



UNIVERSITY
of
GLASGOW

WHAT FUTURE FOR SOCIAL HOUSING?¹

Inaugural Public Lecture, Faculty of Law, Business and Social Sciences, University of Glasgow at the Western Infirmary Lecture Theatre

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1. Introduction

I'd like to start by thanking the Chair, Eileen MacKay, and also Elizabeth Nicholson and Jeane Jenkins in the Department of Urban Studies and the Faculty of Law, Business and Social Sciences, for promoting the event.

Much of what I am going to say tonight has been influenced by time spent working with: Duncan MacLennan, Tony O'Sullivan, Alex Marsh and Moira Munro. I am grateful to all of them and others who have been important to me at various stages of my career: Laurie Hunter, Gavin Wood, Geoff Meen, and Christine Whitehead, to name but four. I would also like to mention Jon Bannister who has been a friend and ally since we were students. I am of course most grateful to my family in particular my mother who is here tonight, as is Angela, my wife.

A Definition and a Benchmark

By social housing, I mean council housing and housing associations but also a range of other bodies such as arm's length (from council) management organisations. They all share the common features that rents are below the market level, tenants enjoy more 'rights' and securities than they would in the market place and the allocation of vacant housing is, in the main, to people deemed to be in 'need' and for whom the market would not normally cater. Social housing is generally provided by not for profit organisations.

My background is in economics and I want to use the insights from the economics of social housing to analyse its possible future roles in Scotland. What does this mean? It means that alongside concerns with the social justice of policies and proposals, we should take account of economic impacts on the design of housing systems – how competitive they are, how efficient they are, and are they likely to lead to improved standards, quality and outcomes? We should be concerned about economic incentives and information in the system and to what extent consumers are rationed or have a range of genuine choices? To what extent do producer interests subordinate consumer interests? Do social housing systems offer the taxpayer and society good value for money? Can social housing either presently or after reform contribute to goals of wider economic competitiveness?

Structure of the Lecture

There are five sections to the lecture.

1. The introductory section setting the scene.
2. An outline of the sector's historical roots, the way it has changed and the sector today.

¹ I am very grateful to the insightful comments of Keith Kintrea on an earlier draft of this paper. All opinions, errors, etc. remain fully my responsibility.

3. The 3rd section stands back from the history and assesses the arguments in principle why we should have social housing.
4. The fourth section characterises the main current themes of policy from Government, and the proposals made by diverse commentators and reviewers, including, of course, the Hills Review.
5. The lecture ends with my own conclusions about what should be done to help low income households and improve housing outcomes.

Why should the future of social housing be a good topic for a lecture such as this one? I can think of six reasons. A first reason is that social housing is where the poor people live. It is all too often where the poor are forced to live together in islands of poverty cut off from the economic and social mainstream. If one is concerned with inequality, the processes that sustain and recycle poverty and all that goes with it – social housing should be part of the story.

A second reason is that housing demand is undergoing massive change as a result of unfolding processes driven by the market, household preferences, economic growth, transfers of wealth across generations and growing inequality, as well as by housing policy. We need to understand these processes and their consequences if we are to make sense of what is happening, and if we are to develop and implement housing policies that run with the grain of these forces.

A third reason is because the social housing sector has become something of a policy laboratory. Ruth Kelly talks about a ‘golden age’ of housing policy. The policies set out by the Government in London seek to create a choice-based quasi-market, as found in other social policy areas such as health care.

A fourth reason is that, despite its reducing size, the social housing sector matters to the economy – whether in terms of public spending, the wider opportunity cost of resources committed to it, the impact of housing on local labour markets, the value for money of social programmes, as well as possible neighbourhood effects. We should care about these things and recognise that where there is badly run social housing, it imposes large penalties on all of us – though most of all on those who are forced to live in it.

A fifth reason, more provocatively, is that it does not need to be the way it is. It could be different and it could be better. Social housing is done differently in other countries and often better in important respects. Could we do better?

