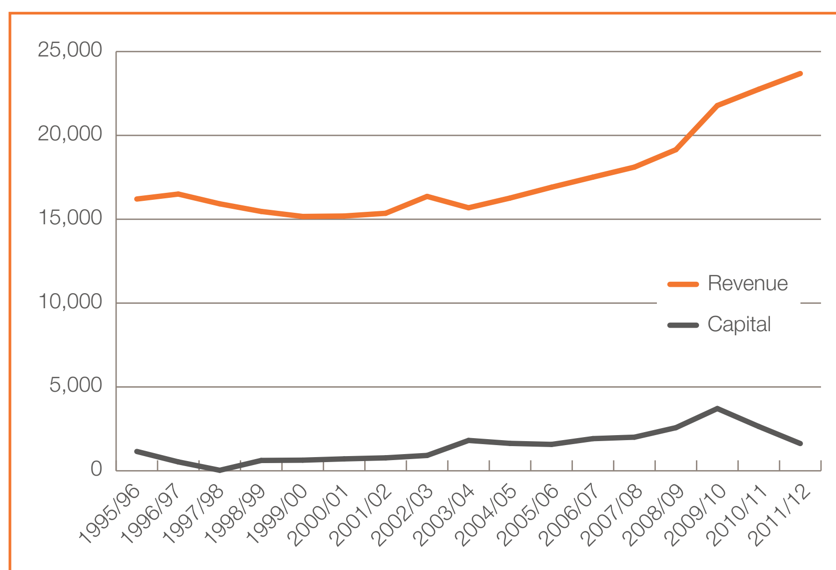
There are many advantages to rent subsidy policies like housing benefit. In principle, they can promote choice, flexibility and mobility for individuals, while allowing public support to be targeted on those who need it most. They can ensure that those on a low income can afford a roof over their head, while taking account of variable housing costs and being responsive to cyclically driven need.

For all these reasons a system of rent subsidies will, rightly, continue to play a major role in meeting affordable housing need across the country under any plausible future scenario. However, there are a number of strong reasons to think that spending on housing benefit, relative to capital investment, is badly out of kilter, especially when there is such a mismatch between supply and demand in the housing market (Andrews et al 2011) and when the desire to reduce public spending is leading to perverse and damaging decisions about housing expenditure.

In *Together at home* we highlighted that 95 per cent of spending on housing is now channelled through housing benefit, with just 5 per cent invested in building affordable homes (Hull and Cooke 2012). This more than reverses the position in the mid-1970s, when investment in supply was around 80 per cent of government spending on housing, compared to about 20 per cent on rent subsidy (Stephens et al 2005). Based on the latest data, the split between revenue and capital spending on housing across this parliament, despite significant improvements in the economic outlook, looks set to be 6 per cent on investment to support new housing construction via the Homes and Communities Agency (HCA) and 94 per cent on housing benefit (HCA 2014, HMT 2014)

Housing benefit expenditure has risen steadily and strongly for the last three decades, while spending on unemployment benefit (latterly JSA) has risen and fallen with the economic cycle. At £23 billion and rising, spending on rent subsidy now outstrips JSA by a ratio of 5:1 (ibid). This has been combined with far slower real-terms increases in housing capital investment (and sharp cuts since 2010). As figure 2.1 shows, the gap between revenue and capital spending on housing has grown even wider during this parliament, with housing benefit continuing to rise despite entitlement restrictions and a 60 per cent cut in housing capital grants since 2010.

Figure 2.1
Revenue and capital expenditure on housing since the mid-1990s ('000s)



Source: HMT 2014, Pawson and Wilcox 2013

According to data from the OECD, the UK is a comparatively large spender on rent subsidies and has the highest proportion of families receiving support with rental costs across the developed economies (Andrews et al 2011).

A benefit-driven strategy has left public spending exposed to economic shocks

One of the main lessons from recent years is the extent to which a benefit-driven strategy, pursued over a long period, has left public spending extremely vulnerable to economic shocks. This vulnerability built up in the years prior to the financial crisis. Between 1991/92 and 2007/08, housing benefit expenditure rose from £10.1 billion to £18.5 billion in real terms, despite 15 years of uninterrupted growth and the number of households in receipt of rent subsidy actually being lower at the end of this period (4.0 million) than at the start (4.1 million) (DWP 2014).[2]

Higher levels of unemployment and stagnant wages have undoubtedly been crucial in driving steep increases in the housing benefit bill since the financial crisis. Indeed annual expenditure on this benefit rose by £6.4 billion in real terms over the five years following the financial crisis (2007/08 to 2012/13), compared to an equivalent rise of £2.7 billion in spending on JSA (ibid). This is explained by a larger housing benefit caseload increase over this period (an extra 1 million claimants, compared to an additional 690,000 receiving JSA[3]) and the higher average weekly housing benefit award (now £89.90, compared to the JSA rate of £71.70 a week, for those 25 and over).

However, crucially, the larger caseload impact and greater unit cost which drove such a spike in expenditure, while they were prompted by cyclical factors, were in reality the product of deeper upward pressures on housing benefit that long pre-date the financial crisis. These pressures are rooted in tenure, rents and demographic changes, themselves shaped by the dynamics of local housing markets. They explain why expenditure rose so far and so fast when the economic shock increased housing need.

2 Spending figures given in 2014/15 prices.

3 This illustrates the rising number of in-work housing benefit claimants over recent years. In fact, between 2007/08 and 2012/13 the number of claimants of out-of-work benefits (JSA, income support, ESA/IB) *dropped* by 259,000.

The headline elements of that story are as follows (see Hull and Cooke 2012 for more detail).

- From the early 1980s, new social housing construction virtually stopped, while the existing stock was depleted through Right to Buy. This reduced the availability of affordable rented accommodation, while increasing Britain's reliance on developers of private market housing to meet supply needs.
- From the early 1990s, the private rented sector expanded as a result of market liberalisation (including the ending of all rent control), while large numbers of the remaining local authority-owned properties were transferred to housing associations. These changes both increased the average level of rents being subsidised through housing benefit.
- From the early 2000s, the growing gap between housing demand and supply contributed to house prices rising much faster than incomes. This led to a drop in homeownership and an increase in renting. This growth was largely absorbed in the private sector (CLG 2014a), where rents were rising faster than in the social sector (and from a higher base).
- Therefore, by the time recession hit, a larger share of households were renting, and more of them were renting in the private sector, where rents had been rising faster. And more of those in the social rented sector were living in housing association properties, where rents are on average 13 per cent higher than in local authority-owned homes (DWP 2014).

In combination, these factors left the housing benefit bill extremely vulnerable to an increase in need from falling household incomes, which is exactly what happened after 2008.

These prerecession trends also took on distinctive demographic and geographic dimensions. The decline in homeownership meant a greater share of the working-age population was renting and therefore potentially eligible for housing benefit. Spending on these households is relatively higher as they tend to be larger than pensioner households. The shift towards working-age and in-work claimants has been especially pronounced in London (London Councils 2013) and other high-cost areas, as a consequence of house prices and rents rising faster than the national average (Nationwide 2014, Homelet 2014).

A benefit-driven strategy contributes to not building enough homes

Looking more closely at these factors, the growing reliance on the benefits system to meet affordable housing need has been underpinned by the long-running failure to increase housing supply in line with rising demand. Such undersupply has a range of causes, not least a dysfunctional land market.[4] But one important factor has been the retreat of publically supported housebuilding, which has accompanied the rapid rise of housing benefit spending (and has, in turn, contributed to it).

This retreat began in the early 1980s when the scope for local authorities to finance their own developments was severely curtailed. The once-formidable building patterns of local authorities (exceeding 100,000 new homes a year at the beginning of the 1970s) have all but disappeared, leaving a void that housing associations have not been able to fill.[5]

4 For a good overview of the issues, see Lloyd 2014.

5 The average number of new local authority dwellings in the 1970s was 103,000 per year. Housing associations in the period since have peaked at 33,000, and typically deliver around 20,000 new units per year (CLG 2014b: table 208).

Instead, successive governments have 'let housing benefit take the strain' (Wilson 2013a) by indirectly subsidising the borrowing and revenues of housing associations. However, while this has produced a substantially larger and rising benefit bill, there has not been a supply response on anything like the scale needed.

This revenue financing strategy has become even less plausible as a greater share of rent subsidies has been paid to private landlords, where there is no connection to new supply. Most private landlords are amateurs, seeking an income stream while protecting their asset but with little interest in building new homes (Davies and Turley 2014). Though the potential for a larger 'build to let' market has been much discussed (see for example Symons and Rodriguez 2011), its role in the UK housing market, let alone the housing benefit submarket, remains marginal.

The result has been a breakdown in the partnership between public and private sectors which together achieved rates of housebuilding that sometimes topped 300,000 a year in the postwar decades. The retreat of publicly supported housebuilding has left the country reliant on the private sector to deliver sufficient new housing (CLG 2013b), and the experience of the last three decades is that it is incapable of doing so alone. This is in part because of market volatility and a business model that requires rising prices, which means *limiting* supply (Dolphin and Griffith 2011). The planning system imposes costs and constraints on development, though similar regimes applied in the 1950s and 1960s, when the private sector delivered upwards of 200,000 homes a year. In recent decades, private output has been in the range of 100,000–150,000 homes a year.[6]

The resulting mismatch between supply and demand has generated sustained rises in house prices that have persistently outstripped income growth. As potential buyers are locked out of ownership they stay longer in the rental market. Combined with severely limited access to social housing, increased demand in the private rented sector has allowed landlords to raise rents on their properties.[7]

Shortfalls in housing supply impact on public spending, given that the cost of renting is a key driver of housing benefit expenditure.[8] To illustrate this point, analysis by the Department for Work and Pensions (DWP) found that over half (53 per cent, or £4.7 billion) of the rise in housing benefit paid in the private rented sector between 2000/01 and 2009/10 could be attributed to growth in eligible rents (which rose by 45 per cent across the decade). Over this period, an even greater share of the growth in housing benefit spending (63 per cent, or £2.6 billion) in the social rented sector was accounted for by rising rents (which rose by 25 per cent in the decade to 2010/11) (DWP 2013a). Caseload growth (of over half a million across the decade) was a far bigger driver of housing benefit spending in the private than the social rented sector, as falling real incomes and rising rents dragged more households into eligibility for rent subsidy.

The DWP's analysis makes clear that structural housing market factors – rooted in an undersupply of affordable properties – are important drivers of housing benefit spending that will not be reversed simply through an improvement in the labour market.

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6 Efforts have been made to increase the number of affordable homes to rent and buy built as part of private developments, such as section 106 agreements or through inducements such as access to public land at preferential terms.

7 Exploring these relationships, Beatty, Cole and Powell found a strong correlation between high house prices and higher private market rents (c=0.95); see DWP 2013b.

8 This applies to both the private and social rented sectors, albeit that the social sector is more closely tied to government controls.

Looking ahead, changes to the way the local housing allowance (LHA)[9] is set mean that rent rises in the private sector will be a less significant driver of future increases in housing benefit expenditure. However, this has not been achieved by damping rent inflation through an increase in housing supply, but instead by decoupling rental patterns from benefit entitlement, condemning those in need of rent subsidy to ever fewer areas and lower property standards. By contrast, *social* rent rises are projected to continue being an important driver of housing benefit expenditure, as the government's affordable housing strategy continues to rely on rent subsidy over capital grants, despite this delivering poor value for taxpayers' money (see for example HMT 2013a).

A benefit-driven strategy delivers poor value for taxpayers' money
In principle, rent subsidy in the social sector enables housing to be provided at below-market rates, with the value of the asset able to be leveraged to finance further construction. However, in practice, this has not proved an effective mechanism to underpin affordable housebuilding activity, at least not on anywhere near the scale required. Nor has increased benefit spending in the private rented sector led to an expansion of the 'build to let' market. But as well as being ineffective, a benefit-driven strategy is also inefficient. It delivers poor value for taxpayers' money, when supply lags so far behind demand, relative to capital investment, which has a large multiplier effect (Regeneris Consulting and Oxford Economics 2010).

Taxpayer support for housing is channelled through either capital or rent subsidy. In the social and affordable sector there is a trade-off, with a lower capital grant requiring higher rents and vice versa (even if, in practice, the housebuilding also involves an element of cross-subsidy via private housing for sale or rent). This trade-off is explicit in the impact assessment of the current government's Affordable Rent programme, which cut capital grants in exchange for allowing social housing providers to charge higher rents. Where tenants are in receipt of rent subsidy (the large majority) the government is paying out higher housing benefit costs to offset lower grants (CLG 2011). According to the National Audit Office, the trade-off that has been struck during this parliament is potentially bad value for the taxpayer over the long term, with estimates suggesting that the Affordable Rent programme will lead to additional housing benefit costs of around £17,500 per property over a 30-year period (NAO 2012).

Greater reliance on revenue subsidy relative to capital grant also increases risks for providers of social and affordable housing. It means a larger share of their financing is vulnerable to rent arrears, tenancy voids and changes to social rent policies and the benefits system (of which there have been many in recent years). These factors increase the cost of borrowing for housing associations and their development partners, building additional inefficiencies and waste into the system (see CLG 2011). Investing in supply, by contrast, allows the taxpayer to share in the rising value of properties and the rents that can be charged on them, as well as generating economic activity and jobs.

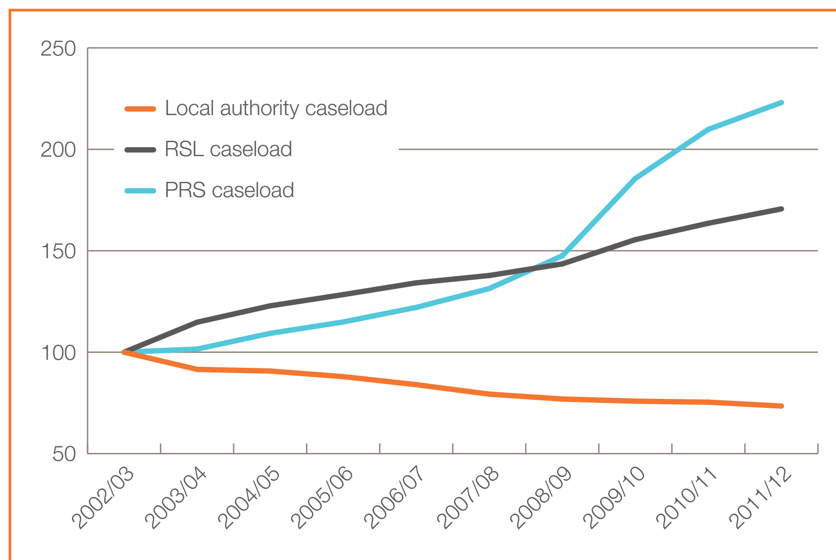
By contrast, when paid to private landlords, housing benefit provides a public subsidy for a privately own asset without the taxpayer sharing in any of the revenue or capital gain it generates (Webb 2012). Annual spending on housing benefit in the private rented sector is now £9.3 billion – or one-third of all public expenditure on housing (HMT 2013b). Boosting demand, via rent subsidises, without an expansion of supply also risks inflating rents. The result is that housing benefit is chasing the market, rather than shaping it.

9 The formula for determining housing benefit entitlement in the private rented sector.

Of course, the immediate purpose of housing benefit is to enable those on low incomes to be adequately housed. Yet even on this issue, the drift towards increasing reliance on the private rented sector means increasingly worse value for taxpayers' money. At £106 a week, the average weekly housing benefit award in the private sector is 23 per cent higher than in the housing association sector (at a weekly average of £86) and 39 per cent higher than in local authority properties (at weekly average of £76) (DWP 2014).

