Z2K
ZACCHAEUS 2000

MEMORANDUM

to the

PRIME MINISTER

on

UNAFFORDABLE HOUSING

May 2005

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By Zacchaeus 2000 Trust

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Introduction

The Prime Minister met a delegation from the Zacchaeus 2000 Trust coalition of 68 NGOs calling for Minimum Income Standards in his room at the House of Commons on the 17th September 2003. The signatories to the letter asking for the meeting were Lord Morris of Manchester; The Chief Rabbi, Professor Jonathan Sacks; The Bishop of Oxford, The Rt. Rev. Richard Harries; Lord Adebowale, Chief Executive, Turning Point; Sir Archy Kirkwood MP; Andy King MP; Dr Doug Naysmith MP and Dr Howard Stoate MP.

The delegation was led by Lord Morris of Manchester and comprised Lord Adebowale; Andy King MP; Dr Doug Naysmith MP; Professor Jerry Morris of the London School of Hygiene and Tropical Medicine; Geoff Rayner, Chairman of the UK Public Health Association; Neera Sharma, Senior Policy Officer, Barnardo's; Georgia Klein, Senior Policy Officer, National Consumer Council; Reverend Paul Nicolson, Chairman, Zacchaeus 2000 Trust & Trustee London Citizens and Family Budget Unit and Lina Jamoul (minutes).

The coalition is calling for research into the minimum incomes needed for healthy living to provide information to the public, employers and government when the levels of unemployment benefits, tax credits/minimum wage and pensions are being set. The Prime Minister was informed that a seminar was to be held in October 2003 to discuss existing research. The Memorandum on Minimum Income Standards based on the seminar was delivered to him in February 2004 (available on www.z2k.org).

Responding to the memorandum through Lord Morris of Manchester the Prime Minister offered continuing dialogue with the Zacchaeus 2000 Trust. In view of the pressure of housing costs on minimum incomes and on State finances we decided to engage that offer with this memorandum on unaffordable housing in the UK. In preparing the minimum income standards memorandum it became clear that housing for people receiving the lowest incomes is unaffordable for them and increasingly expensive for the tax payer in Housing Benefit payments which have increased from £5.4 billion in 1986/7 to a planned £19.7 billion in 2007/8.

We hold that land exists for the common good. It provides the basic needs of shelter, food and clothing of which everyone should have a just minimum share. But housing and land have become investments, from which speculators, moneylenders and the banks grow ever wealthier. Governments have allowed the market to exploit the shortage of land by allowing unregulated lending to lift the price of housing above the needs of the poor in the UK.

'Affordable' in relation to housing requires precise definition. It means that once the cost of rent or mortgage (including service charges) and council tax has been met from the income of a household, be it an individual, a family or pensioners, there remains sufficient to sustain safe and healthy living, provision for the future and participation in the community. 'Unaffordable' housing means that the remaining income is insufficient to ensure these outcomes.

An economy that provides health and education services free at the point of delivery, and is competing in the global market, cannot afford to leave expenditure on housing at a level that damages health. Statutory minimum incomes are being used up by a growing proportion of expenditure on rent/mortgage and council tax.

Inequalities in wealth need to be corrected by minimum income standards to ensure that the mixed communities favoured by government are a success not a recipe for increased social tensions feared by developers. It is humiliating to be poor in a wealthy area, especially for the children of poor families in the school playground. The wealthier children have holidays, decent school clothes, smart sneakers, great Christmas (play stations) and birthday presents, all the things about which TV advertisers promote pester power. Any child whose parent/parents depend on State benefits in or out of work see what their parents are unable to buy in the playground and on TV.

We continue to urge the government to create an independent minimum income standards commission that will provide the electorate, employers, local authorities and national government with robust information about minimum income requirements. This would save the taxpayer billions of pounds in the health, education and administration of justice services. (The list of NGOs supporting the Z2K petition to Government calling for minimum income standards follows this introduction).

Like the previous memorandum this one is edited by Professor Peter Ambrose of the Health and Social Policy Research Centre at the University of Brighton. It is based on a seminar on unaffordable housing held in October 2004, members of which have contributed to the memorandum. He has committed to paper the product of many years of engagement in housing issues by a wide variety of experts in a way that challenges conventional wisdom, provides essential historical background, and moves in a logical progression from evidence of policy shortcomings to recommendations. We would like to thank UNISON, the Children's Society and an anonymous donor for their assistance in financing the project. We feel this document is a substantial contribution to the current debate for which the Trustees of Z2K are very grateful. We hope it will lead to an acceleration of the provision of affordable housing in all three sectors - private, RSL and Local Authority.

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NGOs supporting the Zacchaeus 2000 Trust Petition

Local organisations
Catholic Children's Society -Shrewsbury
Church Action on Homelessness in London – UNLEASH
Communities Against Poverty – Liverpool
Ilfracombe Credit Union
Liverpool Archdiocese Justice and Peace Commission
St Albans Diocesan Synod
Partners in Health – Dudley
East London Communities Organisation

National organizations
ATD Fourth World
Access to Justice
Afghan Association of Great Britain
Campaign Women
Debt on our Doorstep
European Anti Poverty Network
Labour Land Campaign
Lobby to end Age Discrimination – LEAD
Low Pay Unit
National Consumer Council
New Policy Institute
Refugee Council
Scottish Low Pay Unit
TUC Unemployed Workers Combine
Women In Prison Trust

Pensioners' Charities
Age Concern
Help the Aged
National Pensioners' Convention

Parents' and Children's Charities
Barnardos
Buttle Trust
Children's Society
National Council for One Parent Families
Maternity Alliance
NSPCC
NCH action for children
Parenting Education and Support Forum
Save the Children Fund
Single Parent Action Network
End Child Poverty