Sixth, there has indeed been an outpouring of analysis over the last 12 months about how the sector should evolve and be reformed in the future. John Hills’ Inquiry for DCLG on the future roles of social housing in England was published last month (leading to a response from Duncan Maclennan for the Joseph Rowntree Foundation). Martin Cave is currently charged to examine the regulation of the social sector. Tony O’Sullivan and Gillian Young have recently reviewed the future of the sector in Scotland. There is an internal review taking place in the Scottish Executive. There was also, last year, a radical analysis by Tim Dwelly of the future of the sector for Gordon Brown’s favourite think tank – the Smith Institute.

2. A Picture of the Sector

Background

Social housing in Britain was, at the end of World War 2, essentially council housing. It has always been known as the ‘wobbly pillar’ of the welfare state because of historical regional variations in housing costs that made it difficult to pursue national policies. It was also always different from health, social insurance or education because of the large private sector role

within the housing system, first private renting and more recently through the domination of home ownership. However, in the 1950s and 1960s council housing rapidly increased housing standards for millions, re-shaped our towns and cities and was the home of the aspiring working and lower-middle class family. In fact, the composition of the council sector mirrored the nation's household structure.

Council housing after the war saw episodes of expansion and contraction, phases of enhanced quality followed by periods of by smaller, less attractive housing. Then, in the 1960s, partly to avoid overspill and to keep numbers up within local authority boundaries, mass building resumed through multi-storeys though this declined after 1970.

In retrospect the 1970s was the high watermark of council housing before the tide of 2 million council house sales and deep sustained spending cuts changed things forever. In 1971, housing associations, voluntary sector not for profit landlords, hardly registered. Enabling legislation in 1974 and 1988 along with policies to transfer public housing, plus the decision to channel social housing new build through the association sector – helped grow the successful Scottish housing association sector. Relative and absolute growth continued through the 1990s. Associations are now (end 2005) 40% plus of all social housing in Scotland. In 1993 there were less than 10%.

Changes to Social Housing

The sector as a whole has in the last 30 years declined in absolute and relative terms and it also changed considerably because of Government policy supporting home ownership.

The last 30 or 40 years document massive changes in the housing system in terms of tenure and with it long term shifts in the distribution of asset ownership, wealth and income inequalities. O'Sullivan and Young's (2006) review highlights that:

- Comparing 1971 and 2001, the number of households owning their home nearly trebled, while social renting fell by 28%.
- Owner-occupation rose from around 30% in 1971 to 63% in 2001.
- Social renting fell from 56% in 1981 to 29% in 2001. There were over a million social renting households in 1981. The most recent Scottish housing statistics suggest (at the end of 2005) that there are now just 615,000.

How has the housing stock changed? RTB sales have generally been for more desired property types and in more attractive locations – and this has led to a greater proportion of less desirable flatted accommodation left in the sector. O'Sullivan and Young suggest that the proportion of occupied flats in the Scottish social housing sector grew from 50% to 55% between 1981 and 2001. More than 3 in 4 social units in Glasgow are flats.

How have tenants changed in recent decades? Again, it should not be too surprising to learn that the hitherto wide tenant base of the 1960s and 1970s has been narrowed by the growth of home ownership. At the same time, social housing policies focused on prioritising need and homelessness inevitably this led to a growing proportion of low income and often vulnerable households renting social housing. O'Sullivan and Young found that the sector changed from one that mirrored Scotland as a whole to one that became much more specialised with relatively high numbers of pensioners and single working age person households. There were also large increases in single parent households and reductions in both working age couples and families with dependents.

Looking at those of working age, there is no doubt that worklessness is higher (and has widened since 1991) in the social rented sector. O'Sullivan and Young estimate that in 2001 less than half were economically active compared with a Scottish wide figure of something

like 65%. They also found that economic activity rates for social housing fell in every single Scottish local authority between 1991 and 2001 (Glasgow was the lowest – below 40% in 2001). For England, John Hills found that the proportion of social tenant householders in paid employment fell from 47 to 32% between 1981 and 2006. 70% of social tenants have incomes in the bottom 40% of the income distribution.

This leads to high levels of benefit dependence and the perverse incentives of poverty traps. Social landlords in Scotland regularly rely on HB to pay for at least 60% of their tenants' rents. Because of the steep withdrawal of benefit as gross earnings rise, people's net income rises only very slowly. This stretches over quite a wide zone of earnings and contrarily this trap widens the higher is the rent charged. A couple with 2 children paying a market rent of £120 per week would gain only £23 if their earnings rose from £100 to £400 per week (because of reduced benefits and tax credits and paying tax and NI). However, if they paid a typical social rent of £60, the gain would be twice as much: £55.