The impact of these cost differentials has been exacerbated in recent years by the changing balance of claimants across the three subsectors of the housing benefit market. These trends are illustrated in figure 2.2, which shows that caseloads have increased most in the more expensive private and housing association sectors, while falling in the cheaper local authority sector. Combined with the rent disparities noted in the previous paragraph, this explains why two-thirds of the growth in housing benefit spending between 2008 and 2010 resulted from higher spending in the private rented sector (BSHF 2012).[10]

Figure 2.2
Caseload patterns by housing benefit subsector (index: 100 = 2002)

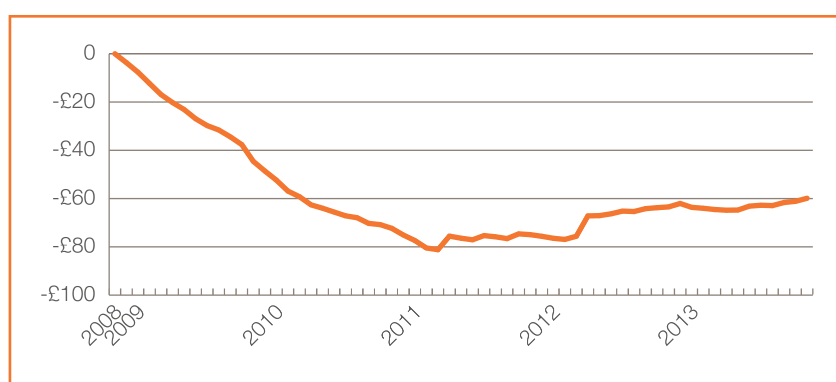


Source: Authors' construction using HMT Benefit and Caseload Tables 2014

To illustrate the additional costs resulting from greater reliance on the private rented sector in recent years, we conducted a simple exercise to consider how much less would have been spent on housing benefit if the net number of additional claimants between 2009 and 2014 had received average awards equivalent to those in the social (across housing association and local authority properties) rather than private rented sector. The results are shown in figure 2.3: 'savings' (relative to actual expenditure) would have been large after 2009 before reducing from 2011, as a result of rising housing association rents and cuts to LHA entitlement.

10 Moreover, it is arguable that from the tenant's perspective they get an equivalent if not better product in the social sector than in the private rented sector (Davies and Turley 2014).

Figure 2.3
Estimated monthly savings if additional housing benefit claimants had received average social sector awards, 2009–2014 (£m)



Source: Authors' calculations based on DWP 2014

This experiment makes clear that the large gap in average weekly awards between the private and social rented sectors meant that meeting higher demand for housing support during the economic recession was both expensive and poor value for money. Had the additional 590,000 claimants in the private rented sector received average social rented sector awards, housing benefit expenditure would have been cumulatively £3.5 billion lower across the five years from 2009 to 2014.

To put this figure in context, had this money been available for redeployment, it could have supported the development of 58,000 new affordable homes at a generous grant rate of £60,000 per unit, which could have been used to secure a deal for long-term lower rents. Or it could have cancelled out the (forecast) reduction in benefit expenditure from the so-called 'bedroom tax' seven times over.

This is an idealised exercise and, of course, when the recession began there was not spare capacity in the social rented sector to meet rising need. But the financial crisis was not only followed by growth in people *moving into* the private rented sector; there was also an increase in the number of people *already living in that sector* who now needed help to pay the rent. Higher rents meant the cost to the taxpayer of meeting that need was much greater than if more of those households had been in social or affordable rented housing prior to the recession. Indeed, this would have meant fewer households needing a subsidy at all after suffering a fall in income, as rents would have been more affordable, without the need for housing benefit.[11]

Without structural reform capable of shifting the current balance of caseload and the gap in average awards across the private and social/affordable sectors, the public finances are extremely vulnerable to a future labour market shock that would lead to a further spike in housing benefit spending from what is already a high baseline.

A benefit-driven strategy is bad for work incentives

Housing benefit is one of the features of the benefits system that generate poor work incentives. It contributes to the imposition of high participation tax rates on those moving into employment and high effective marginal tax rates on those increasing their earned income. The introduction of the universal credit aims to improve this situation,

11 Or if they had been homeowners and therefore ineligible for housing benefit. Homeowners on out-of-work benefits are able to claim help through Support for Mortgage Interest (SMI). However the average annual payment to those on SMI is £1,800, less than half the equivalent figure for housing benefit. Even at the height of the recession, annual spending on SMI only reached £610 million (for 2009/10, in today's prices) (HMT 2014).

by increasing the *amount* that can be earned before housing support starts to be withdrawn (the so-called 'work allowance') and reducing the *rate* at which such support is withdrawn.

However, work allowances will be far smaller for those receiving a rent subsidy: for instance, a single claimant with children not receiving help with housing costs will be able to earn £734 a month before their universal credit entitlement starts to be withdrawn, compared to just £263 a month for an equivalent claimant who does receive housing support. Moreover, by drawing more households into means testing: 'higher real rents tend to weaken the incentive to work at all and the incentive to earn more as they increase the level of out-of-work income and lead to more people facing steep withdrawal of housing benefit when they earn a little more' (Adam et al 2010).

Therefore, the potential work incentive gains from the universal credit are being offset by rising rents in the private rented sector and increasingly in the housing association sector as well. This conclusion was supported by the Department for Communities and Local Government's impact assessment of Affordable Rent which found that: 'theoretically, because of the withdrawal of housing benefit as income increases, the higher someone's rent, the longer and deeper the poverty trap they face and the worse their incentive to increase their level of income' (CLG 2011).

Meeting affordable housing need overwhelmingly through rent subsidies that compensate for high rents is bad for work incentives. More households are dragged into means testing as they cannot afford to pay their rent from their own income and higher earnings are clawed back in attempts to restrain benefit expenditure. Caseload growth in the private rented sector and growth in rents in the 'affordable' rented sector are exacerbating this problem, directly contradicting the objectives of the government's universal credit reform. Among its many advantages, expanding access to more genuinely affordable rented properties would improve work incentives by keeping more households free of means testing altogether.

A benefit-driven strategy is politically vulnerable

Finally, an affordable housing strategy that is heavily reliant on the benefits system faces major political vulnerabilities. Like much of the (working-age) social security system, there is hostility to housing benefit among large sections of the population. At the extreme, this is associated with subsidising large families and people not in employment to live in houses or locations that would not be possible for working people, while promoting a 'culture of dependence' (see Doran and Tinker 2013).

This is a distortion of the truth. Nonetheless, popular perceptions like these have created a political climate in which the current government has been able to significantly cut back rent subsidy for low-income households with relatively little public backlash. Some of those changes – like uprating the maximum LHA in line with the consumer price index (CPI) rather than market rents, which breaks the link between housing support and housing costs (Work and Pensions Select Committee 2013) – will leave those reliant on housing benefit to pay the rent permanently worse off, both financially and in their access to housing.

Challenging misconceptions about housing benefit is vitally important, but pursuing a political strategy based on defending the status quo would be a major mistake. Proposals for further cuts to entitlement and generosity of housing benefit are likely to continue emerging, as upward pressures on benefit expenditure clash with the imperative to reduce the deficit (including via the recently introduced 'welfare cap', which covers a substantial share of rent subsidy spending).

Effective opposition requires a plausible alternative. This starts from recognising that the dynamics that have driven higher housing benefit spending have serious downsides in making housing less affordable over the long term. Anger needs to be turned away from the recipients of housing benefit and directed towards a system that poorly serves claimants and taxpayers alike, while also militating against an effective, resilient and popular approach to affordable housing. Falling unemployment and rising wages will ease pressure on the housing benefit bill, but such gains are likely to be offset by structural drivers of spending that result from increasing reliance on the benefits system to meet affordable housing needs.

Over the longer term, an affordable housing strategy so skewed towards the benefits system has become market-chasing, not market-shaping. Given that the vast majority of spending is driven by demand, it can hardly be called a strategy, which implies intent and direction. Reliance on the benefits system is ineffective at increasing levels of housebuilding; in fact it risks making housing more expensive. And it delivers increasingly poor value for money, as the share of rent subsidy paid to private landlords goes up. This makes the unit cost of meeting a given level of housing need higher while failing to generate any return for the taxpayer. That is not a settlement worth defending.

The limitations of a centrally driven policy strategy

A close corollary of a benefits-driven approach to financing affordable housing is the centralisation of power and decision-making. In fact, they go hand in hand, with the shift to reliance on rent subsidies cementing the grip of centralised control. The result is that local authorities have responsibility for meeting housing needs among their local population, but no control over the overwhelming share of resources spent in their area for that purpose. In practice, councils are an administrative arm of the benefits system and a delivery arm of central government policy.

Relative to many areas of policy, local government does theoretically retain significant functions in relation to housing, with district councils and unitary authorities in the lead. However, in practice, these powers are subject to substantial constraints. For example, local authorities are responsible for:

- administering housing benefit – subject to nationally determined rates and eligibility[12]
- allocating social housing – subject to statutory guidance
- preventing homelessness – subject to statutory duties
- maintaining a housing revenue account (HRA) – subject to caps on borrowing
- approving planning applications – subject to the National Planning Policy Framework
- taxing residential properties – subject to national council tax banding and a referendum lock on annual increases above 2 per cent.

Local authorities have largely unrestricted control of the land they own, with encouragement from central government to release it for housing development on preferential terms. They have the ability to negotiate 'planning gain' with developers (through section 106 agreements and the Community Infrastructure Levy[13]) unfettered by Whitehall. And they have historically had a choice over whether to retain ownership of social housing or to transfer their stock to housing associations (with similar choices

12 This role is set to be removed from local authorities and centralised through the implementation of universal credit.

13 Section 106 agreements are deals about the terms of planning permission, often involving investment by a developer in infrastructure or affordable housing in return for gaining permission to build new homes.

on housing management), although again there are a range of incentives to encourage stock and management transfers (see Pawson and Fancy 2003).

However, despite these powers, it is Whitehall that holds the purse strings, controlling around £25 billion a year of public expenditure for housing, overwhelmingly spent through the benefits system. Local conditions do in part shape *how much* is spent in local areas, given that housing benefit, unlike other social assistance benefits like JSA, pays out different amounts on account of where claimants live. Rates of rent subsidy vary substantially across geographies and properties, with the objective of enabling access to similar types and quality of housing across wide areas.[14]

However, *decisions* about housing benefit entitlement and generosity are taken in Whitehall, largely by DWP and the Treasury (despite the fact that the Department for Communities and Local Government (CLG) is the department responsible for housing) and apply uniformly across the country. One of the most striking aspects of the furore about the so-called 'bedroom tax' is the degree of micro-management implicit in central government determining how many bedrooms different household types should be supported to have.

Capital grants for affordable housing are administered by the Homes and Communities Agency (outside London), with subsidy directed to housing associations. Central government also injects finance into the housing market through first-time buyer and mortgage subsidy schemes, such as Help to Buy. Significantly, local authorities have very limited scope to shape or manage the private rented market in their area, despite this being the main growth area of public spending on housing, as outlined in the previous section.

Technically, local authorities have independent control over some housing resources in their areas, through rental income from their own social housing stock, council tax revenue, 'planning gain', revenue from the New Homes Bonus and, more recently, discretionary housing payments. These have been boosted in recent years to patch up the very sharpest end of problems caused by the government's housing benefit reform. Local authorities spend a little under £3 billion a year on 'total housing services', covering homelessness services, housing benefit administration and the Supporting People programme (CLG 2014c).

However, these amounts are dwarfed by central government expenditure through HCA capital grants and especially housing benefit expenditure. The Treasury imposes stringent controls on the scope for local authorities to borrow to invest in affordable housing, despite their generally strong balance sheets, often with low levels of housing debt and valuable assets that generate long-term income.[15]

There is an important debate to be had about the relative merits and drawbacks of central direction and control over housing policy, relating to questions of principle and practice (see for example Webb 2012). Its proponents argue that only national government can pursue equal treatment across the country and ensure a basic minimum for all citizens. They also argue that the central state is often the only site of political power capable of acting at scale to achieve major strategic goals, like boosting housing supply.

14 The other benefit with rates that vary by location is council tax benefit, although this is no longer a national benefit.

15 Analysis suggests that a moderate relaxation of these caps could allow a significant increase in local housing supply (Griffiths and Jeffreys 2013).

These arguments have merit and under any plausible scenario central government will retain an important role in advancing national objectives on housing, not least as a major funder. However, the current distribution of power and responsibility has not been capable of shaping or overcoming the market forces that tend towards housing becoming less affordable. This failure has in turn generated a substantial taxpayer burden.

Our argument is that there are two major limitations of a centrally driven strategy for meeting affordable housing needs. First, there are substantial variations across local housing markets, which pose distinctive challenges and suggest different priorities to which centralised policy cannot be adapted. And second, the responsibilities and rewards for meeting affordable housing need in a cost-efficient way are badly misaligned, resulting in perverse incentives for both central and local government.

A centrally driven strategy is unresponsive to variations in the housing market

The notion of a single 'UK housing market' is a fallacy. The gap between London and the wider south east compared to the rest of the country receives much attention, but in truth there are a multitude of distinctive housing markets across the country, with distinguishing features that have been shaped by different economic, social and demographic factors (see Ferrari and Rae 2011). This inherent spatial variation creates tensions and imperfections in what is largely a centrally driven affordable housing strategy.

Centralisation can take two forms: policy that applies uniformly across the country or policy that is determined by national government but not standardised in its application. In the case of housing benefit, levels of support vary between tenures and across localities but decision-making rests with central government and eligibility is standardised across the country on the basis of tenure, household income and savings.[16]

The core problem with this arrangement is that housing market variation significantly affects the level of housing benefit expenditure needed to meet a given level of housing need in different parts of the country (as distinct from variations that reflect differences in housing costs). Moreover, the extent to which relying on rent subsidy, compared with building new homes, is the best way of meeting the affordable housing needs and delivering value for taxpayers' money differs from place to place, depending on the particular features of the local housing market.

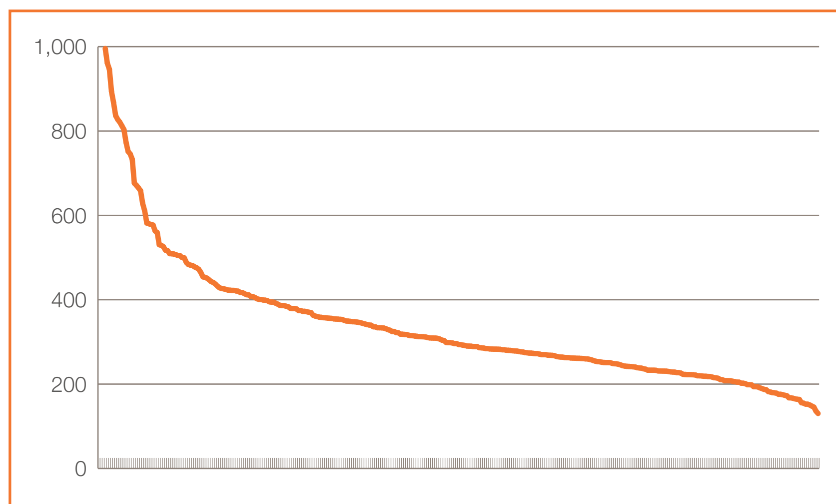
However, centralised decision-making combined with heavy reliance on housing benefit (as discussed in the previous section) mean that the vast majority of public spending on affordable housing is a *function* of local housing market dynamics and cyclical labour market factors. It is not the result of deliberate or strategic decision-making aimed at *shaping* local housing market dynamics or *protecting* against the impact of labour market factors, with a view to policy effectiveness or value for money.

Our argument is that an affordable housing strategy that *was* driven in this way would *require* policy variation across local housing markets. But national government is incapable of leading such a strategy: it cannot have the necessary local knowledge nor exercise power with sensitivity to local circumstances. Indeed, it would run contrary to the natural tendency of the central state towards standardisation. However, local authorities do not have the freedom to pursue optimal strategies for affordable housing in their areas, while the incentive structure within housing benefit actively militates against this.

16 For more detail on the eligibility criteria, which are different for single people under the age of 35, see: https://www.gov.uk/housing-benefit/eligibility

Figure 2.4 sets out the amount spent on housing benefit per capita across district and unitary local authorities, showing substantial variation. Unsurprisingly, the strongest driver of housing benefit spending is the share of local residents in receipt of rent subsidy.[17] The areas with the highest levels of *per capita* spending are generally those in the highest-cost housing markets, especially London. As has been widely discussed, the London housing market has a number of unique features, which includes its dominance of housing benefit spending.