Health
British Medical Association
Centre for Food Policy
Faculty of Public Health - Royal College of Physicians
Food Commission
Food Justice
Food Poverty Project
Fuel Poverty Project
Mencap
Mental Health Foundation
Milk for Schools
National Heart Forum
Royal College of Nursing
Socialist Health Association
UK Health for All Network
UK Public Health Association

Trades Unions
Trades Union Congress
UNISON - (conference decision)

Faith
Catholic Agency for Social Concern – Caritas
Catholic Bishops' Conference
- Social Welfare Committee (wound up in February 2002)

Catholic Child Welfare Council
Church Action on Poverty
Church of England - General Synod
- (Motion won 339 - 0)

Church of Scotland - General Assembly
- (unanimous decision)

Conference of Religious in England and Wales
- Social Justice Desk

Christian Council for Monetary Justice.
Methodist Conference
- (unanimous decision)

Muslim Council of Britain
Iona Community
Von Hugel Institute
Vincentian Millennium Partnership

Summary and Recommendations

This Memorandum was born of a concern for the increasingly onerous effects of rising housing costs on the poorest and most vulnerable members of society. It is these groups that remain the prime focus for the efforts of the Zacchaeus 2000 Trust. But this analysis of what has gone wrong with our housing system since the Second World War far transcends the problems faced by the poorest.

We argue that there have been failures of vision, collective memory, strategy and regulation that have wasted many billions of taxpayers' money. The deregulation of financial markets in the 1980s sparked off a flood of house purchase lending that has underpinned massive house price rises and consumed £600 billion of investment that could have found a better use renewing our infrastructure or in research and development to make Britain more competitive in a global market rather than in bolstering house and land prices. The increasing commitment, from 23% to 72% of GDP since 1980, to house purchase loans seems unsustainable. Furthermore the increasing flow of demand side subsidies are working to enrich landlords and land vendors, not to stimulate more housing output. The analysis shows that more money has gone into housing but fewer houses have come out. Housing benefits and allowances have imposed a huge and increasing burden on state finances.

The failure of planning authorities to use existing powers, and to support innovative community-based freehold-retaining development trusts and partnerships, has permitted large-scale speculation in building land. The failure to seize upon and develop innovative building practices and land use patterns that would minimise carbon emissions is producing more environmental costs than can be calculated.

While it is the poor and vulnerable that suffer most obviously from unaffordable housing and overcrowding, and this is ethically indefensible, the additional costs arising from mismanagement of our housing arrangements fall on society as a whole – on our health, education and policing budgets, on old and young alike and on the optimum development of our economy.

We can no longer afford these failures; they need to be addressed. What follows are eleven brief statements of shortcomings, each evidenced by one or more Appendices, and each followed by a Recommendation.

1. British housing policy is characteristically reactive, slow to adapt to innovative ideas and lacking in strategic vision. Discussion is often confused and there has been a failure to identify key objectives and strategies from the alternatives available (Appendix 1).

> **Recommendation 1**
> **Housing policy formation should now focus on a number of key strategic issues; it should focus especially on how most effectively to apply subsidy and on correcting the currently regressive redistributive effect of housing support patterns which are impeding the drive to reduce poverty.**

2. Policy discussion has often failed to distinguish adequately between the motivations, mode of operation, and logic for setting prices and rents of the four main housing sectors - private housing for sale and the three rented sectors, private landlords, registered social landlords (RSLs) and local authorities (Appendix 1).

Recommendation 2
Policy should build on the complementary strengths of each housing sector – private, RSL and council; each should be better supported by government so that it can contribute to meeting the demand for affordable housing with greater urgency.

3. Access to owner-occupancy depends on the market power of the purchaser translated into a borrowing capacity. The 1980s deregulation of finance markets has led to a growth in housing debt £600 billion more than general inflation would justify. This has large-scale opportunity costs (Appendix 13) and has led to a fivefold increase in house prices since 1993 and sharply decreased affordability (Appendices 2 and 5).

Recommendation 3
House purchase lending volumes and lending practices should be regulated so as to relate more closely to housing transactions in order to help stabilise house price trends; consideration should be given to the limitation of loan multiples and repayment terms and other appropriate means.

4. Rents in the three rented sectors were set in the past by entirely different processes. This resulted in a gradient - council rents were lowest by virtue of the 'pooled historic cost' principle, RSL rents were higher and private rents higher still. Affordability has recently been eroded by the 'levelling up' effect of Government rent strategies (Appendices 3 and 7).

Recommendation 4
Rent setting in the RSL and LA sectors should be reformed to relate rents to historic cost rather than to current market levels and capital values; this will serve to stabilise and then reduce rents, increase affordability and consequently reduce the cost of housing benefit to the taxpayer.

5. Many recent studies evidence the shortage of affordable homes and the failure of present spending plans and mechanisms such as Section 106 planning agreements to address it (Appendix 4). Affordability is worse than ever before in London and other high demand areas (Appendix 5). There has been a serious loss of low rent council stock and some RSL stock (Appendix 6) and insufficient use has been made of innovative ways of financing and developing low cost homes (Appendices 15 and 16).

Recommendation 5
Sales and transfers of local authority and RSL stock should be stopped and direct investment in social housing production by local authorities and RSLs, and in housing staff and training, should be significantly increased above the most recently published spending plans; policies to facilitate equity build-up by occupiers should be based on leaseholds and/or Community Land Trust or Community Land Partnership arrangements with freeholds being retained in public or community ownership.