How much resource goes into social housing? There has been a pronounced switch from supply side subsidies to demand side subsidies. By 2003–2004, 1/3 of the £16b was supply side (mainly capital grants to associations) and 2/3 for demand side (mainly HB). Arguably, it is also useful to look at *economic* subsidy (the gap between gross rents and economic return rents) – £6.6b in England in 2004, slightly higher in real terms than in 1996. In the North, gross rents were £10–20 below economic rents, in the East and SE, £40–50 and in London, £70–80 (Hills, 2007).

In the diagram below, drawn from Hills review, the figures in bold apply to 2004–2005 and are in billions of pounds. The first row refers to non-means tested support, the second row to mildly means-tested support and the third row refers to sharply means-tested support. The columns go from tied to specific properties on the left side to tied to housing more generally and then on the right side to untied income redistribution. There are some important points to make:

- There are still large volumes of direct support to housing in economic terms
- Direct support to home ownership is tiny but the tax advantages are huge and dwarf everything else
- Cash transfers both mildly and sharply means-tested make a huge contribution.

Stylised Support for Housing (£b, 2004–2005)

<i>Not means tested</i>	Economic subsidy to social tenants 6.6	RTB discounts 1.8	Net tax advantage of owner-occupiers 15.7	
<i>Mild means tested</i>		Home improvement grants 0.3	LCHO 0.3	Child tax credits, Working tax credits 14.0
<i>Sharp means test</i>	Housing benefit social rented sector 8.8	Housing benefit to PRS 3.2	ISMI 0.3	IS, JSA (IR), Guarantee Credit 14.1
	<i>Tied to particular property</i>	<i>Tied to housing</i>	<i>Tied to housing</i>	<i>Untied</i>

Source: Hills, 2007, p25, Figure 3.1

Is Social Housing an Inferior Good?

Economists distinguish between goods that have *normal* and *inferior* good characteristics. A normal good is one for which demand increase as incomes rise. An inferior good is one, for instance, staple food, where beyond a given income level demand starts to fall as incomes rise.

Do we take from the evidence presented that social housing is an inferior good? Have tastes and preferences shifted so much in contemporary Britain that social housing is condemned to be a non-aspirational, inadequate form of housing that, when people can afford to, they will inevitably move away from? As a general model, is social housing redundant and past its prime – is it just to be welfare housing of the last resort like a Baltimore or Chicago? Or, is it possible to shift perceptions so that the typical view of the sector will not be a run down fearful peripheral housing estate but a well-run thriving community? Could an efficient, responsive system of social housing be designed that contributed to meeting housing need, supported communities and helped make all of the housing market work?

The key to this question about the future role of social housing is about how emerging policy aims are translated into policy instruments and whether or not these really address the underlying questions. I want to tackle this in a couple of stages. I will come to the current policy framework and the recent reviews of social housing in a minute. First, however, I want to ask why in principle we might support a social housing sector?

3. Why in principle do we have social housing?

Many economists take the view that in principle helping people who cannot afford market housing should not be given social subsidised housing but instead receive a transfer of income. This would be preferably an unrestricted cash transfer but might be a tradable housing voucher. Allowing the individual to make choices for their housing in the marketplace alongside their other living requirements, is deemed to be better, more efficient and even cheaper than subsidising housing directly and allocating it through some form of rationing by a not for profit landlord.

This abstract pro market individualistic view – giving cash rather than in-kind support – holds remarkable power in social policy debates. However, even though one might agree with parts of the argument – e.g. more choice – it needs to be deconstructed and in doing so we can perhaps develop a positive in-principle argument for social housing.

In a helpful paper in 1997, Duncan Maclennan and Alison More argue that too often pro-market advocates use models which assume fully informed individuals operating in competitive markets which have no serious spill-over problems and where distributional matters can be put aside. At the same time the pro-market commentators caricature social provision as inefficient bureaucratic monopolies. Pro-social housing commentators on the other hand assume that markets are inefficient or monopolistic and ignore any problems that social landlords might confront because of lack of incentives or innovation. Both positions are unrealistic and unhelpful.