Figure 2.4
Estimated housing benefit spending per capita, by local authority, 2013 (£)



Source: DWP 2014

It is right that housing benefit spending per capita should vary across areas, in order to compensate for differences in both levels of need and underlying housing costs. Housing benefit expenditure should be greatest where need and costs are highest. Our argument, however, is that rent subsidy expenditure is not, in practice, well distributed according to these criteria. Instead, it often varies from place to place according to *other* housing and labour market factors, and it is these factors that determine whether housing benefit spending in a given area delivers good value, given a certain level of housing cost and need.

To illustrate this argument, we analyse below a set of key variations across local housing markets that affect housing benefit expenditure, for given levels of need. These draw out the different challenges and priorities in particular types of housing market, highlight where taxpayers' money is delivering poor value, and indicate where action to generate housing benefit savings for the sake of reinvesting in improved local housing might be most effective.

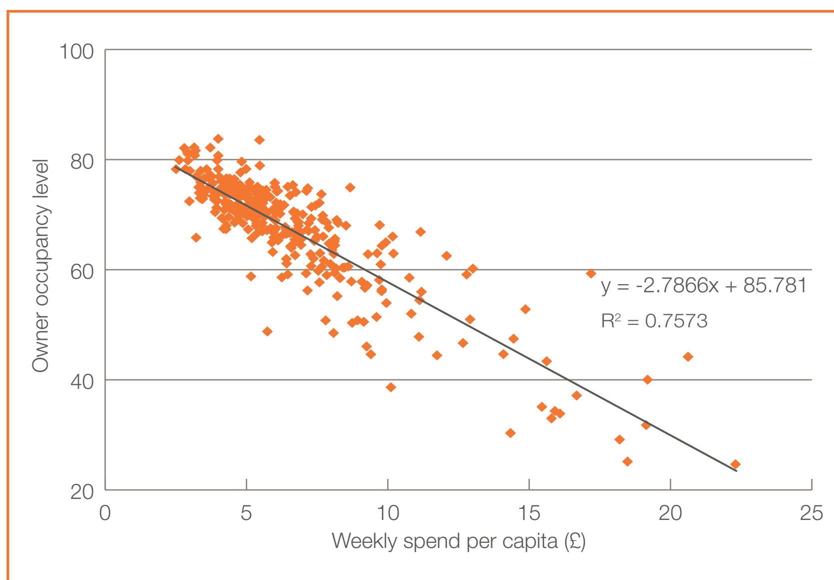
The split between owners and renters

Housing benefit is only available to households that rent, so the ratio of homeownership to renting in a particular area affects the level of reliance on rent subsidies to meet a given level of need.[18] As figure 2.5 shows, there is a close negative relationship between housing benefit expenditure per resident and levels of owner occupation. Areas with the lowest levels of homeownership have the highest rates of per capita rent subsidy spending.

17 $R^2 = 0.68$

18 There is some public support for homeowners in need, through Support for Mortgage Interest (SMI). However, spending on this is only around £350 million in 2012/13. For more information, see: http://www.parliament.uk/briefing-papers/SN06618/support-for-mortgage-interest-scheme

Figure 2.5
Owner occupancy levels (2011) versus per capita spending (2013), by local authority district



Source: DWP 2014, ONS 2014

While strong, this relationship is not simple, with a range of factors at play. Access to homeownership is likely to be more restricted in areas with higher house prices. Such restrictions will increase the number of people renting, which in combination with those high prices will tend to push up private rents. Higher rents are associated with higher housing benefit spending per claimant, while more renters will mean a higher caseload.

However, levels of owner occupancy are not determined by house prices alone; they are also a function of earnings and access to mortgage finance. In practice, areas with high house prices tend to be those with residents on higher incomes but they are not necessarily also those with a higher rate of homeownership. What the chart indicates is that, in general, having a lower share of the local population renting – due to higher homeownership – outweighs the impact of any upward pressure on private rents (or levels of renting) caused by high house prices in determining housing benefit expenditure in a given area.

This finding is illustrated by table 2.1, which compares a set of areas with similar average house prices and levels of need (indicated by the share of the population on out-of-work benefits) but *different* rates of owner occupation. For instance, if housing benefit spending simply reflected housing costs and housing need then it might be expected that levels of expenditure in Bury and Coventry would be broadly similar (on a per capita basis). However, spending per resident is more than £100 a year higher in Coventry. One driver of this difference is the rate of owner occupation, which is nine percentage points lower there than in Bury. Similarly, average house prices and the share of the population on out-of-work benefits are very similar in Chorley and Swindon. However, housing benefit per resident is around £80 per resident per year higher in the latter area, where the owner occupation rate is nine percentage points lower.

Table 2.1
Comparing levels of housing benefit spending per capita across areas with similar levels of housing costs and needs, but different rates of homeownership

	Average house price	Median rent /	Rate of owner occupation	% of population on out-of-work benefits	Annual housing benefit spend per capita
Bury	£125,000	23%	70%	12%	£293.49
Coventry	£125,000	25%	61%	12%	£402.34
Hartlepool	£109,360	22%	60%	19%	£506.86
Liverpool	£116,000	20%	47%	19%	£577.03
Chorley	£148,998	27%	75%	9%	£231.10
Swindon	£149,000	26%	66%	9%	£309.16

Source: CLG 2014d, ONS 2014, DWP 2014; Nomis 2014a, 2014b

These variations point to different priorities across local housing markets. In parts of the country where the ratio of incomes to house prices is relatively low but homeownership rates lag behind comparable areas, it might make sense to provide targeted support to those who want to buy (such as through policies akin to Help to Buy or shared ownership products). This would meet the aspiration for homeownership while reducing reliance (or potential reliance) on housing benefit.

By contrast, in areas where low rates of homeownership are likely to be a function of high prices, the priority is more likely to be increasing housing supply to improve affordability. Local authorities have some scope to do so, but their ability to finance the development of affordable homes is constrained by borrowing caps and public expenditure being locked in housing benefit. Councils can support homeownership through Right to Buy and brokering shared ownership deals with housing associations. However, pro-ownership policies operating at scale – like Help to Buy – are implemented uniformly across the country, with little regard for local housing market factors.

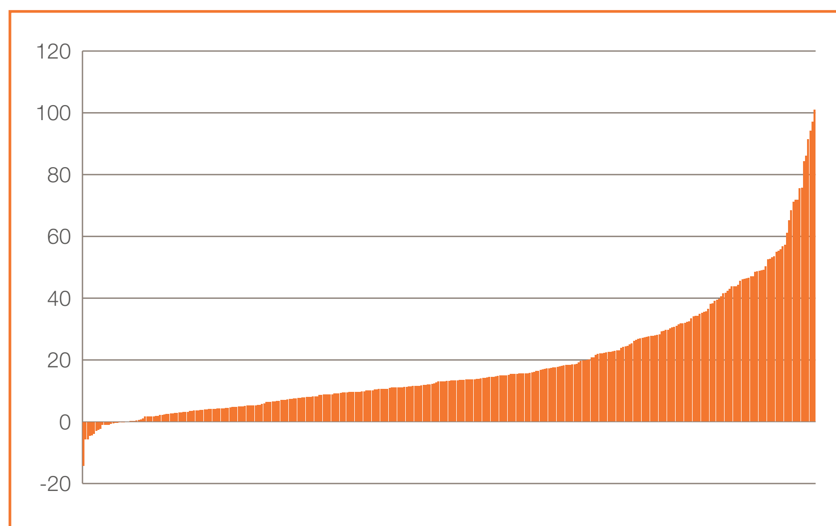
The gap between rents and housing benefit awards between the social and private sectors

Another important factor underpinning variation in housing benefit spending across otherwise similar areas is the tenure composition of local rental market. Perhaps surprisingly, there is *not* a simple relationship between the split of private and social sector renters in a given area and levels of per capita housing benefit spending (either across the local rental market as a whole or within the housing benefit subsector). In other words, areas where a high proportion of those on rent subsidy live in the private rented sector do not necessarily spend more on a per capita basis than those with a greater share of claimants in the social rented sector (when all other area factors are similar).

This might seem counterintuitive, given that the average housing benefit award in the private sector is so much greater than in the social sector across the country as a whole. London provides a good illustration of the complex links between tenure split and spending across areas. For instance, the average housing benefit award in Islington, north London, is comparatively high (£123 a week), as is overall spending (at a little under £4 million a week). However, the share of housing benefit claimants renting in the private sector in Islington is extremely low relative to the national average (at just 11 per cent). This is mirrored across many parts of London, where rent subsidy spending is very high in absolute terms despite relatively large shares of claimants renting in the social sector. This serves in part to highlight that housing benefit spending in the capital could be even higher if there was greater reliance on the private rented sector and also that while social rents in London are low relative to local market rates, they are nonetheless usually significantly higher than elsewhere in the UK.

The extent to which the rental tenure mix in a given area matters in determining whether housing delivers value for money depends on *the gap between rents (and average rent subsidy awards) in the private and social rented sector*. Where this gap is small, the share of claimants in the private rented sector is unlikely to be an important factor driving higher housing benefit spending given levels of underlying housing costs and needs. However, where the gap is large, the extent of reliance on the private rented sector is likely to matter a lot. Private sector rents are driven by market factors, constrained in the housing benefit subsector by the LHA, while social sector rents are driven by national rent setting policies. The gap between benefit awards across the two sectors in a given area reflects patterns of housing demand and household incomes. To illustrate, figure 2.6 shows the gap between the average weekly awards in the private and social rented sectors across all English local authorities with housing responsibility.

Figure 2.6
The gap between average housing benefit awards in the private and social sectors across local authorities (£/week).



Source: Single housing benefit extract, DWP 2013a

The areas with the largest gaps between average private and social sector housing benefit awards are in London and the South East. There are 26 local authorities where this gap exceeds £50 a week (or £2,600 a year). These gaps are the product of many factors, often quite specific to particular areas. Some are likely to be hard to shift, given housing market fundamentals, while others will be amenable to policy, where the right powers and incentives can be aligned. In these areas, the priority is likely to be securing a better deal from private landlords (if market factors allow) and reducing reliance on the private rented sector by increasing the supply of social and affordable homes. For instance, the overall housing benefit bill would be at least £2.1 billion a year higher this year if housing benefit recipients in the social rented sector living in inner London received the prevailing average LHA rates.

The chart also shows that in 16 local authorities the average weekly subsidy for social renters on housing benefit is within £1 of that for private renters. Typically these narrow gaps are found in the weaker housing markets, such as Middlesbrough, Fylde, Ribble Valley and St Helens. These markets are usually characterised by low average weekly housing benefit awards across both private and social sectors.[19]

19 Nevertheless, even in these markets, slack may exist between the poorer parts of the market and the wealthier.

In such areas, altering the tenure mix will make little difference to overall spending on rent subsidy. As we go on to discuss, it is likely that boosting the employment rate among existing housing benefit claimants would make the most difference in reducing expenditure on rent subsidy.

Figure 2.6 does not disaggregate between the average weekly rent subsidy award *within* the social rented sector, between housing association and local authority properties. There has been a long-term policy of rent convergence between these sectors, but the differences have been exacerbated by the Affordable Rent programme. Where the gap between local authority and housing association rents is high, the most fruitful area for local action is likely to be finding ways to offer higher capital grants for new affordable housebuilding in return for lower rents.

The split among the local housing benefit caseload by employment status[20]

The impact of tenure mix and rent differentials on housing benefit expenditure is mediated by patterns of employment in local housing markets. Overall, around one-fifth of housing benefit recipients are in work, with four-fifths out of work (DWP 2014). Low employment rates generally mean a higher proportion of the population are receiving housing benefit (offset by high-cost housing markets where larger shares of working households are also in receipt of rent subsidy). Indeed, housing benefit spending per capita in the 20 local authorities with the lowest employment rates is around twice as high as in those with the lowest. Table 2.2 helps to illustrate the significance of the employment factor.

Table 2.2
Comparing levels of housing benefit spending per capita across areas with similar housing market conditions but different labour market conditions

	Average house price	Rent/income ratio	Rate of owner occupation	% of population on out-of-work benefits	Annual housing benefit spend per capita
Cotswold	£270,000	36%	66%	5%	£238.37
Redbridge	£270,000	36%	64%	9%	£516.28
Cheshire East	£175,000	24%	74%	7%	£227.13
Forest of Dean	£175,000	24%	74%	9%	£265.78
Hyndburn	£92,500	24%	68%	15%	£356.12
Pendle	£90,750	22%	68%	13%	£294.07

Source: CLG 2014d, ONS 2014, DWP 2014, VOA 2013; Nomis 2014a, 2014b

In these examples, average house prices and rental affordability are broadly similar in Cotswold and Redbridge, but per capita expenditure is twice as high in the latter. In this instance, a key difference seems to be the share of the local population on out-of-work benefits. Similar patterns are evident in less affluent areas, such as Hyndburn and Pendle, where despite having equivalent house prices, rental affordability, and owner occupancy rates, housing benefit spending differs considerably. Again, it seems reasonable to think that this is related to the higher unemployment rate in Hyndburn, which leaves a higher share of its population needing housing benefit to enable them to pay the rent.

In areas with a low employment rate and (relatively) high proportions of the local population on out-of-work benefits, getting more people into the labour market is likely to be among the factors that could make the biggest potential difference to local housing benefit expenditure. If large shares of those who are out of work and in receipt of rent subsidy are also claimants of inactive benefits (like ESA or income support) then it is likely

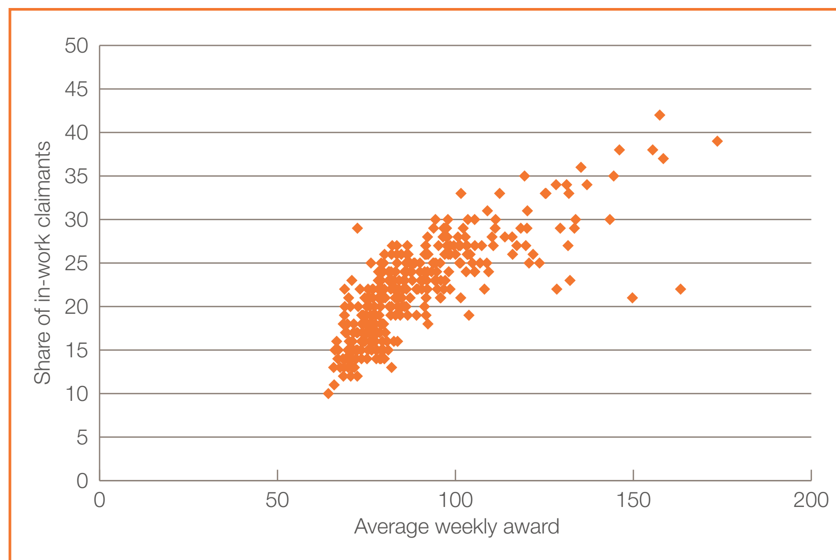
20 The demographic make up of local housing benefit recipients could also be a factor driving relative levels of rent subsidy expenditure between otherwise similar areas. For instance a large share of the working age population in private rented accommodation is likely to drive up costs, given the larger average size of such households compared to those headed by a pensioner.

that this reflects *structural* labour market disadvantage, requiring more than an economic recovery to resolve. Given that they often have strong relationships with their workless residents (acting as a landlord or provider of housing services), local councils are often better placed to support those on inactive benefits into employment than mainstream back-to-work providers.

In areas where unemployment and inactivity is a strong driver of local rent subsidy spending, it is important to also consider the impact of housing benefit on work incentives, which vary considerably across tenures. Work incentives are driven both by the total amount of rent subsidy an individual receives, as well as the way it is withdrawn as household incomes grow. As previously discussed, the chances of a household earning its way off rent subsidy – and thereby being free of means testing and its high marginal deduction rates – are much higher where rent is low.[21]

Employment is clearly an important driver of local rent subsidy spending, given that higher employment rates and lower unemployment rates reduce the share of the population needing (or being eligible for) housing benefit. The extent to which high employment is *sufficient* to limit housing benefit receipt and expenditure depends on the affordability of area in question. This is illustrated in figure 2.7, which shows on the vertical axis the proportion of housing benefit claimants that are in work, and on the horizontal axis, the general affordability[22] of local rent, denoted by the average weekly housing benefit award.