6. Comparative European research projects have shown that increased privatisation of housing provision in the UK has led to more money going in and less housing coming out, and to failure to provide sufficient housing

and tenure choice in 'growth regions'. Privatisation at key stages of the housing delivery chain reduces cost-effectiveness and produces inefficiencies (Appendices 8 and 9).

Recommendation 6
The tenure pattern of housing development in growth regions such as the South East should be balanced and not dominated by speculative owner-occupied housing; the hoarding of land either before or after the receipt of planning permission by developers and speculators should be discouraged by an annual tax on the value of such land until it is developed. We recommend that the government undertakes and publishes a feasibility study into the implementation of a Land Value Tax on all land.

7. Present land supply and planning arrangements are failing to facilitate sufficient development, especially of low cost housing, and they permit land speculation; this produces delays and siphons off investment which should be directed at improving construction technologies and efficiency (Appendices 9 and 16).

Recommendation 7
Local authorities should be better supported and resourced to use compulsory purchase powers to acquire sites before development consent is granted and there should be a stronger programme of support for Community Land Trusts and Community Land Partnerships to capture land value increases arising from development, retain freeholds for future community use and operate as locally responsive developers.

8. There is an almost complete lack of information on the nature and size of the evident public costs, especially to the NHS, generated by poor and unaffordable housing and overcrowding; this information is a pre-requisite for making cost-effective decisions about the level of housing investment (Appendices 10, 11, 12, 13 and 14).

Recommendation 8
Government sponsored research programmes should be initiated to assess the costs to the taxpayer generated by poor and unaffordable housing in the following areas:
i. health, education and other welfare outcomes
ii. private pension provision
iii. economic development and labour mobility

9. Current legal forms and institutional practices are not sufficiently flexible to facilitate the production of more affordable housing to meet the size of demand quickly enough (Appendices 15 and 16).

Recommendation 9
Innovative legal forms, financing mechanisms and modes of development and equity holding should be vigorously promoted as a means of producing more low cost housing at a faster rate

10. Conventional forms of development and construction take too little account of carbon emission levels and add to the difficulties of reaching the Kyoto Protocol emission targets (Appendix 17).

Recommendation 10

Increased resources should be put into developing and evaluating carbon-neutral forms of construction and development and into encouraging patterns of land use that reduce movement, food miles and energy consumption

11. Current levels of unaffordability bear down most heavily on those least able to cope; they are ethically indefensible (Appendix 18).

Recommendation 11

Statutory minimum incomes are under pressure from ever rising housing costs. The oppressive nature of the present housing regime leads to stress and ill health for many households receiving incomes below government and independently determined poverty thresholds. This injustice should be more fully recognised and taken into account in policy related to the provision of adequate minimum incomes, both in and out of work

Appendix I - Identifying key strategic issues

(Peter Ambrose)