More recently, discussing these matters, Duncan Maclennan concluded: “The sad reality in which we live and house ourselves is replete with market and public failures and the good policy choice...[is] to make the best system choices and designs to meet the goals of the time and the place’ (2007, p.38).

The recent review by John Hills makes a strong case for using social housing not cash transfer. Fundamentally, there are several *merit good* reasons why social housing can be a more appropriate response to those in housing need than alternate forms of support:

1. Worries (paternalistic) about how untied cash transfers would be spent (affecting individuals but also families and neighbours).
2. Concerns about the quality of the private sector, particularly for those on low incomes.
3. Doubts about value for money of public support if demand side subsidies simply push up the price of a fixed supply of housing.
4. Scepticism about work and savings incentives if support via means-tested benefits leads to wide poverty traps.
5. Worries about geographical segregation if housing decisions are left entirely to the market, leading to communities polarised by income.
6. Finally, there are also equity reasons for subsidy that offset the advantages of those in other tenures (such as tax expenditures and access to inheritance).

Hills' concern, however, is that social housing has not been realising its potential advantages. First, there are negatives associated with rationing and lack of choice. Second, there is evidence of poor outcomes in terms of tenant satisfaction, space standards and neighbourhood conditions. Third, as is well known, there is strong evidence of income polarisation on the ground. Fourth, we have seen the high levels of worklessness among social tenants. This suggests that the in-principle benefits of sub-market rents, limiting poverty traps, are not having particularly positive effects.

Duncan Maclennan (2007) argues that the case for social housing is stronger where there are market failures, household choices and dynamic effects that support the case for social housing. In particular he stresses the importance of market failures such as externalities, monopoly problems and the difficulties arising from inelastic land supply. He also emphasises the need to provide support for vulnerable households who have specific needs. Other important justifications include local resident preferences for community housing solutions, the benefits of social capital creation and the capacity of local communities to benefit from land value uplifts following regeneration.

I conclude from this that there are arguments favouring the device of social housing over cash transfers in the market place but that we need to recognise the failings in practice of social housing in the past and present and, second, we need to be clear that social housing, more attuned to economic incentives and choices, should play a functional role in the housing system as a whole, consistent with local demands and requirements.

4. Characterising Policy and Options for Social Housing

There are now a number of emerging positions on the future of social housing. What I will now do is characterise four basic positions and assess their contribution. This will then allow me to draw some conclusions in the final section of the lecture.

Government in England and Scotland

The first perspective is that of the present Government. In England, where the position is arguably clearer, housing policy reform post 2000 has embraced the wider choice agenda by establishing policies and delivery mechanisms which lead to a *quasi-market* for social housing. In a recent paper, Alex Marsh and I identify the following components to the current policy framework (Gibb and Marsh, 2007):

- The prescription of broad standards, a timetable for completion and options as to how to achieve and fund the standard.
- A contestable supply side of multiple providers to achieve the standard – councils utilizing prudential borrowings, residual council landlords partial and whole stock transfer from councils to associations, existing housing

associations, ALMOs, PPP/PFI models and now grants for private developers to do social housing.

- The consumerisation of the demand side through the introduction of choice-based lettings, uniform pricing of social rented housing and housing benefit reform.
- A revised regulatory regime – setting performance standards, policing, providing comfort for lenders and including an element of incentivisation.

There is now a research evidence base on aspects of these individual policies. Research on **choice-based lettings** is broadly positive, suggesting that applicants generally prefer the new system and the element of control it gives them. There is no evidence that it has led to statutorily homeless ending up in poorer quality housing. For the landlord, properties are vacant for less time, turnover falls and there are potential long term savings. Moreover, the system appears to work in both low and high demand areas. To be fair, other writers such as Alex Marsh have been more critical and sceptical about CBL.

Private sector HB claimants are given a cash-based **local housing allowance** based on a local average rent wherein they can keep any savings from shopping round or negotiating lower rents. Also, unlike HB – except for vulnerable or arrears cases, tenants not landlords receive the cheque. The pilot evidence suggests that more tenants have opened bank accounts creating financial inclusion benefits as a result of receiving the HB cheque. There is no evidence of increased arrears – nearly all the private tenants prioritised rent payments. There is no evidence that the shopping incentives in the new system have greatly affected behaviour but there does appear to be more negotiation over rent and tenants have tended to take properties better fitted to their household size. There is no evidence of tenants taking inappropriately small accommodation.