Figure 2.7
Employment status of housing benefit claimants versus average weekly award, by local area



Source: DWP 2014

The chart shows that where rents are more affordable, a lower share of the local housing benefit caseload is in employment, while less affordable areas have a higher proportion of housing benefit recipients in work.

21 Withdrawal rates of housing benefit are uniform under the current, and future, taper rules. However, where rents are higher recipients will be subject to benefit deductions further up the income scale.

22 The average weekly award is a reasonable proxy for affordability, where the association between rent-to-income ratios and the average weekly award of housing benefit returns a R^2 of 0.72.

It is likely to be the case that local areas situated in the bottom left of the chart have the potential to generate most savings by supporting housing benefit recipients in their area into employment, with probably less to be gained from seeking to shift the tenure balance among those in receipt of a rent subsidy. Moving a household fully off housing benefit, due to the household having a higher earned income, would deliver an annual saving of around £5,000 per claimant. This looks to be a priority in Barnsley, for example, where only 11 per cent of claimants are in work.

Conversely, local areas situated to the top right of the chart are likely to have less of an employment problem, with housing benefit spending probably driven more by higher rents (relative to earnings). Places like Harrow, for instance, where 42 per cent of housing benefit claimants are in work, have less to gain from reducing worklessness as against interventions that might ease the pressure on rents or increase the share of rent subsidy claimants in the social and affordable rented sector. Helping such rent subsidy recipients to earn more or boost the number of earners in their household would, however, be likely to generate housing benefit savings.

A centrally driven strategy means perverse incentives for local and central government

Central government will always have a key role to play in providing affordable housing, not least through finance and legislation. But local leadership and action is much more likely to be effective in bending public expenditure to particular circumstances, given the level of variation between local housing markets, not least because of their greater local knowledge, commitment and ability to forge partnerships with other stakeholders. However, at present, responsibility and rewards for meeting affordable housing need and securing value for taxpayers' money are badly misaligned, resulting in perverse incentives for both central and local government.

If local authorities use the powers they have to shape their local housing market in ways that reduce the cost of rent subsidy required to meet given levels of housing need, any savings on housing benefit that follow accrue to the Treasury. Similarly, if councils are indifferent to the local factors driving up the cost of rent subsidy – or indeed actively pursue strategies that inflate them – the financial burden falls entirely on the Treasury.

To take an example, in 2013/14, 590 homes were completed in the area covered by Warrington Borough Council, in a low-pressure housing market, compared to just 20 in Kensington and Chelsea, a high-pressure housing market (CLG 2014b). Under the current balance of powers and resources, any reduction in housing benefit that resulted from that increase in homes in Warrington – from reduced caseload or awards – will have accrued to the Treasury. Similarly, the burden of additional costs arising from the low level of building in Kensington and Chelsea fell on central government. The gap between average housing benefit awards in the private and social rented sectors is £15 a week in Warrington but £101 a week in Kensington and Chelsea.

The lack of positive incentives – combined with the moral hazard and 'freerider' problems inherent in the current settlement – would be less significant if housing benefit spending was essentially a function of labour market cyclicality. That would imply there was little that local authorities could do to affect expenditure, positively or negatively. However, our analysis (as set out in the previous section) makes clear that this is not at all the case. In fact, core dimensions of local housing markets – as well as structural labour market factors – make a big difference to the level of rent subsidy expenditure required to meet a given level of housing need in different parts of the country, *even accounting for differences in underlying housing costs*.

However, at present, there are only very limited opportunities for strategies to be adapted to the particular challenges and priorities that stem from local variations. Resources and responsibilities are distributed in ways that leave incentives fundamentally misaligned. This means that local government is left administering a flawed system over which it has no control, while facing no penalties or rewards for its performance. And it means that the Treasury's response to rising housing benefit expenditure is restricted to simply finding ways to curb generosity or entitlement across the board, which tend to be unrelated to the actual drivers of spending.

This approach risks being entrenched through the new 'welfare cap', which has not been combined with rigorous modelling or analysis of the different factors driving benefit expenditure, their relative significance, or the sensitivity of spending to potential policy action or market fluctuations (Cooke 2013). The government has decided to keep housing benefit paid to those on JSA out of the cap, viewing this as cyclically driven expenditure. In 2015/16, the first year of the cap's operation, this is forecast to be £2.8 billion (or 11 per cent of total housing benefit spending). In practice, however, this is a crude distinction. Cyclical factors are very likely to drive other aspects of housing benefit expenditure as well as JSA, such as for those in work but on fluctuating hours or wages. And not all JSA spending reflects cyclicality, given that a minority of claimants have been unemployed for a long time. However, this division is an implicit recognition that rent subsidy expenditure is, in large part and over the medium term, not a function of the economic cycle but rather a product of deeper, structural trends in the housing and labour markets.

Despite local knowledge and commitment to improve housing for local people, local authorities have their hands tied. They have responsibility without power: subject to national policy that is often inappropriate or counterproductive for their area, and with weak levers and poor incentives to make a difference. The implications of this situation are amplified in the current period of falling public expenditure and rising need. As we go on to show, with reform to powers and incentives, there is great potential for local government to affect change in their local housing market, and growing appetite to take on such responsibility (PwC 2014 forthcoming).

More broadly, centralisation puts a break on the mobilisation of local leadership and action. In other areas, innovative local authorities are making advances in social policy delivery, using public resources creatively to save public money. The Troubled Families programme is one such example, where early evidence indicates local authorities are providing effective support and challenge to families struggling with issues such as poor school attendance and antisocial behaviour (see CLG 2012a). When given the opportunity – and a stake – councils are demonstrating their capacity to address complex social problems.

Local authorities have important tools at their disposal to influence the housing market in their local area, albeit within considerable constraints imposed from the centre. What they lack, however, is any influence over the main levers of public expenditure pouring into their boundaries through capital grants and housing benefit. So it is to this issue that we now turn.

3. A STRATEGY FOR MOBILISING LOCAL LEADERSHIP TO SHIFT FROM 'BENEFITS TO BRICKS'

Overcoming the failures of an affordable housing strategy based on benefit-driven expenditure and centrally driven policy will not be quick or easy. The biggest obstacle is the absence of any institutional means or financial incentive to respond to the connection between local housing market conditions in a local area and its level of housing benefit spending. As the last chapter demonstrated, levels of rent subsidy expenditure to meet a given level of housing need vary considerably between areas. Yet there is no actor in the system that has the combination of *knowledge, power* and *resources* to act on this connection, and indeed no *incentives* that would enable and require them to do so.

Central government is the dominant holder of power and resources in housing, but (as we have shown) it does not make policy or spending decisions on the basis of the link between housing markets and rent subsidy. This in part reflects historic Whitehall divisions between CLG, DWP and the Treasury, which inhibit strategic decision-making. But more fundamentally, it is rooted in the impossibility of the central state acting optimally on the particular links between housing market factors and housing benefit spending at the local level. This cannot be achieved through the application of standardised policies – given the inherent variability of these links – even if it were possible for Whitehall to know what would be the best policy and spending mix for each area.

As ever, the first stage to solving a problem is to recognise it. If the link between housing market factors and housing benefit expenditure was to be acknowledged, then there are steps that could be taken to promote national policy decisions that take account of this link even within the existing distribution of power and resources. The first would be to conduct a **detailed analysis of the drivers of housing benefit spending, decomposing their relative significance and exploring the sensitivities of rent subsidy expenditure to housing market factors and different policy scenarios, across different spatial scales**. Analysis of this kind would be akin to the 'dynamic modelling' that the Treasury has recently published in relation to the knock-on economic impacts of freezes in fuel duty (see Chan 2014).

It is, therefore, a huge missed opportunity that the government has not given the Office for Budget Responsibility this task as part of its duties relating to the 'welfare cap'. So far, there are no plans for the cap to shed any new light on the causes of a rising housing benefit bill, other than a crude splitting-out of spending that is passported with entitlement to JSA.[23] A more rigorous analysis would explore the link between benefit spending and both labour market and housing market factors, while highlighting the impact of different housing policies on housing benefit expenditure. This would provide a guide to effective policymaking and achieving value for money in this area. For instance, it would draw out the trade-off between capital grants and rent levels in financing new affordable housing and the knock-on spending implications from changes to housing benefit, such as for homelessness support.

With such analysis in place, further steps could be taken to force these relationships more directly into the policymaking process at the national level. A **cross-government housing strategy, jointly owned by Treasury, CLG and DWP and overseen by a powerful cabinet committee** should be established to drive stronger policy coordination and a better appreciation of the different factors driving housing benefit spending. This might ensure, for example, that factors such as levels of housing affordability and reliance on the private rented sector were taken into account in decisions about the allocations of housing capital across areas. And it might mean that the trade-offs inherent in social rent policies are properly factored into judgments about housing benefit spending.

23 For the split in housing benefit expenditure according to what will fall inside and outside the new welfare cap, see Rhodes and McInnes 2014.

This Whitehall-led approach might make a difference around the edges. However, budgetary and policy responsibility would remain fragmented, while experience suggests that joint documents and joint committees are weak instruments in the face of established patterns of Whitehall power and culture. More fundamentally, none of these nationally driven responses would enable the crucial connection between local housing markets and housing benefit expenditure to be acted upon, in the optimal way for individual local areas, backed by the necessary powers and resources, and with incentives properly aligned.

Therefore, we believe **deeper institutional innovation and a more substantial redistribution of power are needed, to mobilise the leadership and responsibility of local places**. This is the only way to ensure that affordable housing strategies are driven by the particular circumstances of local places. Moreover, such structural reform is essential if obligations and incentives are to be aligned in ways that mean these connections *must* be confronted. This approach offers the best means of driving effectiveness in affordable housing strategies and delivering value for taxpayers' money.

We have established that there are strong strategic reasons for shifting the balance of public spending, over time, away from subsidising rents and towards building homes. We believe that this can only be done in a meaningful and appropriate way by empowering local areas to meet affordable housing need in their area, backed by incentives that match risks and rewards. The optimal balance of expenditure on rent subsidy and capital investment *should* vary between areas, depending on the nature of local housing markets and the challenges it faces. Of course, this balance already does vary, but as a result of market forces and policy failures, not deliberate or strategic decisions.

Our long-term vision is that **cities and counties in England should take responsibility for meeting affordable housing needs in their area**. They would use an Affordable Housing Fund (AHF) from central government for the purposes of investing in new homes and subsidising rents according to local democratic decisions made in light of local housing market needs. Similar arrangements would be established for Scotland, Wales and Northern Ireland, where the devolved administrations would ideally further redistribute responsibility and resources themselves.[24] AHFs would be allocated on multiyear cycles, according to a formula based on population, deprivation and housing costs, with legal and democratic safeguards in place to ensure money is well spent and the most vulnerable are protected.

Shifting responsibility and resources for housing away from Whitehall would mark a major change, with many practical and political implications. It is hampered by the absence of established subnational governance arrangements, at least outside London and the devolved administrations. At present, responsibility for housing rests with district councils and unitary authorities. Their geography is too small to take strategic housing market decisions alone – in some cases, the amount of housing benefit spent in an area dwarfs the authority's total budget. For instance, the total annual budget for Aylesbury Vale District Council was around £22 million in 2013/14 (CLG 2013c), while housing benefit expenditure in the area was more than twice that amount, at £45 million (DWP 2014). This reform would, therefore, need to be advanced in stages, consistent with the local ambitions and capabilities.

As such, what follows is the outline of a phased plan for decentralising responsibility and resources for housing in ways that enable local areas to shift from 'benefits to bricks' over time, to the extent and in the ways most appropriate for them. It could also serve as a menu of options for different parts of the country; quite rightly, different areas will

24 The Scottish Labour party has recently backed the idea of devolving housing benefit north of the border; see Trench and Lodge 2014.

advance down this road at different speeds. The plan is based on our analysis as well as engagement with a range of local authorities and other housing stakeholders.

Our account includes the opportunities flowing from greater local power over housing expenditure including, where possible, a sense of their potential impact. The latter is necessarily tentative and localised, given that many of the options discussed would be experimental and all would be place-specific. It is not possible to give an aggregated national figure for how much money could be shifted from benefits to bricks over a given period. Effective reform will be a long-term, spatially sensitive process. A rapid expansion of housing supply, supported by an injection of upfront capital spending and innovative land market reforms, would be its essential counterpart.

The drift from building homes to subsidising rents has taken place over more than 30 years and the forces pushing expenditure further in this direction are now deeply entrenched. As a result, any significant change of direction will not occur overnight and will require determined political leadership with institutional backing. However, we believe a substantial 'down payment' on a long-term transition could be made during the next parliament, as part of a determined strategy to substantially increase housing supply. Perhaps most importantly, it would also mean that the tough fiscal climate facing any government after the general election could be more effectively managed than has been the case over the last few years.

Phase 1: Enable earn-back deals between local councils and the Treasury to share the proceeds of local action to reduce housing benefit spending relative to forecasted costs

Under the existing balance of powers, local authorities already have the scope to affect the level of housing benefit spent in their area, for a given level of housing need, without altering eligibility criteria or levels of entitlement. For instance, they can use their role as a large-scale purchaser of tenancies and a potential provider of landlord services to drive higher quality and better value for money in the private rented sector. They can use their role as a planning authority and landowner to increase the supply of social and affordable homes to rent and buy, especially with greater scope for responsible borrowing. And they can meet temporary accommodation needs in ways that minimise (or exacerbate) taxpayer costs, including when discharging their homelessness duty.

However, at present, local authorities have no direct financial stake in whether or not these powers are used effectively or deliver value for money. They gain no reward if they are and face no penalty if they are not, at least in relation to the level of housing benefit spent in their area. Therefore, the first phase of reform should be to **establish a framework for local authorities to agree bespoke earn-back deals with the Treasury, allowing for the proceeds of agreed local action to meet affordable housing need at a lower rent subsidy cost to be shared**.

These would build on the earn-back deal that is part of Greater Manchester Combined Authority's 'city deal', whereby it will keep a portion of any increased tax take generated by higher than expected growth.[25] In the first instance, this housing benefit earn-back option should be available to all local authorities with housing responsibility, with scope for deals to be struck jointly with multiauthority areas, either on a bespoke basis or as part of wider city or county combined authorities.

25 For more on the Greater Manchester Combined Authority's city deal, see: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221014/Greater-Manchester-City-Deal-final_0.pdf

The starting point for such deals should be a forecast for housing benefit expenditure in a given local authority area over future years, on the basis of current policy and wider trends. This should be carried out by DWP, ideally alongside a wider analysis of the drivers of housing benefit spend and its sensitivities to a range of factors (conducted at a macro level by the Office for Budget Responsibility, as proposed above). Local authorities would then be able to seek agreement with the Treasury for 'earning back' a proportion of any savings on housing benefit expenditure in their area, relative to the forecast, over a multiyear period, on the basis of an agreed plan for making use of their existing powers.

At the end of the agreed period, any financial return due to the local authority would be transferred from the Treasury and ringfenced for local housing, potentially via its housing revenue account (HRA). The most challenging aspects of such a deal would be attributing any difference between forecast and actual expenditure to local action, relative to other factors. One possibility would be to agree a formula for the impact of certain factors – such as population change and economic performance – on housing benefit spending, with any remaining variation from the initial forecast once these changes had been accounted for shared between the local authority and the Treasury. Over time, as more data was collected and further analysis and evaluation conducted, these formulas would become more sophisticated.[26]

In addition to this basic architecture, the nature of the risk and reward sharing between the Treasury and local authorities would need to be agreed. In principle, the incentives for local authorities would be strongest if they could earn back a large share of any housing benefit reduction (relative to forecast, beyond the agreed exogenous factors) but also faced a penalty for increases in spending (on this adjusted basis). In practice, local authorities will probably want to protect themselves from downside financial risks and the Treasury will not want to pass over all savings. However, it might be that the balance of risks and rewards is struck differently across local authority deals.

Genuine housing benefit savings – as opposed to cuts in entitlement – will take time to achieve, and so earn-back deals should span no less than three years (and possibly longer). This is a reasonable period for the impact of determined local action to make a difference, while allowing space for the grip of short-termism to be broken. There could also be scope for 'roll-over' elements within the deals, whereby the impact of (longer-range) local action – such as the construction of new social housing – in one period is agreed as counting against trends in housing benefit expenditure in the next and subsequent spending review periods.