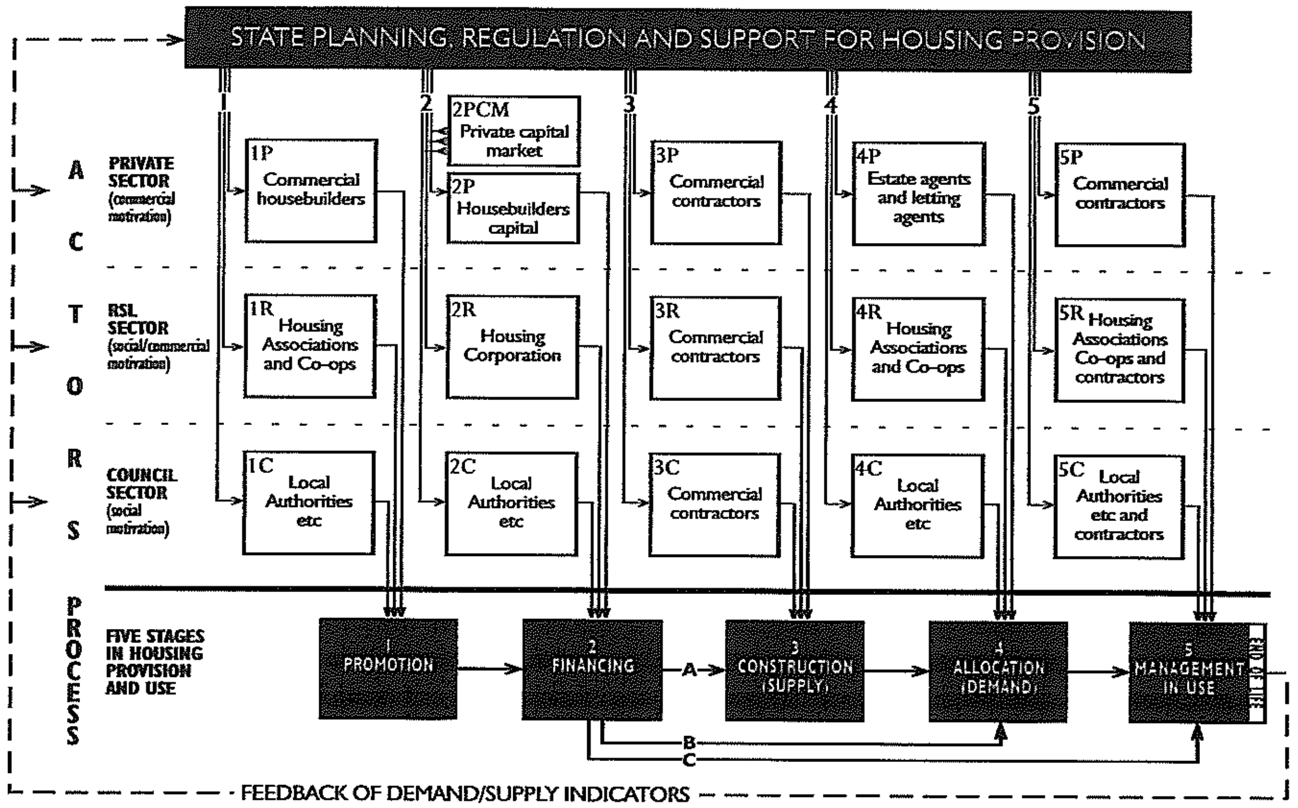
Confused discussion

Discussion of housing issues in the UK, whether at the policy or popular level, is bedevilled by a lack of understanding of the key actors and processes at work, misdiagnoses of the problems, misplaced media emphases and lack of clarity about objectives. There is a pervasive tendency to equate 'the housing problem' with 'homelessness' and this contributes to a failure to develop a more holistic identification of problems at a systemic level. Discussions of 'privatisation' reveal more about ideologies than about sound economic management. As a result UK housing policy has rarely moved from crisis management mode to any longer-term strategic approach,

This appendix presents an internationally accepted analytical framework that helps to identify the key strategic issues facing housing policy makers.

The analytical framework

HOUSING PROVISION IN THE UK



Peter Ambrose
Health & Social Policy research Centre
University of Brighton, Brighton, England
Jan 2005

The shaded boxes along the bottom of the diagram identify the five process stages in the production and use of any housing unit in a 'developed' economy.

Stage 1 is **Promotion** (the decision to produce a housing unit)
Stage 2 is **Financing** (finding the money to produce it)
Stage 3 is **Construction** (building the unit)
Stage 4 is **Allocation** (allocating and reallocating it to a user)
Stage 5 is **Management in Use** (maintaining and managing the unit during its lifetime)

At the end of Stage 5 is **End of Life** when the useful life of the unit ends and it is subject to closure and/or demolition. The rate of closure (or perhaps redundancy) of housing units, nationally, regionally and locally, sends 'feedback' signals to Government departments and via them to the institutions that promote new housebuilding and so the process begins again.

In the case of 'self-build' housing (and for much of human history) several of the stages, possibly all of them, have been carried out by one person or household. Much more frequently in modern industrialised societies, and particularly in the UK, the stages have become segmented and carried out by specialist institutions. To this extent control over housing provision has been almost totally expropriated from the user and vested in large institutions, both public and private, against which opposition is necessarily individual rather than collective.

The planning, regulation and funding support for housing in the UK are ultimately responsibilities of Government (the box along the top of the diagram). But these interventions are complex and mediated through an institutional framework that has evolved over several centuries. The institutions fall into three main sectors, or sets of actors (the three rows of fives boxes in the middle of the diagram and labelled on the left). These sectors are the **Private Sector**, the **RSL Sector** and the **Council Sector**.

Motivational distinctions

There are vitally significant motivational distinctions between these sets of actors in that the Private Sector is profit-driven, the Council Sector is public-service driven and the RSL sector is driven by a hybrid of charitable and commercial motivations.

Conventional wisdom glosses over these motivational distinctions. There is an expectation that the Private Sector can be driven partly by public-service considerations when such a belief is contrary to the statutory responsibilities of Boards of Directors to place shareholders' interests above all others.

Where does responsibility lie?

Our central argument is that in the highly sensitive issue of housing the recent increase in the ratio of profit-driven to public service motivations and activity has produced regressively redistributive effects that are leading to pervasively costly social, welfare and economic consequences. It is not appropriate to place 'blame' for this on profit-driven institutions since they are simply acting in accordance with company law and commercial practice. The ultimate responsibility to ensure an appropriate mix of motivations and activity in the housing sector so as to serve the needs of all members of society lies with Government.

The housing sectors explained

Private Sector

The Private Sector players (boxes 1P to 5P and at the Financing stage the crucially important box 2PCM) work to a profit-seeking logic in the context of statutory regulation and support from Government. Led by feedback signals about national, regional and local supply/demand balances, guided by national and regional development strategies devised by Government and within the framework of local land use planning provisions they develop new housing promotion strategies (1P) to gain competitive advantage. To finance construction they use a combination of their own capital (2P) plus loans from the Private Capital Market (2PCM). The extent to which they depend on loans as distinct from their own capital is expressed as their 'gearing'.

They carry out the construction work themselves (3P) and work with estate agents and letting agents to market the units (4P) for the highest achievable price or rent. Subsequently the units are periodically re-marketed by the same set of agents. Allocation and reallocation in this sector is market-led and access depends on the economic status and/or borrowing capacity of potential users. Access to these units by those on lower incomes will be strictly limited (and necessarily bolstered by state-funded benefits).

The maintenance in use of the properties (5P) is the responsibility of the landlord, if the property is rented, or the owner-occupier; in both cases using the market-priced services of private contractors. In the case of owner-occupiers whose means may have diminished with age, proper maintenance may well be unaffordable and conditions may deteriorate.

The overall effect in this sector is that the wide and increasing inequalities in household incomes and wealth evident in the UK are reflected precisely in terms of inequalities in access to housing.

Registered Social Landlord Sector

The Registered Social Landlord (RSL) Sector is more complex both in structure, history and motivation. The provision of housing by voluntary and philanthropic bodies dates back to early medieval times (the foundation date of the oldest registered housing association was 1235) and providers have included church bodies, unions, working men's associations and enlightened employers such as Titus Salt, Bourneville and Rowntree. They have sought to produce affordable housing of decent standard for acceptable groups of the poor (but only rarely the very poorest). Currently there are over 2000 'housing associations' registered with the Housing Corporation and operating as developers in the sector although repeated take-overs has produced an increasing concentration in the pattern of housing development and stock. Now about 90% of the RSL stock of about 1.45 million homes is in the ownership of the largest 200 associations.