What evidence is there that social landlords operating in this emerging quasi-market environment are performing differently or better? Research on housing management effectiveness is mixed:

- Evaluations of stock transfer organisations generally conclude that they provide effective management, in part due to tenant and independent board members. Moreover, they have largely delivered on their transfer promises.
- However, this should not obscure the general finding that overall social landlords' housing management performance had tended to deteriorate over the past few years, including higher levels of tenant dissatisfaction (More, et al).
- Almost all studies concluded that organisational structure was not the key determinant of good performance. Nonetheless, 'the general consensus is that decentralised, local estate management can deliver improved management and maintenance performance'. (More, et al, p.72).
- A review of 38 Estates Renewal Challenge Fund (ERCF) partial stock transfers found that many associations outperformed their business plans. Management performance also exceeded national averages. Five years after set up, most ERCF RSLs were 'in net terms, in a stronger financial position than had been anticipated pre-transfer. The Scottish Homes stock transfer programme evaluation found similar outcomes.

In Scotland, social housing policy has in recent years been similar but different to the English experience. A housing standard with an options appraisal process is in place in Scotland with the same requirement for social landlords to choose from a series of options how to fund their programme. Supply-side contestability is restricted because there are no ALMO or PPP options. Prior to the recent ballot defeats in several Scottish councils policy was clearly aimed

at de-municipalising social housing in Scotland through stock transfer to housing associations. Scottish social landlords are beginning to wrestle with choice-based lettings and even rent restructuring but they are well behind developments in England and there is no compulsory impetus as was the case in England.

The choice-based and contestable policy agenda has clearly been more coherent and developed in England than in Scotland – though even in England there has been hesitation in following the policy through – competition is patchy, and there has been a retreat on housing benefit reform, etc. In Scotland there are elements of these themes but not the same commitment or resource put into policy development. It seems to me that the potential advantages of giving more choice, exit options and voice to tenants requires a better structured system of social housing provision where there is genuine and widespread contestability that creates competitive and quality-driven incentives for not for profit landlords. We remain a long way from such a position.

Defend Council Housing

A second very different perspective challenges the fundamental tenet of long term policy aims – that council housing, if not social housing, is redundant. Defend council housing grew out of organised opposition to stock transfers. The basis for their position turns on:

- The democratic accountability of local government
- The protection offered by public sector ownership and economies associated with public borrowing, land ownership, planning, etc
- A rejection of criticisms of the council sector – that it is inefficient, unresponsive or badly managed – rather it has been starved of resources and political support
- A rejection of alternatives such as stock transfer on the grounds that these weaken tenant rights, involve the spectre of for-profit lenders, consultants and contractors, that management efficiencies are spurious and that costs of transfer are only one element of the high cost/risk of transfer.

The ‘defend council housing’ position rejects much of the quasi-market agenda on the basis that contestability threatens the council sector. Instead, their policy reform agenda lobbies for more resources and for freedom to manage and develop. It is too easy to label this perspective as ‘Old Labour’ – it remains a significant voice in housing politics and has scored noticeable successes in transfer ballots. However, it does reflect a coalition of producer interests that does not fit well with the choice and efficiency agenda. It is also interesting to note the management effectiveness evidence – councils are not necessarily worse housing providers. They still nonetheless have to answer how they will mix communities, continuously improve standards and meet rising consumer expectations.

Tim Dwelly’s Perspective

Tim Dwelly’s contribution to a Smith Institute collection of essays – *Rethinking Social Housing*, published last year is *uber*-New Labour in tone. Dwelly argues that social housing is not working. The so-called permanent revolution of policy reform alluded to in the previous part of this lecture, actually is said to disguise a failure to change the essentials. He says we need to address the big questions – i.e. no matter how you run it, is social housing a good idea at all?

Dwelly thinks that the best way to get allocated social housing nowadays is to demonstrate one’s suitability for a life of welfare dependency. He maintains that social housing should not be about numbers games and delivering more units, it should not even be about quality. Rather it should be part of a system of support aimed to best improve the life chances of individuals. If the aim of Government is to widen opportunity and spread wealth, as he insists,

how can this be done when social housing entrenches poverty and dependency often stigmatising people as unlikely to succeed.