With earn-back deals in place, local areas could use their existing powers – supplemented in one key area – to better meet affordable housing needs at lower cost to the taxpayer in the following ways.

Striking better deals for tenants and taxpayers with private landlords

Local authorities are major purchasers of tenancies from private landlords in their areas, on behalf of local people. For example, in Bournemouth (64 per cent) and Castle Point (65 per cent) almost two-thirds of housing benefit claimants live in the private rented sector (DWP 2014). This makes the local council a potentially powerful player in the local market, even when the rates and boundaries of the LHA are set nationally. An earn-back deal

26 For instance, important lessons have been learned from implementing randomised control trials in the application of the Troubled Families earn back deal in Manchester; see: http://sticerd.lse.ac.uk/seminarpapers/wpa24102012.pdf

would create the incentive for local areas to use that leverage to generate savings that could be reinvested in local housing.

The degree of potential bargaining power held by the local authority will vary according to the balance of supply and demand in the local housing market. Where there is a large number of landlords competing for potential housing benefit tenants, it could be possible for the local council to negotiate on behalf of eligible residents to put downward pressure on local rents, getting them beneath the maximum LHA rates in a part of the local authority.[27] This arrangement would require some inducement for local people to agree to be part of such a collective agreement, rather than striking deals on their own (up to the maximum LHA rate). Such negotiations already take place in respect of provision of temporary accommodation for homeless families.

Example: Deals with local private landlords

It is common practice for local authorities to lease private sector tenancies, often for a period of three years or more, to meet their homeless duty. In exchange for an agreed annual cost, the local authority effectively takes over the management of the property and ensures it is occupied. Rent is negotiated directly between the local authority and the landlord, or sometimes through local landlord forums.

To give an example, Lewisham Council leases residential property for a flexible period of up to nine years to temporarily house homeless families.[28] To encourage landlords to participate, the council offers: guaranteed rent for 52 weeks of the year; no voids or bad debts; a professional housing management service; property inspections; and a minor repair service up to a fixed sum. In return, the council expects properties to be in a good, habitable condition; have approved gas, electrical and energy performance certificates; and have three-star central-heating breakdown cover.

At present, Lewisham sees no financial gain from any housing benefit savings that result from managing its private rental market in this way for the purposes of providing temporary accommodation in the borough. With the incentives created by an earn-back deal, local authorities could generate savings from adopting an approach like this more widely, by purchasing tenancies on behalf of relatively stable but costly housing benefit claimants across the private rented sector.

Around £1.3 million is paid out to private landlords in Lewisham each week. Curbing the average weekly award by just £2 a week through a deal with landlords could deliver housing benefit savings of around £22,000 per week – over a £1 million a year – to be reinvested into local affordable housing.

In areas where there is lower demand for tenancies, local authorities could seek to enter into deals with private landlords that trade certain services for lower rents (and hence lower housing benefit costs). This could involve offering services such as marketing, tenant-matching, property management, legal services, and covering voids and arrears – pitched

27 This is an idea put forward by Ed Miliband in a speech on social security reform in June 2013: http://www.labour.org.uk/one-nation-social-security-reform-miliband-speech

28 For more information, see: https://www.lewisham.gov.uk/myservices/housing/landlords/Pages/private-sector-leasing.aspx

competitively against similar providers. A number of councils have moved in this direction already, by establishing local letting agencies – Harrow's Help2Let service is one example.[29] Such arrangements also give local authorities a mechanism for improving the quality of local rented housing, by maintaining more hands-on relationships with landlords.[30]

There would clearly be a cost for local authorities in providing services such as these, although there would also be economies of scale if a large number of landlords signed up. It would be for councils to ensure that the lower rents (and LHA) negotiated were sufficient to outweigh the outlay and that costs could be met until the earn-back savings were recouped. In practice, this mechanism is only likely to generate moderate savings, focused in those parts of the country where the market power of landlords is weaker. However, it would potentially bring gains in its own right, in establishing a lever for driving up the professionalism of landlords and quality of homes in the private rented sector.

Accelerating affordable housebuilding, including with responsible borrowing
Local authorities already have significant sway over the extent and nature of housebuilding in their area, through powers to grant or refuse planning permission, the ability to place conditions on that permission, and in some cases via the ownership of land. The framework of an earn-back deal would generate incentives for local authorities to use these powers to shape their housing market in ways that could reduce the level of local housing benefit spending required to meet housing need. As our analysis has shown, the particular tenure mix (and, in particular, the gap in rent levels and average awards between tenures) in a local housing market makes a significant difference to the amount of rent subsidy expenditure.

For instance, increases in housing supply overall would expand opportunities for home ownership, taking people out of scope for rent subsidy. It would also exert downward pressure on rents, either by reducing the demand for tenancies as homeownership expanded or increasing the supply of rented properties if it did not. The sensitivity of prices and rents to increased supply depends on the particular characteristics of local housing markets, and its potential short-term impact on the overall housing market – as opposed to individual tenants and direct cost of rent subsidy – will be limited. However, establishing a connection for local authorities between local housing supply and its effects on the housing benefit bill could introduce a pro-housebuilding bias into the system (supplementing the incentives within the 'new homes bonus').

A more targeted option would be for local authorities to use their powers to boosting new supply in order to more aggressively increase the share of social and affordable homes (including, crucially, among housing benefit recipients). This could be done – as it often is – by councils making this a condition of releasing its land for development on preferential terms, as well as by writing it into section 106 agreements. Increasing the supply of affordable homes would reduce reliance on more expensive private landlords, and authorities could also use leverage over planning and land, including s106, to secure long-term deals on affordable rents as part of the consent process for new-build housing for private and social rent.

While each of these could make a difference, the ability of local authorities to generate housing benefit savings through new supply *with existing powers alone* will be limited.

29 For more, see: http://www.help2let.co.uk/about_us.php
30 For a more detailed discussion of these options see Davies and Turley 2014.

However, this equation would change considerably if, in combination with their ability to release land to the market, local councils were able to inject more capital into the system. The scope for local authorities to borrow responsibly to finance investment in new housing is currently extremely limited. This is despite many authorities having strong balance sheets, including a valuable asset-base in social housing stock, which generates a secure income stream, and evidence that investment in housing generates capital and income growth over the long-term.[31]

Therefore, as part of this first phase of reform, HRA borrowing limits should be raised for those local authorities seeking an earn-back deal.[32] Estimates suggest this could support the construction of between 12,000 and 17,000 new affordable homes per year, depending on how far the government was prepared to go in reallocating spare 'headroom' within existing HRA caps or allowing councils to borrow up to their prudential limits (Griffiths and Jeffreys 2013). Local authorities should not be granted scope for greater responsible borrowing unless they sign up to an earn-back deal which sets out their plan for using extra housing investment to reduce pressure on the housing benefit bill in their area.

Example: Local investment in new affordable homes

There is 'headroom' exceeding £100 million in Southwark Council's HRA, and the local authority has plans to build an additional 10,000 social homes over the next 30 years. As part of this process, property experts Savills have prepared plans outlining the different options for supplying these new homes, including extensive use of cross-subsidy to cut new mortgage debt and boost long-term rent yields for the new homes (see Savills 2013).

If Southwark had been able to enter into an earn-back deal with the Treasury as part of these plans it would have had an additional incentive to ensure the new homes were used to reduce reliance on expensive private sector housing benefit in the borough. If they had been able to recoup some of the benefit savings that resulted from such an outcome, this in turn would have helped to finance the deal, which potentially could have been even more ambitious in scale as a result.

For instance, the average weekly award for a housing benefit recipient in the private rented sector in Southwark is £154 per week, compared to a weekly average in the social rented sector of £102 (DWP 2014). Therefore, using the new properties to transfer just 100 tenants between sectors would generate benefit savings of over £200,000 a year, all other things being equal. If this did occur, the saving would currently accrue to the Treasury.

Supporting local residents into employment, to reduce demand for rent subsidy

One of the most significant ways in which local areas could generate savings on local rent subsidy spending would be by reducing the number of households in need of help to pay the rent. Expanding homeownership through new housing supply and securing lower rents

31 The 2013 autumn statement gave councils a little more freedom to borrow against their HRA assets, but the combined result will a maximum of £300 million of extra borrowing, with local authorities able to compete to raise their borrowing headroom (HM Treasury 2013a).

32 This change has become more straightforward in recent years since the assets and liabilities held across local authorities were untangled through reform of the HRA.

through deals with landlords would be possible ways to achieve this. Another approach would be to boost employment (and earnings potential) among those reliant on rent subsidy, which local areas would have a major new incentive to do under the framework of an earn-back deal. Local councils often have direct relationships with residents who are out of work, through landlord services and housing benefit administration. They will also often have much more regular opportunities for contact with those on less active benefits, like ESA and income support, than Jobcentre Plus does.

Even without this incentive, many local authorities already take steps to support local residents into employment (LGA 2013). Such steps could include seeking to boost the number of second earners, or enabling residents to work or earn more, given the rise of in-work housing benefit claims (see Brown 2013). In future, local councils and housing associations might seek to become subcontractors on the Work Programme, for example, under plans for more 'local commissioning' of the successor to the Work Programme (see BBC 2014). More radically, the ability to retain a share of savings from helping housing benefit recipients into work would complement a locally led model of supported employment for those on ESA, being developed by IPPR (see Cooke 2014; Davies and Raikes 2014 forthcoming).

Example: Local employment support to reduce reliance on rent subsidy
Local areas already deploy a range of initiatives to support the long-term unemployed, alongside mainstream back-to-work provision (see LGA 2013). However, they accrue none of the direct benefit savings from doing so. Local authorities are especially well placed to work with those on disability benefits, like ESA, as they will often be in contact with them via other local services (often much more so than Jobcentre Plus).

Moreover, the benefit savings that result from someone moving into work – or increasing their hours or earnings – often come as much, if not more, from housing benefit rather than the main out-of-work benefit (whether JSA, ESA or income support). For instance, for every ESA claimant that moves into employment of 30 hours a week at the minimum wage for a year, housing benefit spending drops by £15.60 per week (or over £800 for a whole year). Savings would be even greater if the individual's earnings were higher.

Under the full AHF model, local areas would see a direct saving from increasing the local employment rate – and earnings potential – among those currently receiving a rent subsidy (with the Treasury gaining from lower out of work benefit spending). If, for instance Nottingham City Council supported an additional 10 single LHA claimants into full-time employment, and off housing benefit, the savings on LHA alone would be £47,500 less, with additional savings in council tax benefit.

Meeting high cost, temporary accommodation needs at lower cost

In addition to shifting resources from benefits to bricks across the local housing market, there are specific areas of high cost where a local authority could try to drive better value under an earn-back deal. One such instance is temporary accommodation, used to support people who are made homeless, in lieu of finding more permanent arrangements. Typically supporting families with the most complex disadvantages, it is predominantly

drawn from the private rented sector, often at a very high unit cost. Around 60,000 families are living in this type of accommodation at any one time, with around one in five resident in temporary accommodation for over a year.

Typically charging up to 90 per cent of the LHA rate, with a management fee top-up, the total cost of temporary accommodation is estimated at £515 million a year, £345 million of which is spent in London (HM Treasury 2013b). However, this is an underestimate, given that households often self-refer into B&Bs and hostels that demand the maximum LHA rate, but these are not official counted as temporary accommodation costs. Furthermore, councils are now able to use the private rented sector to discharge their full homelessness duty, giving them more flexibility to meet housing need quickly. However, greater reliance on the more expensive private sector to prevent homelessness will increase housing benefit costs to the Treasury.

The framework and incentives of an earn-back deal could encourage local councils to more strategically manage their temporary accommodation needs and reduce reliance on emergency B&B and other expensive solutions (which they currently also dedicate their own resources to). For instance, analysis by the National Federation of ALMOs (arm's length management organisations) found that if additional provision of affordable homes 'reduced the overall use of temporary accommodation by 10 per cent […] then the potential annual savings would be in the range £100 million to £250 million' (Perry 2012). Such savings would come not only from the housing benefit bill but also from local authorities' own general funds, which are used to meet their homelessness duties.

Example: Better local management of temporary accommodation needs
In recent years, Highland Council, in Inverness, has committed to building new properties to meet temporary accommodation needs, financed from savings made elsewhere in its budget. This aims to save long-term expenditure on housing benefit and improve the quality of housing provided to families in need. The business case for this policy argued that the local authority was 'paying more to provide poorer quality temporary accommodation for homeless people in property which is not a Council asset'.

By transitioning residents from expensive private rented accommodation to new purpose-built properties, annual savings of £1.4 million from their general fund and the top-up grant from DWP for temporary accommodation are expected to be generated. These will help to service the £20 million mortgage costs incurred to finance the build costs. With an earn-back deal, Highland Council would be able to retain further savings from lower housing benefit expenditure that would result, to finance further investment in higher-quality, lower-cost provision (Highland Council 2013).

There is clearly appetite to find better solutions in this area, with Oxford City Council having borrowed £5 million to finance new temporary accommodation to meet homeless need, funded through savings on their temporary accommodation budget.[33]

33 For more information, see: http://mycouncil.oxford.gov.uk/mgIssueHistoryHome.aspx?IId=5933&Opt=0

Phase 2: Allow local authorities to redraw the broad rental market area for their area and revert to direct payment of landlords, retaining a share of any savings locally

For the framework of earn-back deals to enable a significant shift from benefits to bricks, local authorities will need additional *powers* to shape their local housing markets (beyond greater scope for more responsible borrowing). This is especially the case in respect of the private rented sector, which has made such a large contribution to recent increases in the housing benefit bill and which delivers the poorest value for taxpayers. Under phase two, local authorities should have two new powers to bolster their ability to strike deals with private landlords in their area.

Redrawing BRMAs to create 'local rental market areas' across or within local authority boundaries

The maximum level of rent subsidy available across different parts of the country is determined by the geographies of broad rental market areas (BRMAs). There are 152 BRMAs in England,[34] which are designated by CLG and aim to match functional housing markets. They establish boundaries within which particular maximum rates of LHA apply, in respect of properties of different sizes, set at up to the 30th percentile of the average rent across the area. So, for example, within the Black Country BRMA a household eligible for LHA could receive up to £119 a week to rent a three-bedroom property (DWP 2014).[35]

This provides transparency for landlords and tenants but can render housing benefit entitlements very insensitive to variations in housing costs within what are large areas.[36] The real generosity of the maximum LHA in respect of specific properties can differ widely across a BRMA, because of the degree of variation of actual rents within their geography. In principle, this gives tenants the ability to trade off quality against location, while it also recognises that housing benefit should not subsidise recipients to live in any and every place.

However, the large size of BRMAs allow landlords in some areas to overcharge the taxpayer, where there is a mismatch between the maximum LHA rate and the real market rate of a property. This occurs where the 30th percentile of average rents across the whole BRMA is higher than in particular spots.[37] It is also evident that the *reverse* is true, with the composition of a BRMA meaning that the 30th-percentile rate can leave large areas unaffordable to housing benefit recipients, such as the centre of Cambridge (Shelter 2009). This mismatch is the inevitable consequence of basing benefit entitlement on comparatively large BRMAs.[38]

Therefore, under this second phase of reform, local authorities entering into earn-back deals should be able to request the power to replace the BRMA covering their boundary with one or more 'local rental market areas' (LRMAs). This would enable them to use their knowledge of the local housing market, including particular neighbourhood dynamics, to draw LRMA boundaries so that variation in market rents within areas is reduced. This would make it possible to reduce the level of variance between the 30th-percentile LHA rate and the 30th percentile of actual rents in any given location.

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34 Scotland has 32 BRMAs and Wales 21. Scottish councils enjoy more freedom to set their own social rents, and Westminster absorbs the costs of this through housing benefit expenditure

35 Local LHA rates are available at: https://lha-direct.voa.gov.uk/search.aspx

36 For instance, there are around 27,500 private rented properties in the Brighton and Hove BRMA.

37 There is evidence that some landlords increased their rents to the LHA maximum upon its introduction (DWP 2011).

38 In practice, the link between LHA rates and market rents is weakening, given that the former will now be uprated only by CPI.