The housing produced in this sector has been classed together with council housing and designated as 'social housing' and sometimes as 'affordable housing' by recent governments. These descriptions are analytically flawed. 'Affordable' means different things in different parts of the country – which is why a more precise definition is offered in the Introduction. They tend also to gloss over some important characteristics of the RSL sector. For example although activity is notionally 'not for profit' many housing associations operating in the sector have become increasingly entrepreneurial in their asset management, lettings and rent-setting policies (Pawson 2004).

RSLs have no direct electoral accountability to local populations since their Boards are normally an appointed mix of independent people selected for relevant skills, tenants, and perhaps some local councillors and executives of the association rather than candidates elected by universal suffrage. Finally (as Appendix 3 will show) the logic behind rent-setting has been very different in the two sectors. Consequently RSL rents have characteristically been much higher than council rents although there has been recent convergence as a conscious matter of policy.

In this sector the pattern of promotion of new developments (1R) and the financing and regulation of housing produced (2R) is overseen in England by the Housing Corporation, a non-Departmental public body sponsored by the Office of the Deputy Prime Minister. It is funded by the Treasury and by loan finance raised on the private capital market (2PCM). It then funds RSLs by means of Social Housing Grant to develop and maintain housing under their Approved Development Programme.

The construction of units in this sector (3R) is carried out by private sector house-builders seeking competitive rates of profit and the allocation and reallocation of the units (4R) is determined, by local agreement, partly by the RSL itself and partly by the local housing authority in which it is operating. The management in use stage (5R) is primarily the responsibility of the landlord RSL using private sector contractors.

Under the Housing Act 2004 a new pilot programme will make Housing Corporation funding available for the first time to 'unregistered' developers (Housing Corporation 2004). Private sector builders will acquire up to £3.8 billion of subsidy from the Corporation to build 'affordable homes' over the two years to April 2006.

Council Sector

The Council Sector is conceptually more straightforward. Local authorities have had powers to provide and manage housing since the late nineteenth century as part of the array of powers that arose from the public health and political fears evident following mass urbanisation from about 1830 onward. These powers did not become obligatory and a source of large-scale provision until the impetus provided by post-war needs, first (briefly) after 1918 and then after 1945. In both periods the housing drive was partly a response to fears of political instability. But it is noteworthy that in the earlier period the country's first Minister of Health (Christopher Addison, who was medically qualified) had argued for more housing subsidy on the evidence from a study he had commissioned from the Registrar General on the cost of dealing with tuberculosis - a disease clearly related to housing standards (for an account see Ambrose 1994, chapter 6).

The local housing authority acts as the promoter (1C) and funder (2C) of development. The funding stream has been the subject of a long sequence of alternately more and less generous subsidy arrangements (the difference is usually detectable from the quality of the housing produced). There has for most of the time been a combination of central government funding into a Housing Revenue Account and funding from the authority itself via the rent stream. The central support has often taken the form of an annual payment per unit built to cover the interest on the loan taken out to build it and in addition some access to a 'public works' source of sub-market cost capital.

In recent decades there have been significant shifts in the source of public funding. Local housing authorities have lost the preferential treatment they received at one time from the Public Works Loan Board and have become more dependent on the private capital market (2PCM). This has materially increased their development costs since these are very sensitive to changes in the quantity of loan finance available and the terms on which it comes.

The construction of council owned housing (3C) and its maintenance (5C), formerly often carried out by local authority building organisations, has in recent times been carried out almost entirely by private building contractors. Allocation and reallocation (4C) has been on the basis of need and according to arrangements determined by each authority, normally taking the form of a 'waiting list' with individual weightings reflecting the level and type of need. In many areas of severe housing pressure virtually all allocations are to households that are statutorily homeless and/or in some kind of emergency need. Given that much council stock is still in the form of 'estates' this means that households with severe difficulties tend to be housed in close proximity to each other. This is in sharp contrast to the situation during much of the 1920s to 1950s when council housing served more general needs and produced socially mixed communities.

Sensitivity to privatisation is differential by stage

From this analysis it is clear that the effects 'privatisation' might have on the capability of lower income people to access housing depend very much on which of the five stages are made more subject to market forces. Patterns of new housing promotion (Stage 1) necessarily reflect a public and collective process of planning at various levels. The balance of financing (Stage 2) has moved in favour of private capital sources, with adverse effects on the terms on which development capital can be accessed. Construction (Stage 3) and maintenance in use (Stage 5) have historically been almost entirely the province of private contractors.

Allocation (Stage 4) is the most sensitive stage in terms of affordability. There is a clear distinction between access governed by market power and access governed by need. The balance has moved sharply towards access by market power in recent decades, both because of the changing pattern of production and because of the movements of existing stock from the council sector to the other two sectors. This has had seriously adverse effects on affordability for lower income households and has been a factor leading to a pattern of costly consequences outlined elsewhere in this Memorandum. It has also placed increasing burdens on the benefit and allowance payments that help poorer households meet housing costs.

The key strategic issues

From the diagram it is possible to identify the key issues that need to be considered and continually re-considered if housing policy is to have a strategic, rather than just a crisis-management, dimension.