Dwelly is opposed to lifetime tenancies and is also concerned about the absence of an equity stake for social tenants. He thinks equity stakes have positive neighbourhood effects, because they are potentially wealth-redistributing but also because housing wealth has become so important in society and social tenants are being left behind.

In the final chapter he sets out headline areas for reform:

1. Action to dismantle social housing estates – through open market sales, comprehensive tackling of deprivation and the development of affordable mixed housing communities. The end of new single tenure social housing schemes
2. Action to bring in private investors with a commitment to affordable housing.
3. An end to social tenancies, with the phasing-in of a single rented tenancy that does not assume a lifetime right (private tenants would have more rights; social tenants less).
4. A major rethink on homelessness – breaking the link between temporary need and long term rights to a tenancy supported by statutory duties to help the vulnerable.

The Hills Review

John Hills' *Ends and Means: The Future Roles of Social Housing in England* was published 2 weeks ago. His view is that overall, housing conditions in England have markedly improved. But general improvement can nonetheless obscure *wide variations* in conditions between households. The link between social housing and non-employment is stressed – why is it that even once we have accounted for personal characteristics that social housing tenure status independently confers a lower probability of being in work?

Hills think *modest* reforms could bring benefits to the existing system and overcome the weaknesses he found relating to the effects of rationing, income polarisation, worklessness and poor housing outcomes. Different packages will be needed in different demand/cost regions so there must be flexibility. He also makes the point that potential advantages of social housing relative to the market have to be achieved *in practice* and reform must be required to actually deliver these proposed advantages. There are three broad policy areas that I'll look at in turn.

1. Existing Housing and Households

Much of the debate is about new units and new entrants to social housing. But what happens to the existing stock of housing and current households will be far more important in determining the success of the social housing sector. Hills concludes that it is not enough to ensure that new housing does not add to polarisation, but that approaches should be identified to 'mix' the existing stock:

- Large scale redevelopment may be the only alternative in some cases but it is expensive and its impact may make it of limited use.
- The research on CBL suggests examining the way allocations policies work to try to reduce the extent to which they are sometimes an engine of polarisation.
- Like for like sales and purchases such as by JRMT or using the proceeds of market renting to purchase in other neighbourhoods to diversify the stock.
- In some places there will be scope to use vacant social housing land to bring in both new stock for sale, LCHO and market renting etc.

- Seeking to retain higher income tenants through high quality management, improving neighbourhood conditions and services, and by diversifying options.

2. Housing and Work

The report suggests directions by which housing might assist better employment options (which are also essential to creating income mix in communities):

- Counselling to improve knowledge of how HB works e.g. that it may continue when one is in part time work. Also, support so that there is less rapid adjustment to changing circumstances which could help both stability of income on a move to work and reduce the administrative burden. The financial inclusion benefits found in the LHA pathfinders makes a case for expansion to the social sector.
- Hills thinks lessons can be drawn from the positive experiences from the ‘pathways to work’ pilots that have shown the value and cost-effectiveness of personalised support to overcome labour market disadvantage.
- Local employment demand-side initiatives might be more effectively used e.g. social landlords direct role in neighbourhood regeneration.
- Job related reasons (including potential child care support) and the fact that a tenant transferring within the existing stock leaves a vacancy behind – could be supporting reasons to help establish prioritise allocations and support mobility.

3. Widening the Options

Hills cautiously supports a varied menu of offers to social tenants which includes going beyond the standard secure tenancy, and for social landlords to offer a wider range of options. He thinks there is considerable scope for broadening the scale of intermediate options involving partial equity purchase. This includes the radical option to equalise common equity purchase rights.

Offering a more varied menu to tenants and prospective tenants applies:

- At the point of presenting in housing need. For some, the traditional tenancy may be most appropriate, but for others, quicker more flexible support may be the best way of meeting their needs. For those with some margin above the ability to pay a social rent, LCHO options may be both preferred and also cheaper than the long run cost of social housing.
- For existing tenants, a system of regular review every few years could run through whether someone’s circumstances have changed to allow them to take up a different part of the offer. Eligibility to get involved in part equity purchase, saving on top of one’s rent payment and subsequent staircasing down to draw out equity – could be linked to good tenancy performance.