The impact of giving local authorities this power would need to be assessed relative to local housing benefit expenditure under the existing BRMAs, over the forecast period for an earn-back deal. These should be drawn from a Valuations Office Agency (VOA)[39] baseline at the start of the process setting out the 'local reference rents' for different property sizes in each of the English local authorities with housing responsibility. From this, local authorities would be able to adopt one or more LRMAs for their patch, with the opportunity to 'carve out' certain areas or neighbourhoods, with LHA rates reset at the 30th percentile in each LRMA (based on a more fine-grained assessment of local rents).

This would allow local authorities to act on local knowledge about specific areas or neighbourhoods where the prevailing maximum LHA rate under the current BRMA is above the 30th percentile of rents in that particular geography (or where the LHA rate seems to be pushing up market rents). Drawing up LRMAs could make a significant impact in areas such as Blackpool or Torbay where housing benefit recipients make up a large proportion of the private rental market (73 per cent and 70 per cent respectively). Similarly, the potential for private landlords 'overcharging' is likely to be greatest in low-demand housing markets, where the gap between private rent awards and social rent awards is small, such as Hartlepool (£5 per week) and Middlesbrough (less than 50p per week).

This power would also enable councils to prevent large areas – especially in key travel-to-work locations – being totally inaccessible to those on housing benefit. Local authorities would only be able to do this if any extra cost from doing so was covered by savings from 'tightening up' LHA entitlements elsewhere. Given this risk, under this phase of the 'benefits to bricks' reforms, plans for drawing up LRMA boundaries would have to be agreed with the Treasury, to ensure that they would not lead to overall *increases* in housing benefit spending. Local geographies and LHA rates would need to be transparent to ensure they were applied in an open and non-discriminatory way.

There is already support for the idea of altering BRMAs. For instance, the CLG select committee recently recommended that:

> **'The government [should] conduct a wide-ranging review of local housing allowance (LHA). This review should assess whether there is greater scope for local flexibility over the setting of LHA rates and the boundaries of broad rental market areas. Local authorities could be incentivised to reduce the housing benefit bill by being allowed to retain any savings for investment in affordable housing.'**
> CLG Select Committee 2013a

Another approach which local authorities might consider is to set maximum entitlements to rent subsidy in the private rented sector on the basis of property age and type, including for households of multiple occupation (HMOs). This was suggested to us by Blackpool Borough Council's housing department as a way of enabling them to tackle the high costs and poor quality in certain parts of its private rented sector (which dominates the local rental market).

39 The VOA's role is to calculate the local reference rent by taking a sample of rents within the BRMA. These are then used to calculate the LHA rate for different types of property, at the 30th percentile of the market rent level.

Example: Local rental market areas for the private rented sector
Sheffield City Council has found that there are a number of small housing submarkets located within its boundaries where the level of LHA paid to tenants is well above the 30th percentile of rents for equivalent properties in that particular areas. This is a consequence of the BRMA averaging out rents across Sheffield's 13 locally defined housing market areas.

Taking actual market rent levels within these 13 areas and the LHA rates for different-sized properties, the council identified around 1,500 properties where the LHA being paid is in excess of its market rental value and that bringing payments into line with such values could deliver savings exceeding £300,000 a year, which could in turn be redirected into better meeting affordable housing needs.[40]

Reversing direct payment of housing benefit, as part of deals to drive down costs
Since the introduction of the LHA, rent subsidy has been paid directly to claimants, rather than via landlords, as was previously the case. An evaluation of the LHA found landlords reporting an increase in rent arrears (DWP 2011), although the evidence for this is quite limited (Wilson 2013a). However, the *fear* of rising arrears and the additional costs to landlords of having to collect rent[41] are real and would provide local councils with a bargaining chip. A reversal of direct payments of housing benefit could be offered in return for stable rents (and potentially also for tenancies with longer terms). There is also evidence that this could draw landlords back into the housing benefit section of the market (ibid), putting downward pressure on rents by expanding supply in this submarket.

In the coming years, with the roll-out of the universal credit, the intention is that housing support will also be paid directly to social tenants, rather than to their landlords. This impending change is causing real concern in the housing association sector, with worries about the impact of even a small increase in arrears on their business models and borrowing costs.[42] Therefore, the offer of not implementing direct payment to tenants – for some or all rent subsidy recipients in a given area – could be of considerable value in future negotiations with housing associations about their affordable housing plans.

With the introduction of universal credit, reversing or halting the move to direct payments will become less straightforward because rent subsidy will be subsumed within monthly payments to households, rather than being paid as a separate entitlement. The plan is for universal credit to be run through a central, online system, replacing local authority administration of housing benefit. However, the government has left provision for landlords to receive rent subsidy as a separate payment after the introduction of universal credit, through 'alternative payment arrangements'.[43] These are aimed at claimants judged to be at risk of falling into arrears.

40 Results of unpublished modelling conducted by Sheffield City Council in collaboration with IPPR.

41 For instance, the Residential Landlords Association is campaigning for stricter rules around payments to tenants – see: http://www.rla.org.uk/landlord/lobbying/currentCampaign.shtml

42 Data collected from the Direct Payment Demonstration Projects in six pilot areas has shown that rent collection rates are 94 per cent (DWP 2013a), with rates varying across the six areas from 91 per cent to 97 per cent (Wilson 2013b).

43 See pages 8–10: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275875/universal-credit-rented-housing.pdf. Those living in supported accommodation will also be exempt from the universal credit and will continue to receive housing benefit as now.

However, where local authorities intend to bargain with landlords as part of their earn-back deal, they should be allowed to trigger the wider use of such arrangements. This would also build on the provision given to local authorities to restore payments of housing benefit to landlords following the 2012 entitlement cuts, if this would enable the tenant to negotiate a lower rent.[44]

Example: A local reversal of the move to direct payment of rent subsidy to claimants

Wakefield and District Housing (WDH) is a housing association with 31,000 properties. Wakefield Council is one of the areas involved in the Direct Payment Demonstration Projects pilots, and WDH has stated that the introduction of direct payments to tenants has led to rent shortfalls rising from 2.9 per cent to 11 per cent below total rent due (CLG Select Committee 2013b).

WDH's chief executive summarised the risk to the business model as follows: 'we are expected to build, and we need capacity to build. If people don't pay, we cannot borrow money' (CLG Select Committee 2013c).

The impact of direct payments is expected to cost the housing associated £3.1m per year by 2017, with obvious impacts on building capacity. When combined with other reforms, including the under occupation penalty (or 'bedroom tax') WDH expect's to see their 30 year income drop by around £220 million, and lead to them reducing planned new supply by around 3,000 homes (CLG Select Committee 2013b).

If Wakefield Council could offer to maintain payment of rent subsidy to the landlord under universal credit in exchange for lower rents, then the local authority could generate savings on housing benefit while the housing association could achieve greater financial security.

Phase 3: Devolve housing capital budgets to combined authorities along with greater control over social rent setting, to allow better value 'grants for rent' deals to be struck

The first two phases of reform would offer local authorities the chance to take specific steps or strike bespoke deals to generate savings for reinvestment in affordable housing. By contrast, the third phase would begin to create the institutional conditions for a *structural shift* from benefits to bricks. **Putting city and county combined authorities in charge of housing capital expenditure, alongside flexibility on social rent setting, would enable them to strike their own 'grant for rent' deals with housing association and developers**. These would, over time, allow pressure on rent subsidy to be eased as affordable housing needs are increasingly met in ways that provide better value for money.

Putting combined city and county authorities in charge of housing capital budgets

The framework of an earn-back deal would establish incentives for local authorities to boost affordable housebuilding, especially where they have extra borrowing capacity of their own. This dynamic would be given greater momentum by decentralising responsibility

44 See this DWP guidance on direct payments: http://www.rla.org.uk/docs/DWP_guidance_direct_hb.pdf. Durham Council has publicly available guidelines for how the decision-making process is managed. See http://content.durham.gov.uk/PDFRepository/Direct_payments_procedure_Guidance.pdf

for capital investment in affordable housing. Under current investment plans, the Homes and Communities Agency (HCA) is responsible for allocating £4.5 billion of public money over four years in grants, primarily to housing associations, with the aim of delivering 170,000 new 'affordable' homes over the same period (HCA 2014). The existing programme has been extended to 2018, but at a level far beneath what is necessary to keep pace with rising demand, let alone tackle the mounting backlog.

Before 2018, a new plan for allocating investment in affordable housing will be needed. There is a strong case for increasing capital spending on housing overall, given its economic return and the desperate need for new homes (Jeffreys et al 2014). However, whatever the settlement, there should be provision for transferring responsibility for an appropriate share of this budget to combined authorities, across city or county geographies. This idea has recently been proposed by Andrew Adonis, as part of his growth review for the Labour party. Control of the housing capital budget would make it possible for local areas to ensure that affordable housebuilding was aligned with wider plans for driving rent subsidy savings.

The direct transfer of significant upfront resources to local areas would require a certain level of financial and managerial capacity, not least to effectively negotiate long-term contracts with housing developers and providers. Therefore, this power should be limited to those parts of the country where local authorities have established strong joint arrangements. Ideally these would be through combined authorities, whether formed around metropolitan cities or between district councils and their 'top-tier' authority. Consideration should also be given to offering control of housing capital to groups of local authorities coming together for this specific purpose, ideally within local enterprise partnership (LEP) geographies.

Control of the capital budget would also be conditional on local areas setting out a clear plan for how they would allocate resources to meet affordable housing need at best value to the taxpayer. This would require local authorities either to align their own earn-back deals with this plan for capital spending or to establish a single earn-back deal across their shared area. The latter would make particular sense where this is (or will be) a full combined city or county authority. It would require constituent councils to pool some decision-making over housing – such as in relation to planning or setting LRMAs – or to establish strong cross-council agreements about how powers would be exercised under this deal.

Ministers would need to develop a formula for determining the geographic allocations of the national budget for housing capital investment. This should support the goal of shifting from benefits to bricks, for instance by taking account of areas where housing benefit expenditure is relatively high, given housing costs and levels of need (among other potential allocation criteria). In London, the mayor already controls the capital's share of the HCA budget; therefore the boroughs would have to decide how they would work collectively – and with the mayor – in pursuing earn-back deals.

Under these arrangements, the HCA should continue to allocate grants to housing associations in areas without combined authority or other partnership arrangements where housing investment is not decentralised. It should also play a key role in supporting groups of local authorities to put together their investment plans and in advising Treasury in signing off such plans. It could then also play an important role in offering strategic and technical advice to local areas, including brokering negotiations with larger housing associations and developers with national reach.

The HCA would also be well placed to play a similar role in relation to more innovative land market interventions, such as compulsory purchase orders, land assembly, urban extensions and a new generation of 'new towns'.[45] Finally, it might be given a stronger regulation and monitoring remit under an increasingly decentralised system of affordable housing, as an independent body standing up for individuals and the taxpayer interest in relation to all such investments.

Example: Local control of capital investment in housing
The HCA is planning to invest £1.7 billion outside of London to support the construction of new affordable homes between 2015 and 2018 (HCA 2014). As a guide, if Greater Manchester Combined Authority were to receive its share on a per capita basis (minus Greater London), it would receive around £100 million to invest in expanding local housing supply (though, in practice, allocations should not be determined simply on this basis).

Within the framework of an earn-back deal, it would then be able to use this capital, alongside general funds or prudential borrowing from its constituent local authorities, to strike 'grant for rent' deals with housing associations and developers, potentially to offer around 1,700 generous grants of £60,000 in return for agreement to lower rents over the long term.

The combined authority would also be able to target new affordable housing in the areas where it could generate the greatest housing benefit savings, such as where the gap between private and social rents is greatest. New homes might be focused in Stockport, for example, where housing benefit in the private rented sector is a third (33 per cent) higher than in the social rented sector. If the balance of housing benefit claimants in the town shifted by 100 away from the private rented sector and into the social sector, savings of around £125,000 per year could be generated.

Allowing greater local control over social rent setting, including 'pay-to-stay' arrangements
As the National Audit Office's analysis of the current Affordable Housing Programme has found, relying on lower grants and higher rents offers poor value for money over the long term (NAO 2012). However, decentralising the capital budget will not on its own change the financial equation between grant and rent subsidy. Under this phase, the Treasury would retain the upfront responsibility for paying housing benefit, so the trade-off between grants and rents could not be fully internalised at the local level (unlike under phase four). However, some greater control over social rent setting should be given to local areas under this phase.

They key change under this phase would be as much about the ability of local areas to *strike the deals* with housing associations and developers as about control of the capital budget itself. This is because it would enable them to harness all the powers at its disposal (including from the first two phases of reform previously outlined) to maximise the impact of capital spending. For instance, local authorities could bring their own expanded borrowing capacity to bear, as well as reinvesting savings generated from 'service for rent' deals with private landlords and better management of temporary accommodation needs.

45 These measures will be addressed in a forthcoming paper by Matt Griffith for IPPR.

In addition, its planning powers and public land holdings could be powerful negotiating levers, as could the offer to reverse or halt the move to direct payment of housing benefit to social (as well as private) tenants. The incentive for a local area to strike a deal for new affordable housebuilding on the basis of lower rents would be that it could keep a share of any knock-on housing benefit savings through its earn-back deal. In addition, while a national formula for social rent setting should continue to apply under this phase of reform, local areas should be able to pursue specific, negotiated exemptions.

The provision of social and affordable housing plays an important role in promoting mixed communities, and at a lower rent subsidy cost than by pursuing this objective through private rental subsidies. And, in practice, only a small minority of social housing tenants are on high incomes, with CLG estimating that between 12,000 and 34,000 social tenants have a household income exceeding £60,000 (CLG 2012b). However, it is harder to ensure that capital subsidy provided by access to a submarket rental property is efficiently allocated, relative to a cash subsidy via housing benefit.

Therefore, to retain some flexibility, while shifting towards more cost-effective capital subsidies over time, local authorities should be given the power to implement their own versions of 'pay to stay' policies. This would permit housing associations and councils to charge higher rents to social housing tenants on higher incomes, generating higher rental incomes and enabling social landlords to further cross-subsidise their social mission with a broader rental offer.

Example: Locally designed 'pay to stay' policies for higher income social tenants

Research by the Centre for London estimates that £300 million a year in additional revenue could be generated in London by imposing a premium on social rents for 115,000 households on higher earnings (while protecting their social tenancy). Income at this level could provide capital grants to support the construction of an additional 3,000 houses for social rent at a very generous £100,000 grant subsidy (Redman 2013).

At a lower, though still generous, grant of £60,000 per unit, the building of 5,000 social properties could be supported. And if just one-fifth of these new homes were used to shift the balance between the private and socially rented housing benefit caseload in Lewisham and Southwark by 1,000 – away from private and into social – then savings on rent subsidy spending of nearly £3 million a year in each borough could be generated for reinvestment.

Such 'pay to stay' policies would need to be carefully designed to avoid creating rent 'cliff-edges' or sharp disincentives to work, for examples by only applying to tenants on a middle or high income, with rents rising incrementally in line with income.

In areas of the country where there are sufficient numbers of higher-earning social tenants, the ability to gradually adjust social rents in accordance with household income could release funding for capital investment, to provide affordable housing for those low-income families not currently supported by social housing. The right for housing associations to be able to operate earnings-related rent policies could be used to secure a better deal on new affordable housebuilding (either lower rents for those on housing benefit or more

homes for a given level of grant). Any greater rental income from local authorities' own properties could be retained locally.

The introduction of locally designed 'pay to stay' policies could be combined with moves to allow local authorities to set their own 'right to buy' discounts (on homes built with investment from local councils). This would ensure that, when faced with a higher rent, tenants on a higher income are not able to take their property out of the social sector altogether without sufficient compensation to ensure a replacement affordable home can be built.