> **1. What proportion of total public expenditure should be allocated for housing support (i.e. down line 2)?**
>
> **2. Of this allocation what should be the division between 2P, 2R and 2C – in other words how should the total housing spend be distributed between the three sectors – and why this distribution?**
>
> **3. What proportion of investment funds reaching Boxes 2R and 2C should come from public expenditure programmes and borrowing sources and what proportion from the Private Capital Market (2PCM)?**

4. Of the total funds reaching Box 2 (Financing) what proportion should go along route A (to subsidise housing production), what along route B (to support consumption in the form of housing benefit or purchaser support) and what along route C (to keep existing stock in repair)?

5. For the existing stock of housing should the ratio of access by market power to access by need be changed by transfers of stock between the three sectors (Boxes 4P, 4R and 4C)?

6. To what extent should the agencies responsible for the development and management of non-market housing be democratically accountable and how should accountability best be achieved?

7. Should the overall impact of housing support be redistributively progressive, regressive or neutral?

In the past most of these questions have been determined reactively in the light of budgetary or electoral expediency rather than by any more clearly thought out process. This Memorandum argues that short-term expediency has produced outcomes that are heavily cost-*in*effective in the use of public funds and ethically indefensible. A more strategic approach should now be adopted.

Appendix 2 - House price rises - and why

(Peter Ambrose)

'If property prices rise more than in proportion to incomes then, given the unequal distribution of property ownership, there will be an increase in the degree of income and wealth inequality...The distribution of wealth, unless offsetting forces are put in motion, will move secularly in favour of the owners of property.'
B. Corry, *Economists and the Housing Problem*, Shelter 1972

'In London, the child of home-owning parents stands to inherit around £250,000 on average. The classmate whose family rents stands to inherit nothing. The housing market is making inequality wider and further impeding social mobility.'
Alan Milburn speech on 'Social Mobility and Social Justice', 22 November 2004

The politics of home ownership

Home ownership in Britain has a particular history. The value of mass owner-occupancy as a 'bulwark against bolshevism' had been argued explicitly in Parliament following the 1917 Russian Revolution and the 1926 General Strike (Bellman 1928). In the 1930s Neville Chamberlain made the point that:

> '...every fruit tree planted [in a newly acquired garden] converted a potential revolutionary into a contented citizen.' (Feiling 1946)

The 1930s was marked by a massive growth in building society lending to facilitate this trend - from a total debt outstanding of £120 million in 1924 to £636 million in 1937 (Bowley 1945).

Following the heavy emphasis on building council homes by the post-1945 Labour Government, and the successor Conservative administrations till the late 1950s, it was the 1964 Labour Government in its White Paper *The Housing Programme 1965 to 1970* that advanced home ownership as a 'normal' tenure and part of a 'long-term social advance', to quote the White Paper. Within a decade the political implications were once again spelled out by the Secretary General of the Building Societies Association when he made the point in the mid-1970s that owner-occupancy was now the majority tenure and that 'The greater proportion of owner-occupiers the less likely were extreme measures to prevail' (quoted in Ambrose 1976). He might have added that from that point on no General Election could be won on any programme that appeared to harm the interests of owner-occupiers.

'Price rise equals good'

Housing is the only ubiquitously used commodity where price rises are universally and uncritically welcomed as a good sign. The owner's personal calculation is almost always about the rising paper value of the property not about the rising proportion of lifetime earnings given over to buying it, the rising level of debt involved and the effects that debt will have on other aspects of life.

Similarly in urban regeneration schemes house price rises are seen as an indicator of 'success' although every price rise makes it that much more difficult for non-owning local residents to access ownership. More generally in discussions of the economy the headline 'Good news - housing market recovers' simply means prices are rising again with implied benefits for existing owner-occupiers. Economic benefits are also deemed to come out of increased spending deriving from equity withdrawal - while perversely the rising level of total debt gives rise to worried comment.

It is vital to re-examine this piece of conventional wisdom as it seems clear that the 'taken for granted' that rising prices equals good is in fact a highly partial interpretation of meaning by the more prosperous members of society (owners) against the interests of the less prosperous (non-owners).

Reasons underlying house price inflation

1. Financial deregulation in the 1980s

The Thatcher administrations of the 1980s introduced a number of measures to deregulate and liberalise financial services and institutions. This formed part of a move in many western economies towards deregulation. In 1981 many restrictions on bank lending were abolished, in 1983 building societies were allowed to borrow from the money market and in 1986 the Building Societies Act introduced a more self-regulatory regime. Regulation was reduced on matters such as reserve ratios, interest rates, down payments and so on. Significant changes, including trends towards de-mutualisation, also occurred within the building society sector itself (Cook, Deakin and Hughes 2001).

Deregulation led to increased competition in the home loans market, more house purchase lending from the clearing banks and the vigorous selling of endowment-linked mortgages, the vast majority of which have subsequently under-performed. It is estimated that over 60% of the 11 million endowment policies will not cover the full debt on maturity (http://www.uk-endowment-mortgages.com).

2. The growth of house purchase lending

One of the outcomes of the new deregulatory regime was a rapid growth in house purchase lending and thus in the effective demand for houses. As Baddeley (2004) points out:

> 'The increasing availability of mortgage finance will encourage self-propelling increases in house prices: the demand for residential investment will increase as liquidity builds up in mortgage markets and more mortgage financing becomes available on increasingly favourable terms.'

Since the supply of both new and second-hand houses in the market is relatively inelastic it is inevitable that increases in demand will have an effect on prices. The explosive growth in total house purchase debt between1980 and 2003 is shown in Table 1.