Lessons from Across the Different Perspectives

Hills provides unqualified support for the sector, from the position that it has real strengths and takes the view that one works with the system to overcome problems which are in part much wider than housing (for instance, the doubling of real house prices, inequality and poverty). This is completely different from the Dwelly perspective. The emphasis on flexibility, reflecting different regional conditions and the importance of a focus on the existing stock, are both surely right. Unlike Dwelly, he is reluctant to put the blame on welfare dependency.

However, Hills proposals are relatively incremental rather than radical. Steps are outlined that build on the existing policy agenda in order to realise the system’s potential advantages and

reduce or eliminate its disadvantages. However, there is no generalised call for additional sustained resources from Hills (unlike Defend Council Housing) – which is interesting given the regional difficulties England faces in the SE. It was not part of the remit but it is hard to ignore as a fundamental requirement of meeting unmet need.

There is general support for the quasi-market system for all except ‘Defend Council housing’ but no radical discussion of provision alternatives, neither support for or opposition to council housing per se, or of further policies to improve contestability.

There are issues with the terms of references and what is therefore excluded, in particular, the links between social renting and home ownership policies. A frustration with the Hills report, bizarrely, for such a weighty document, is the lack of detail on the main proposals – especially around housing benefit, equity purchase, varying tenancy arrangements, the role of counselling over options and the like.

What does this mean for Scotland? The uncharitable might say just wait a couple of years. The context is similar yet different but the underlying relationships between consumer, provider and the state are much the same – the issues of mixed communities and worklessness and system efficiency are certainly the same. It seems to me, all in all, that the Hills Review is therefore highly relevant to Scotland.

In the final section I want to summarise the argument and put forward my own modest and less modest proposals that might support and develop the sector.

5. Conclusion: Emerging Proposals

To recap:

- Along with judgements based on contributing to social justice and broader economic competitiveness, economic analysis can contribute to policy analysis of social housing.
- Non-market housing is important because of the functions it performs, its close links to poverty and concentrations of disadvantage, it is affected by major societal changes, and it involves considerable public resources which could arguably be used better.
- The sector has been shrinking in size and has become more concentrated spatially and in income terms, catering to a narrower client base, wherein worklessness and benefit dependency have come to dominate.
- In-principle arguments can be made to support the case for non-market housing.
- Social housing policy resembles quasi-market policies found elsewhere in the public sector. Things are similar but different in Scotland.
- A range of perspectives on future policy reforms focus on the development of mixed communities, labour market problems and further widening choices including through equity shares and different tenancy options.

It is not too difficult to support several aspects of the proposals we have heard this evening. Social housing, perhaps reduced in size, is here to stay if only because of the distribution of income – there will always be a significant proportion of households who cannot afford market housing. How do we fix it rather than replace the bits that do not work well is the way forward.

I agree with a lot of what Hills says in relation to mixed communities, the need for more emphasis on existing housing and the focus on employment. I am not so sure about the relative merits of varying tenancy rights and applying these ideas of equity shares (I am also

not sure if he is saying introduce these ideas or have a discussion about them). I think we need much more detail on these before we can properly appraise them.

I think there is clearly wide scope for counselling and advice. Managers could act as a ‘mobility’ agent who can advise about housing options in an impartial way (this might be part of the future role for housing officers who have less traditional allocations work to do in a post choice-based lettings world). At the same time, a wider range of options such as various equity shares and low cost home ownership ideas might be explained – but I remain sceptical about the likely impact of such niche products. At the same time I think eroding tenancy rights is fraught with difficulty. However, some of the choice-varying ideas are worth taking forward e.g. the ending of HB direct, if, as it seems, the financial inclusion arguments work.

I would also support the development of contestability on the supply-side and sensible demand-side policies that would seek to increase efficiency and choice. But to reiterate, this is about redesigning and amending the system rather than throwing the baby out with the bathwater. What might this mean in practice for Scotland?