In addition, or alternatively, local areas might also make greater use of their existing powers to offer fixed-term tenancies to new residents in the social sector. This would allow the subsidy implicit in a submarket rented property to be better targeted, while continuing to offer stability to those who need it most. Local areas might develop allocation policies that offer long-term tenancies to families and pensioners, but renewable tenancies to other groups.[46] Across both 'pay to stay' and temporary tenancy options, the key insight is that uniform application of either across the country would be poorly targeted and probably damaging. By definition, they are best applied according to local circumstances, within the earn-back incentive framework.

Phase 4: Provide cities and counties with an upfront, multiyear Affordable Housing Fund, to meet local housing needs through building homes and subsidising rents

The most radical strategy for shifting from benefits to bricks would involve turning the funding relationship described in earlier phases on its head. Under earn-back deals, the Westminster government would reimburse local authorities, individually or collectively, for a share of successful efforts to reduce housing benefit, relative to forecast. By contrast, under this phase, **a multiyear Affordable Housing Fund (AHF) would be transferred from the Treasury to local areas upfront, combining the authority's share of nationally allocated resources for housing investment and housing benefit**.

Under this phase, local areas would be responsible for using their AHF – along with its own powers and resources described across the three previous phases – to build homes and subsidise rents according to local circumstances. They would be expected to aim for the optimal balance between capital and revenue subsidy to meet affordable housing need and drive value for taxpayers' money, given the local population and housing market. As our analysis has indicated, this balance will rightly vary between areas. Combined city or county authorities would be required to use their AHF exclusively to meet affordable housing need, ideally through coordinated – or merged – HRAs.

With an AHF, **local areas would have much stronger incentives and far greater freedom to take advantage of the powers and options available** under phases one to three. They would control housing expenditure for their area upfront, enabling them to shift the balance of expenditure at the pace and scale which best suits local conditions, unlike under previous phases where resources continue to be 'locked' in existing patterns of housing benefit spending. They would have multiyear funding certainty and scope to invest early to kick-start future savings.[47] And, crucially, any savings generated would be available to local areas *immediately and entirely*, unlike under earn-back deals, which

46 This would also enable local authorities to pursue locally sensitive policies to manage under-occupancy, as an alternative to the so-called 'bedroom tax' driven from Whitehall.

47 The extent to which this is possible will depend on how housing expenditure is treated under this model within the national accounts, to determine its impact on assessments of the public finances and the national debt.

require a model to assess the 'additionality' of local action and a post-hoc, periodic reallocation of savings from the Treasury to local areas.

In addition to maximising the potential of the powers and options previously discussed under earlier phases of reform, gaining control of an AHF would create new possibilities for shifting from benefits to bricks and better meet local housing needs.

Setting levels of local rent subsidy, within nationally legislated eligibility criteria
At present, the level of support provided through housing benefit varies across tenures and between places, but that variation is determined by Whitehall. In the private sector, this is controlled through the drawing of BRMA boundaries and setting of maximum LHA rates. In the social sector, it is in effect determined by social rent-setting policies, with levels of rent subsidy often varying from property to property, up to an 'applicable rate'.[48] In short, housing benefit is not (and has never been) a flat-rate entitlement like JSA, child benefit or the state pension.

Under this phase, **local areas would assume responsibility for providing a subsidy to local people who were unable to pay their rent and for determining the rates of support available.** As such, local areas would be required to operate a rent subsidy scheme, with transparent rates and rules, but with **national minimum eligibility for basic housing support, set out in legislation and applying equally across the country**. This should ensure that those living in rented accommodation and with incomes and savings under a certain threshold are eligible to receive help with housing costs. At the very least, this should apply to those with entitlement to JSA, ESA, income support or pension credit (and, in time, maximum universal credit). This would ensure a baseline of eligibility to housing support, with levels of support continuing to vary across tenures and locations, but with local areas determining *how* such support was provided (in particular, the balance between a cash subsidy and an affordable tenancy).

At present, there are other rules determining access to housing benefit, beyond income and capital tests, such as for single people under the age of 35, the treatment of spare rooms, the expectation of sharing among children, and deductions for non-dependent members of a households.[49] Under this reform, it should in principle be for local areas to decide whether or how to apply such conditions. However, parliament may decide to establish some minimum expectations for what local areas should provide, for instance to prevent overcrowding or ensure sufficient space for children. In all cases, local areas would be free to make more generous provision than parliament requires.

In negotiating these new arrangements, a couple of further issues would need to be resolved. In the private rented sector, there would be a case for retaining the 30th percentile maximum as a national baseline, with the capacity of local areas to vary the level of subsidy resting on their power to draw up their own LRMAs (including over small neighbourhoods). Also, if housing support were provided locally with local financial control, there would be a case for exempting housing from the 'household benefit cap' in areas where an AHF applied, adjusting the level of the cap accordingly.[50] This would help to deal with the geographically concentrated impact of this policy, which currently takes no account of variable housing costs.

48 Additional supplementary payments from DWP to local authorities are available to support the provision of temporary accommodation.

49 For more information see: https://www.gov.uk/housing-benefit/what-youll-get

50 There is a precedent for this exemption, given that local support for council tax costs is not part of the household benefit cap.

Full control over rent subsidy spending would create much greater scope for expenditure to be well directed to meet affordable housing need and drive value for money given local circumstances. In the private sector, local areas would have **far greater potential to bargain collectively on behalf of private rented sector tenants**, as they would hold the budget upfront, determine the level of subsidy provided, and be able to set conditions on its receipt by landlords. Similarly in the social sector, local areas would have a much **stronger hand in negotiations with housing associations about new affordable housebuilding**, by putting control over rent subsidy spending alongside the management of capital spending, planning, public land and so on.

Determining a local social rent-setting policy, subject to sound financial management

Local areas with an AHF should also assume responsibility for deciding the framework for social rent-setting in their area, which would apply in housing association and local authority properties. Unlike under the third phase, at this point the trade-off between rental income, rent subsidy, capital grant and asset value could be fully internalised at the local level. For example, if a local area was to keep social rents low then they would reduce the need for rent subsidies but also reduce their rental income, which would have implications for borrowing costs and debt servicing (and vice versa).

In Scotland, councils already have this control over local authority rent levels, within an arrangement with the Treasury to prevent substantial hikes in housing benefit spending.[51] Similarly, a more flexible model is about to be established in Wales, where their system of guideline rents is being abolished.[52] Rules are being put in place to prevent councils simply increasing rents among those on housing benefit, which would allow the local authority to increase its rental income but require the Treasury to pick up higher rent subsidy costs.[53] With an AHF, under this fourth and final phase, such arrangements would not be necessary. In England, local areas would be required to set out their social rent-setting strategy as part of negotiations concerning their AHF, including the financial plans on which this would be based, to ensure they were able to service their debts over the long term.

Finally, full control over housing expenditure through a multiyear budget would create the potential to put in place other, more innovative strategies to better meet affordable housing needs, beyond those discussed in previous phases.

- Local areas might negotiate to **retain an equity stake or the freehold** on new housing built on land it has released to a developer or which it has partly funded, so that it captures part of the uplift in property value (or generates an income stream from the leaseholder).
- Local areas might use financial freedom and positive incentives to **bring empty properties into use**, **switch suitable properties from commercial to residential use** or **directly purchase properties** where private landlords are willing to sell at a cut price.
- Local areas might invest in **better housing solutions for those with specific needs**, such as older people, disabled adults, care-leavers, substance addicts and ex-offenders (saving on temporary accommodation costs and reducing duplication with other local services).

51 For a brief account of the types of rent-setting policies, see Wilcox et al 2007: chapter 2. http://www.scotland.gov.uk/Publications/2007/11/06092845/4

52 See http://wales.gov.uk/topics/housing-and-regeneration/legislation/housingbill/specific-elements/local-authority-standards-rents-and-service-charges/?lang=en

53 See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/240118/hbsgm-sec5.pdf

Having outlined the additional powers and options which would be available to local areas under this final phase of reform, it is important to consider in more detail how AHFs could be designed and operated in practice.

The design and implementation of an Affordable Housing Fund

Control of upfront resources on a large scale would require significant leadership and management capacity, along with strong systems of financial planning and oversight. For instance, there are 61 local authorities where spending on housing benefit is over £100 million a year. Therefore, **it should only be possible to negotiate an AHF if a full combined authority – covering city or county geographies – is established on a statutory basis.**[54] No other partnership arrangements could be considered to have sufficiently strong governance to manage this level of public money in a policy area that so directly affects people's lives. At present there are five combined authorities: around Greater Manchester, West Yorkshire, South Yorkshire,[55] Liverpool[56] and the North East.[57]

Applying for an Affordable Housing Fund

As part of the next spending review process, **combined authorities should have the opportunity to develop and submit an Affordable Housing Plan to central government** as the basis for securing an AHF. Such plans would be negotiated between local areas and Whitehall, in the context of national goals and priorities. This should take place alongside negotiations over earn-back deals with other local authorities or groups of authorities. The HCA would provide specialist and technical advice to combined authorities and the government during this process.

Affordable housing plans should set out:

- key trends and challenges in the local housing market
- a long-term vision and headline objectives
- a strategy for how resources would be managed and distributed, including the operation of capital grants and rent subsidy
- mechanisms for monitoring expenditure and evaluating performance
- contingency plans for managing financial risk.

These plans should state how control over an AHF would enable the local area to pursue local housing priorities, such as expanding affordable housing supply or improving quality in the private rented sector, and how it would administer new powers, such as rent subsidy and social rent-setting policies.

In time, combined authorities should gain direct democratic legitimacy; however, there needs to be immediate and focused democratic input into these affordable housing plans. Therefore, **combined authorities should establish Affordable Housing Panels, comprising local residents and other housing stakeholders** to advise on the development of local plans (and potentially with a formal 'sign-off' role alongside local authority leaders). Local residents on the panel must represent a range of interests, including tenants from the social and private rented sectors, owner-occupiers, and

54 For more on combined authorities, see Sandford 2014.

55 Officially the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority.

56 Officially the Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority.

57 Officially the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority.

those in vulnerable housing situations or facing homelessness. Equally, there must be a geographic spread of interests represented, covering rural, urban and suburban areas.

Calculating the value of Affordable Housing Funds

With plans in place, **the first round of AHF allocations should be set on the basis of projected housing benefit spending in the combined authority area plus its share of housing capital investment** (allocated according to criteria which include supporting the national objective of shifting from benefits to bricks). Table 3.1 provides an indication of how large initial AHFs could be in England's eight core cities, based on their current estimated housing benefit expenditure increased in line with projected increases in spending across the country. It assumes AHF allocations are made over a five-year period, with scope to shift spending between years, which would require adjustments to the treatment of housing expenditure in the national accounts and by the OBR. This would give local areas time to generate savings and reorient housing resources.

For instance, generating a saving of 5 per cent in housing benefit spending across the eight core cities in year one would release £225 million to be reinvested in affordable housing.

Table 3.1
Indicative five-year Affordable Housing Fund allocations in the core cities

	HB claimants (Nov 2013)	HB spending (2013/14)	Projected five-year HB spend*	Estimated share of HCA budget	Estimated five-year AHF
		£m	£m	£m	£m
Birmingham	115,000	£519	£2,714	£39	£2,753
Leeds	71,000	£280	£1,465	£20	£1,485
Liverpool	63,000	£271	£1,418	£18	£1,436
Manchester	67,000	£268	£1,404	£27	£1,431
Sheffield	51,000	£187	£980	£17	£997
Bristol	41,000	£185	£966	£16	£982
Nottingham	38,000	£149	£777	£11	£788
Newcastle	32,000	£128	£671	£10	£681

Source: Authors' calculations based on DWP 2014, OBR 2013
* Based on current housing benefit expenditure inflated each year in line with OBR housing subsidy cost growth projections.

However, **future AHF allocations should reflect a formula based on local population, deprivation and housing costs, to create the right incentives and not penalise high-performing areas**. For instance, if an area was successful in reducing the burden of rent subsidy by meeting housing need at better value during the period covered by its first AHF deal, it would in effect be 'punished' if future allocations were based simply on projected rent subsidy spending under the current caseload and entitlement rules (which would have dropped as a result of successful local action). Therefore, rather than being locked into existing patterns of housing benefit spending – which we have shown is an imperfect proxy of costs and needs – central government spending on housing should vary by area factors rather than specific claimant factors, with a strong progressive, redistributive element. Under such a formula, areas with high levels of deprivation and high underlying housing costs would receive the most funding.[58]

58 In practice, it would probably take time to move to a funding formula purely on this basis, to prevent very sharp changes to allocations in areas that would do relatively well or suffer badly from this shift. The AHF formula could draw on the Scottish government's arrangements for distributing capital funds, which takes account of factors such as levels of deprivation, housing market pressures, remoteness and levels of homelessness.

The effect of allocating housing resources through an AHF would be to **turn public expenditure on housing into a 'DEL' budget, albeit with special characteristics.**[59] Importantly, this would *not* decouple spending from the economic cycle, given its impact on fluctuations in housing need. Because they are based on housing benefit forecasts, the first round of AHF allocations would take account of labour market and demographic projections. And any future funding formula should do the same. Beyond this, local areas would be expected to use their scale and multiyear budgets to manage small variations from the forecast. For the Treasury, this arrangement would bring considerably greater certainty and control over housing expenditure (requiring a change in the way housing support is treated within the 'welfare cap', though contributing to better public expenditure planning).

However, there will be external shocks – to the whole economy or particular areas – which substantially increase housing need to an extent that local areas could not be expected to absorb, such as were caused by the recent financial crisis. Therefore **it is vital that there is a 'valve' in AHF deals which permits negotiated increases in funding from the Treasury to be released to local areas in response to cyclically driven spikes in need**. The circumstances under which such arrangements could be triggered should be agreed in advance and might include a given level of growth in unemployment or JSA claims in the area, or other factors which could not reasonably have been foreseen when plans were agreed. This would also ensure that the automatic stabilisers react quickly to sustain macroeconomic demand in the event of an unexpected recession.

Improving homelessness protections

Homelessness legislation provides a further source of protection against the risk that local control of policy and resources could lead to housing needs being met less rather than more effectively. Local authorities are currently responsible for preventing homelessness, with a particular duty to house those who are 'unintentionally homeless', in 'priority need' (such as families with children) and have a 'local connection' to the area. Councils are now able to discharge this duty by providing a tenancy of at least 12 months in the private rented sector, where previously they had to offer a secure social tenancy (albeit often after families have spent long periods in temporary accommodation).

Under the fourth and final phase of reform, there would be a case for **strengthening homelessness legislation so that a wider group of households were covered by a duty to have their housing needs met**. One option would be for local areas to be required to ensure that all those meeting the minimum basic eligibility for housing support – currently defined as eligibility for maximum housing benefit – had access to 'affordable housing' (potentially with a definition drawn from a new 'affordability index', as discussed below). This duty could then be met either through a submarket rental tenancy or cash support to help pay the rent. An AHF would, for instance, create the incentive for local areas to find alternatives to temporary accommodation for households in the most acute need (which is often expensive and poor quality).

As an example, the Scottish government has widened the homelessness duty that applies within its jurisdiction. The 32 Scottish local authorities are now expected to provide settled accommodation for all households which have not made themselves

59 Departmental Expenditure Limits refers to fixed departmental resources. This contrasts with AME, or Annually Managed Expenditure, which is demand-driven. Where AHF's apply, this would probably sit within CLG's accounts.

intentionally homeless, effectively making the ‘priority need’ criteria redundant.[60] The Welsh government is currently in the process of expanding the statutory duties placed on its local authorities, to require them to take ‘reasonable steps’ to prevent homelessness. Both these approaches could provide a guide for how the obligations on local councils – and the powers and rights of citizens – could be strengthened as part of this reform.

Detailed consideration would be needed about how such an expanded legal entitlement could be framed and operated. But its aim would be to strengthen the power of individuals with respect to the local state, balancing the greater freedom given to local areas in how they elect to meet housing need. It would also be necessary to **specify more clearly the ‘local connection’ rules under the AHF, to deal with the risks of spatial mobility**. These should prevent local areas from ‘exporting’ those with housing need out of their boundaries and protect high-performing areas from attracting households in need into their boundaries.[61] This would require a framework for agreeing transfers between local areas, such as for work or family-related moves.