Table 1 - The growth in house purchase debt 1980-2003

Year	HPD@RPI House purchase debt had it risen at the rate of RPI (1980 debt = £53 billion)	ADJUSTED HPD@RPI (to allow for the rise in owner-occupancy since 1980 – £ billion)	ACTUAL HPD (£ billion)	EXCESS OF ACTUAL OVER ADJUSTED HPD (£ billion)	HPD as % of GDP
1980	53	53	53	0	23%
1985	75	81	127	46	36%
1990	100	111	295	184	53%
1995	118	137	390	253	54%
2000	135	162	536	374	56%
2003	144	181	774	593	72%

Sources: Wilcox (2004) Tables 17d and 45 and www.ex.ac.uk/RDavies/arian/current/howmuch.html

The growth of total House Purchase Debt is set out in the second column. This has been approximately corrected in the third column to allow for the growth in the number of owner-occupied units since 1980 since clearly the debt outstanding might have been expected to increase given this factor alone. The actual level of House Purchase Debt is in the fourth column and the amount by which this exceeds the RPI related figure is shown in the fifth column. The final column shows that as a proportion of GDP the HPD has risen from 23% to 72% in 23 years.

In 2003 HPD was £593 billion more than would have been the case had lending grown in line with retail prices. It is perfectly reasonable to assume that had house purchase lending grown roughly in line with other prices, or with the number of properties coming onto the market year by year, then house prices would also have remained roughly in line with other prices. In that case earnings growth would have outstripped both general and house price indices, thus producing real gains in living standards.

The reality has been quite different because the explosion in lending has massively increased effective demand and pushed up prices. The future seems set to produce more of the same. The Council of Mortgage Lenders *Market Briefing* dated December 2004 forecasts a total outstanding housing debt of around £1,100 billion in 2007 (compared to about £774 billion in 2003). Unsurprisingly the CML expect continuing house price rises, although at lower rates than in the past decade.

3. Increases in the lending multiple

As will be shown in Appendix 5 house purchase lending, and therefore house prices, has risen much faster than earnings for some decades and especially in the last decade. One facilitating factor has been the increase in the multiple of loan made to the current income of the applicant or joint applicants (part of the 'increasingly favourable terms' referred to in the Baddeley quote above). The higher this multiple the higher the house price that can be afforded by the purchaser in relation to current income (but of course the higher the debt incurred).

Table 2 shows the multiple has increased considerably since 1984 - by 42% for first time buyers and 39% for movers. This has enabled house price levels to rise disproportionately more than incomes and on the basis of the increase in credit granted. Beyond a certain point increases in this multiple are likely to be unsustainable by a significant proportion of borrowers, especially if interest rates rise or personal circumstances change.

Table 2 - Changes in lending multiples

Year	First time buyers		Movers	
	% of total loans	Income multiple	% of total loans	Income multiple
1974	**44**	**2.18**	**56**	**1.96**
1984	**50**	**1.99**	**50**	**1.95**
1994	**55**	**2.34**	**45**	**2.24**
2003	**29**	**2.83**	**71**	**2.72**

Source: Council of Mortgage Lenders website www.cml.org.uk

Another notable feature is the sharp swing over the past decade in the balance of loans away from first time buyers and towards existing owner-occupier movers. This supports the general understanding of the increasing difficulties faced by those seeking to access home ownership. The CML *Market Briefing* forecasts a modest recovery in the first time buyer proportion but only to 34% by 2007.

4. Government incentives to purchasers and owners

Mortgage Interest Tax Relief which was costing the Exchequer £6 to £8 billion per year in the early 1990s is now much reduced to £1.6 billion in 1999/2000 (Wilcox 2004, Table 105). But to offset this the value of Capital Gains Tax Relief to owner-occupiers has risen over tenfold since 1996/97. This has been a burden on the national economy. The net gain to the Exchequer from Stamp Duty and Inheritance Tax offset by Capital Gains Tax Relief has fallen from £1.39 billion in 1999/2000 to £0.55 billion in 2002/03 (ibid, Table 1.2.3). In addition Housing Benefit which now costs £12.6 billion annually in Great Britain (ibid, Table 114) is largely a subsidy via rents to landlords and, argues the Henry George Foundation (Lloyd 2004):

> '... a further source of house price pressure, pumping public money into an already overheated market.'

They also argue:

> '...it is futile to improve affordability by increasing salaries or subsidising home buying...While each individual home buying grant - such as those under the Starter Homes Initiative - may help the recipient enter the housing market, the combined effect of such grants is to push the market up further, making entry even harder for the next grant recipient.'

The link to income and wealth inequality

The most recent edition of *Social Trends* (National Statistics 2005) presents evidence of the persistence of income inequality in the UK. Between 1994/5 and 2002/3 the real disposable incomes at the 90th decile and at the 10th decile grew at much the same rate leaving the degree of inequality unchanged (Figure 5.13). International comparisons show that the UK has the fifth highest proportion of children living in poor households of fifteen EU countries (Table 5.21). Meanwhile the incomes of the top 1% of earners grew fastest of all. In the 2002/3 the top decile had 28% of total income and the bottom decile 3% (Figure 5.14).

The Government has introduced many anti-poverty measures to supplement low incomes for families and pensioners since 1997, the year in which the numbers of children in households under the poverty threshold peaked. But inequality may well depend as much on the relative size of necessary outgoings as on adjustments of income. The proportion of income devoted to housing costs tends to rise towards the bottom of the income scale and this may well indicate that the lack of affordable housing is a factor in the persistence of inequality. Regressivity in housing support and Council Tax costs may be a factor partially negating the income-related anti-poverty measures (see Strategic Issue 7 in Appendix 1).