- First, the aim of arriving at a uniform pricing system for all social renting in Scotland – it cannot be right that rent structures can vary so that potential tenants confront inconsistent rent-quality bundles. The type of rent model itself, within reason, is less important than moving towards a sensible uniform formula.
- Second, the long term move away from traditional allocations systems must be helpful but we should be cautious over uncritical take-up of choice-based lettings.
- Third, there does seem to be merit and support for more intensive use of tenant advice and counselling to help through regular meetings to direct tenants to the options open to them, but with no compulsion attached to it.
- Fourth, linked to mobility counselling, it may be worth investigating the sorts of mixed neighbourhood policies like ‘moving to opportunity’ in the USA where lower income tenants are given vouchers to help pay for housing in middle income neighbourhoods. These sorts of policies are not without their problems but along with the Joseph Rowntree idea of like for like sales they could play a positive role. Future transfer of engagements could be pepper-potted so that multiple landlords randomly share the stock –enforcing local competition.
- Fifth, the customer has to be embraced both by planners undertaking investment on the strength of informed market analysis and certainly also by providers so that they are responsive to their consumers. Of course, creating more of a contestable environment is designed in part to encourage such responsiveness. Business intelligence about future demand has to be greatly strengthened.
- Sixth, we have identified resource constraints and there have been calls for equity investment in the sector. Certainly, there must be scope for investment funds similar to those associated with English Partnerships – playing a role in urban regeneration which would in turn develop more low cost housing.

There are two final absolutely critical points to make. The first of these issues concerns the capacity of the sector itself to be responsive and to raise its game. The second issue is the home ownership elephant in the garden.

In Scotland, as in England, the not for profit sector is consolidating and changing. Can the benefits of community-based housing co-exist with regional and national group structures? What role does the regulator play in managing the sector as it changes? Does the sector

possess the skills required to tackle the challenges that may lie ahead e.g. a much more consumerist attitude to housing management? As things stand, Scotland will continue to have a large council sector – how can this sector be incentivised to compete and continually improve standards and performance? Can it be done without ultimately breaking up the remaining council sector?

The final point is that social renting faces difficulties in part because of the state of the private housing market. In the absence of more fundamental change in the housing market – the polarisation of social renting will simply continue. Dwelly and many other commentators seem to just accept the costs of our unaffordable volatile private housing market as a given. We should not.

The fundamental problem is that home ownership enjoys a privileged status as an untaxed asset – along with its highly unresponsive supply – and this explains the unbalanced and unproductive over investment in largely 2nd hand housing. Not only does the long term growth of housing asset values freeze millions out of the market, it creates two classes in society – lucky insiders and those outsiders and future generations who will find it difficult to access private housing. There is logically a limit to the amount of inter-generational transfer from one generation of home owners to another. The housing market also stimulates wasteful speculative residential investment in every city in the UK. There is thus less investment in productive assets and less diversification of risk.

Social housing will find it intrinsically difficult to shift from being an inferior good until long term action is taken to normalise housing as an asset. This might seem like the tail wagging the dog but a more normal housing system would be a great prize: good for housing (all housing), good for the labour market and for investment markets.

What needs to be done? First, housing supply needs to be expanded as suggested by the Barker inquiry – not just a one-off impulse or rightward shift in supply – but rather a long term increase in overall responsiveness. Second, just as controversially, it would require taking housing taxation seriously. People might gulp at the introduction of capital gains tax or other fiscal automatic stabilisers but we should remember:

- Long term stability in prices will help younger people get into the housing market
- There would be a rebalancing of assets and investments out of unproductive assets and into more productive asset classes
- In the late 1980s no-one believed mortgage tax relief could be abolished
- The costs of doing nothing are becoming excessively damaging to the economy and society
- Social housing and private rental will be better placed to deliver a more flexible and functional housing system.
- This is a classic political problem – apparently too difficult to do so the costs of inaction mount and the problem gets worse and worse.

We need to have a proper and mature debate about housing taxation. Plenty of other countries tax housing investments; we also need to find the will and the means to take on the insiders because there is so much to gain – and not just for social housing. This is one area where working with the grain of wider economic forces, or more accurately the passive acceptance of how things are – greatly reduces the scope for progress.

This lecture has asked what can and should be done about social housing. There are a great many things that could improve conditions, incentives and choices but in the end we should not look at social housing in isolation from the wider housing market and the economy.

6. References

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