Ensuring accountability and transparency

Any change to homelessness legislation would need to be accompanied by a mechanism for citizen redress. More broadly, the decentralisation of responsibility and resources under the AHF must be matched by **rigorous accountability for how public money is spent and the effectiveness of local areas in meeting housing need**. In the first instance, central government should establish core national priorities, which should be addressed in local affordable housing plans. These should set out the objectives against which local performance should be judged, including provision for data transparency and evaluation. Within this, the HCA should take responsibility for monitoring and publishing performance, as a regulator and watchdog with the power to investigate local areas and respond to complaints from citizens.

As the centrepiece of this accountability framework, **an ‘affordability index’ should be developed to assess the performance of local areas in meeting housing need in their local housing market**. It should cover all tenures and family types, while looking at affordability in different parts of the geography covered by an AHF. It could draw on similar work by Shelter (2012), which proposes an index taking account of both local earnings and local rents. A standard, national affordability index should be established, including data collected by the HCA and published on an annual basis. It is clear that underlying affordability will vary across areas, due to historic housing market and labour market factors, but such an index would provide a metric for determining whether a given area is becoming more or less affordable and assessing the impact of local policies and spending decisions.

This affordability index would also be a key instrument in enabling local democratic accountability and in framing formal negotiations between local areas and the Treasury. As a last resort, there should be **provision to ‘renationalise’ housing resources and responsibility, if there is evidence of substantial malpractice or financial mismanagement**. In such circumstances, rent subsidy and other aspects of housing policy would revert to operating as allowed at an appropriate earlier phase in the reform lifecycle, as it would continue to do in any areas not covered by an AHF.

60 The widening of the homeless duty in Scotland has led to a rise in the numbers presenting and accepted as homeless (see Fitzpatrick et al 2012), but it is too early to judge the full effect of the change.

61 It is important to note that despite housing benefit offering very different levels of cash support to otherwise similar households across the country, there is no evidence that this has any affect on internal geographic mobility within the UK. In fact, there are areas with weak economic prospects and low average housing benefit awards that appear to attract families facing multiple disadvantage, notably seaside towns (see for example Burghart et al 2013).

Working alongside universal credit reforms

A final challenge is how the administration of an AHF would fit with the universal credit (UC), which is set to merge six existing benefits and tax credits, including housing benefit. On the basis of its current design, the UC will further tighten the grip of Whitehall and the benefits system on housing policy. Rent subsidy will be run through a central IT system, ending the role of local expertise and face-to-face relationships inherent in a locally administered system. Entitlement rates will continue to be set according to standardised, national formulas which, as we have outlined, serve only to chase rather than shape local housing markets. It will be even harder to use payment of rent subsidy as a lever to negotiate better outcomes for tenants and better value for taxpayers.

There is, therefore, **a strong case for keeping rent subsidy separate from the universal credit,** recognising (as William Beveridge did) the irreconcilable contradictions between a uniform national benefit system and the reality of huge variation in housing markets and housing costs. This would be essential under the AHF, as funding for rent subsidy would be paid upfront to local areas.

The upheaval involved, relative to current government plans, would be less dramatic than might be initially imagined. There is, after all, due to be no less variation in rent subsidy entitlements, by tenure and location, under UC as is currently the case through housing benefit. It is planned that housing support should become part of an integrated payment, but it will be no more 'national' or uniform than it is now. Moreover, the overall implementation of universal credit would become simpler and more plausible if it did not have to accommodate variable housing support.

There would be two differences under a system of rent subsidy that existed in parallel to the UC. First, decisions about rates of rent subsidy, as well as *varying* by location, would be *set* locally rather than being determined nationally. However, as previously discussed, a basic national minimum *eligibility* for housing support should remain. Second, households would receive a separate payment for rent subsidy, alongside their UC. This, of course, is what happens now, through housing benefit, and even under current plans, a number of benefits will continue to be assessed and paid separately, such as the personal independence payment, child benefit and contributions-based JSA and ESA (as well as local council tax support).

In general, the potential gains of UC have been considerably oversold. But the most attractive features are the unified work allowances (the amount a household can earn before their UC entitlement begins to be withdrawn) and a single taper (meaning a standard rate of withdrawal, currently due to be 65 per cent). At present, there are set to be two sets of work allowances, a 'lower' rate for those not receiving support with housing costs and a 'higher' rate for those who are (both varying by household type). This means, under current plans, those in receipt of housing support will see their UC entitlement start to be withdrawn at a lower level of income (maintaining weak work incentives).

Under AHF, there would only need to be one set of work allowances, varying by whether the claimant was single or in a couple, had dependent children, or had limited capability for work. A leading option would then be for **local areas to assess households for rent subsidy on the basis of their post-UC income**. As previously discussed, this would mean that a household with maximum entitlement to universal credit, because they had no other income or earnings below their work allowance, would be eligible for rent subsidy support.

Local areas would be responsible for determining the level of entitlement and administering the system, consistent with their duties to meet affordable housing need among the local population.

Adjustments to rent subsidy would then be based on changes to UC entitlement, resulting from changes in income or household circumstances. As entitlement to UC declined from the maximum, for a given household type, rent subsidy could also be withdrawn. In operationalising that interaction, it would be important to prevent high marginal deduction rates for households and to ensure that savings from a rise in household income are shared between the Treasury and the local area. For instance, central government and local areas could come to an arrangement whereby the taper rate on UC was lowered in return for an agreed system of local rent subsidies with a commensurate withdrawal rate of housing support. An alternative would be for local areas to operate a somewhat less responsive but simpler means for determining entitlement to rent subsidy, in light of any changes to UC income, such as through fixed-period awards.

Under the first three phases of the 'benefits to bricks' reform, rent subsidy would remain within universal credit (assuming it is implemented as planned). Local areas would take agreed action as part of their earn-back deals and recoup any savings at the end of the cycle. Where these local strategies lead to changes in the rates of housing support provided, such as by moving away from existing BRMAs, local areas would need to keep the DWP informed of those changes. Such variations already exist: the change here would just be that local areas would be providing the data on which the housing costs element of UC was calculated for those living in affected areas. From the claimant's perspective, the administration of the system would not be affected.

The more substantial challenge under the first three (pre-AHF) phases of reform would be isolating the impact of local action on rent subsidy spending and sharing any subsequent savings with local authorities under an earn-back deal. As discussed earlier, this would have to be based on comparing forecast and actual expenditure in a given area over a set period, controlled for exogenous factors like labour market and demographic changes. Under the earn-back deal, such factors would have to be taken into account as a quid pro quo for protecting local authorities from the risk of *rising* expenditure (meaning any savings would be shared with Treasury).

Finally, there is a case for combining greater local control over affordable housing revenue – and local housing markets – with greater fiscal decentralisation. Over the longer term, local areas should be responsible for raising more revenue as well as spending more of it. The UK is an outlier among advanced economies in its degree of fiscal centralisation. Moreover, the taxation of land, housing and property lends itself most obviously to being under the jurisdiction of subnational government (given exactly the kinds of spatial variation analysed in this paper). Therefore, the future design and control of these revenue streams should be part of any discussion about advancing towards an AHF model, with suitable redistributive mechanisms and protections in place.

Summary: a strategy for shifting from benefits to bricks

This chapter has presented a series of four phases for promoting a shift, over time, from benefits to bricks. Each phase gradually extends the powers and incentives for local areas to make a difference to their local housing market.

In practice, this need not operate as a linear process. At the start of the next parliament, local authorities – acting alone or in combination – should be encouraged to come forward with a plan for the additional powers they think could make a difference in their area and the use to which they would be put. An early **Affordable Housing Act** should establish a legislative framework for all the stages, with local councils, local authority partnerships, and city and county combined authorities able to take on relevant powers, consistent with their appetite and capacity.

Table 3.2
Powers, options, geographies and safeguards for phased reforms

Phase	New local powers
1	To agree an earn-back deal with the Treasury to share savings on local housing benefit spending, relative to forecast.
1	To agree scope for greater borrowing for housing investment, against assets and future revenue.
2	To redraw BRMAs, creating LRMAs within the local authority boundary.
2	To revert to the payment of housing benefit to landlords.
3	To control the local share of the housing capital budget.
3	To adjust social rents for higher-income tenants in local council and housing association properties.
4	To control an upfront Affordable Housing Fund, for building homes and subsiding rents according to local needs and conditions.
4	To set rates of rent subsidy for low-income households in the social and private sectors.
4	To establish a local formula for setting rents in the social sector.
4	To set conditions on the receipt of rent subsidy to landlords.
Phase	**Options for shifting from 'benefits to bricks'**
1–4	Negotiate with private landlords for lower rent subsidy through: 'bulk purchase' of tenancies; offering a service of tenant-matching, property management and covering voids and arrears.
1	Reduce demand for rent subsidy by boosting employment and earning potential among residents on a low income (including second earners).
1	Use publically owned land and existing planning powers to increase the supply of social and affordable housing (including s106), [phase 3–4] including as part of striking 'grant for rent' deals with housing associations and developers.
1–4	Use s106 powers to gain agreement from developers to build affordable rented accommodation, including deals on long-term rent levels.
1–4	Use scope for responsible borrowing to boost building of affordable homes to rent and buy (while capitalising on the New Homes Bonus).
1–4	Use control over social housing allocations – including 'nomination rights' over housing association properties – to make best use of capital subsidy in meeting affordable housing needs.
1–4	Meet temporary accommodation needs, including discharging homelessness duty, outside the expensive private rented sector (with temporary tenancies if desired).
2–4	Reverse direct payment of housing benefit to tenants as part of a deal with landlords (and retain payments to social landlords).
2–4	Better tailor the LHA to local rent levels by drawing up LRMAs to replace centrally imposed BRMAs.
3–4	Use control of capital budget, alongside other local powers and levers, to strike 'grant for rent' deals with housing associations and developers.

Phase	Options for shifting from 'benefits to bricks'
3–4	Use 'pay to stay' policies to secure higher rental income on council properties and temporary social tenancies to secure more efficient use of capital subsidy (including locally sensitive strategies for managing underoccupancy).
4	Use the financial freedom of an Affordable Housing Fund – plus the full suite of options above – to best meet local housing needs and drive value for taxpayers' money, including through negotiations with private and social landlords about rent levels and grant subsidies (including drawing forward resources from a multiyear budget to 'invest to save').
4	Set social rent policies to strike the best balance between rent subsidy, rental income, capital grant and housing assets, in negotiation with housing associations and developers.
4	Directly purchase properties to increase the stock of affordable homes (such as from private landlords exiting the market).
4	Take an equity stake or retain the freehold in new build housing in return for a public subsidy to capture rising asset values or generate an income stream.
4	Increase the size of the local affordable rented sector by allowing commercial properties to be switched to residential use or by directly purchasing properties if a landlord want to sell at a cut price.
4	Provide better-quality/lower-cost housing solutions for those with specific needs, such as older people, disabled adults, care-leavers, substance addicts and ex-offenders (aligning with other local services).
Phase	**Geographic scale**
1–2	Current housing authorities, with option for areas to strike joint agreements either on a bespoke basis for this purpose or as part of a wider combined authority on a city or county basis.
3	Requirement for a partnership between local authorities, ideally across wider LEP geographies and through city or county combined authorities.
4	Requirement for a city or county combined authority covering a significant subnational geography, with its own independent legal status (and, over time, direct democratic authority).
	Safeguards and protections
Local areas would have to set out an Affordable Housing Plan and agree it with the Treasury.	
An Affordable Housing Panel, comprising local residents, would advise on the local housing plan.	
Local housing policies would need to be transparent and operate on a non-discriminatory basis.	
AHF allocations would be redistributive, with high-cost/high-need areas receiving most resource.	
There would be a 'valve' on AHF allocations, to provide extra funding in response to spikes in need.	
A national basic minimum eligibility for housing support would be retained.	
Local areas homeless duty would be expanded, including stronger rules on 'local connection'.	
There would be full transparency of spending and outcomes, with the HCA having a monitoring role.	
An 'affordability index' would be established to assess the performance of local areas.	
Central government could 'renationalise' housing policy in the event of misuse of funds.	

4. CONCLUSION: THE RISKS OF 'BENEFITS TO BRICKS', AND THE DANGERS OF THE STATUS QUO

In developing the arguments and options for shifting, over time, from benefits to bricks, a series of risks and dangers have emerged – risks of action and dangers of inaction. In particular, concerns have been raised about the risks associated with attempting to generate savings from housing benefit and seeking to do so by empowering and mobilising local action. Perhaps most fundamentally, there is a fear that local councils – acting alone or in concert – would use any new powers to restrict the availability of housing to those on low incomes, potentially escalating need and even homelessness. This is often linked to a perception that uniformity, delivered or ensured by the central state, is the best route to fair treatment and equal outcomes.

There are also concerns about whether local areas have the capacity and expertise to strategically manage their housing market or to use extra resources well. Some argue that housing benefit can only – or most effectively – be controlled by concerted national action. Among others, there is scepticism about whether it is possible for policy – whether nationally or locally controlled – to 'buck the market' and make a difference to the balance or effectiveness of housing expenditure (even if it would be desirable to do so). Finally, there are practical doubts about these reforms, given the implementation of universal credit or the desire for Treasury control.

These are all powerful and important points, with varying degrees of truth and insight. In this report we have attempted to respond to each of the arguments, both conceptually and empirically. For instance, the implementation challenges are real, but not insurmountable. It cannot be impossible to operate a system of rent subsidy outside of the universal credit that has variable rates for different geographic areas, given that this is how housing benefit operates currently, alongside other benefits and tax credits.

Moreover, we fully agree that an ambitious housebuilding programme is an essential precondition for solving almost any of the problems in the UK housing market, including easing the burden of housing benefit. A rapid expansion of housing supply will require additional upfront investment and creative land market reforms. However, without an institutional mechanism, including aligning powers and incentives, there is no way of ensuring a connection between the types and locations of new homes and the specific ways in which they could help to reduce housing benefit spending. Local authorities – alone or in combination – are best placed to do that.

In response to the legitimate fears – and uncertainty – about greater decentralisation of power and resources over housing, a series of substantial safeguards and protections are proposed. These would aim to ensure transparency about local strategies and policies, as well as providing avenues for them to be held to account for performance. Under our plans, public expenditure on housing would continue to be redistributive, across geographic areas and income groups, with continued recognition of the need for a national funding response to cyclical demand for housing support. The legal and democratic powers of those in housing need should also be directly boosted, alongside measures to ensure a stronger voice for local populations more broadly.

In a democratic society, contingency is inherent. It is not to possible guarantee outcomes. No doubt with greater powers, local areas would advance a range of different strategies, not all of which would be to everyone's taste (which, of course, is already the case). In fact, at present, the *national* government is advancing a range of housing policies affecting the whole country that many disagree with and rightly worry about. However, it does not follow that differences in approaches between areas inevitably equate to growing

inequalities. As we have shown, the substantial variations across housing markets *require* different responses, which are currently severely constrained by the centralisation of power in Whitehall and the grip of the benefits system over spending.

More importantly, defending current arrangements for fear of the 'worst' that could result denies all the potential good that could be done. There are already many examples of local areas taking positive steps to address the challenges facing their local housing markets: from Newham's landlord licensing scheme to Gateshead's tenant-matching service to Manchester's pension fund investment vehicle. No doubt local capacity and expertise would need to be built over time, with areas taking responsibility as they are able. But many areas have the appetite and ambition to do more, if they had the powers and incentives to do so.

Our firm conclusion is that while seeking to shift from benefits to bricks undoubtedly carries risks, the dangers of sticking to the status quo are far worse, especially in light of the fiscal pressures the next government will face. A substantial expansion of housebuilding, driven by upfront capital investment and radical land market reforms will be absolutely essential in the next parliament. But it will not obviate the need for determined steps to drive better value for public expenditure on housing. In fact, these strategies must go hand in hand.

The shift from bricks to benefits has taken place over three decades, driven by powerful market forces as well as deliberate political decisions. Reversing this course will take time and will not be straightforward. However, the dangers of inaction, given the trends in the housing market and the state of the public finances, are extremely worrying. This is especially the case for those who would be at the frontline of any further across-the-board reductions in housing benefit entitlement or the quality of housing available to them. A better affordable housing strategy will not be easy or achieved overnight, but we can and must do better.

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