It also seems clear that the Corry quote at the beginning of this Appendix was correct and that the housing market as it stands is an effective device for channelling wealth away from those who do not have it into the hands of those who do, in other words it has a systemically regressive effect. This may help to explain why the share of total wealth held by the most wealthy 10% has risen from 52% in 1996 to 56% in 2002 and why the poorer half the population own only 6% of the total wealth (National Statistics 2005, Table 5.25).

Structural reform depends on an admission that the housing market as it exists is inefficient, iniquitous and ultimately unsustainable. It is necessary to stop tinkering with the edges of the market and tackle the fundamental issues raised in Appendix 1. In particular it must be recognised that to make housing more affordable house prices have to come down, or at least be stabilised, in relation to incomes.

The political barriers to reform

All recent governments have shown themselves to be wary of the perceived electoral sensitivities of the wealthy homeowners of middle England. In particular, negative equity is seen to be unacceptable in any form. However, the consequences of this position are unsustainable. For negative equity to be avoided, homeowners must be effectively subsidised in perpetuity. The current assumption appears to be that homeowners have a right to profit from rising prices but no corresponding duty to carry the risk of a price fall. This also implies that current owners have a right perpetually to extract wealth from first-time buyers, that speculators on the housing market have a right to keep all their winnings and a right also to state compensation if they lose. It is hard to imagine how any other group demanding such a settlement would be treated.

There may be some inconsistency in public attitudes. The British Social Attitudes Survey reported in the latest *Social Trends* (Table 5.15) indicates that 78% of all adults of 18+ think that the gap between high and low incomes is 'too large'. But this gap is probably not related in the public mind to housing policies and practices.

Appendix 3 - Changes in the affordability of renting

(Peter Ambrose)

The relationship between incomes and rents

Over the past century the degree of correspondence between income range profiles on the one hand and the spread of housing access costs on the other has weakened. It was found in the Central Stepney SRB regeneration 'health gain' study (Ambrose 2000) that the inhabitants of the streets undergoing redevelopment in the mid 1990s were, a century earlier, engaged in a wide variety of occupations, no doubt with widely varying rates of pay and levels of job security (1901 Census data). The Charles Booth poverty map of 1889 shows a wide range of housing standards in the area (from his Category 3 to Category 6 in a seven category scheme). Clearly if one's income went up or down with a change of job there was housing of a wide range of quality (and therefore rents) that could be accessed locally – perhaps by means of a 'moonlight flit'. By the mid 1990s not only had the local employment market collapsed (only 10.5% of the sample population in this area were in full-time employment in 1996) but the housing choice was virtually limited to local authority housing. Given the rising trends in local authority rents an increasing dependence on Housing Benefit was inevitable.

Generalising this situation over a similar hundred year timescale it was found by Glennerster et al. (2004, Table 6) that rent as a proportion of expenditure for the poorest fifth of the population had risen from 18% to 28%, although allowing for housing support payments the net cost for the poorest was 6% of expenditure. In many cases this net cost has to be found from the already inadequate income support payment. They conclude that '...while the quality of housing has improved enormously the variation in its cost has greatly increased.'

Rent-setting principles

The three main rental tenure groups formerly had sharply differing sets of processes for determining rents:

1 - Local authority rents

The main factor producing relatively low rents for council housing over many decades was not the subsidy from central government but the arrangements by which rents were averaged or 'historically pooled' across the stock of an authority.

Given, say, an eighty year life for a property the interest and loan repayment costs of any unit decay in real terms over time with inflation and then end altogether when the loan is fully repaid after perhaps thirty years. For the remaining years of its life, which may well be fifty years or more if the housing is properly built and maintained, the property attracts only management and maintenance costs but continues to produce rents that can rise with inflation. Given a local authority with a stock with a wide spread of building dates the average rent charged across the stock could be much lower than if the rent has to reflect current or recent building costs and debt servicing or has to be related to market rents or current capital values in the area.

This 'pooled historic cost' principle appears the soundest way to produce decent standard housing at affordable rents but it does depend on:

(a) producing units of a quality such that their life will long outlast the period of debt servicing and

(b) keeping the older stock more or less intact so that the costs of recent additions can be averaged with the historic costs of earlier units to produce an affordable average rent across the stock.

The costly technological errors of the 'high rise' era, the 'right to buy' and transfer policies of recent decades, the partial withdrawal of central subsidy and the policies forcing local authorities to rely increasingly on the private capital market for funds (2PCM in Appendix 1) have all worked to erode the characteristic low rents of the council sector.

2 - RSLs

Rents in this sector were previously set to reflect the capital and running costs development by development. The costs were partly offset by government grant via the Housing Corporation, but they were not averaged with older stock in the ownership of the same landlord. So the 'historic' element of cost-pooling across units of widely varying age was absent and rent profiles were consequently higher than council rent profiles for similar properties.

3 - Private sector rents

Rents for private sector lettings have been and are set largely to achieve a competitive rate of net annual return on a particular property in the light of its current capital value and the ruling interest rate for investments of comparable risk. There need be no logical connection to building costs (the property may well be 100 or more years old) or to any requirement to average rents over a stock.

Recent rent re-structuring in the LA and RSL sectors

The new rent-setting principles set out in 2001 (*Guide to Social Rent Reforms*, Department of the Environment, Transport and the Regions) and 2003 (*A Guide to Social Rent Reforms in the Local Authority Sector*, Office of the Deputy Prime Minister) lead to the application of the same formula to both the local authority and RSL sectors. The details are complicated but in essence the weekly rent is based 70% on the average rent for the sector (LA or RSL) multiplied by a factor relating local earnings to national and then multiplied again by a bedroom weighting factor to reflect the size of the unit. The other 30% is based on the average rent for the sector multiplied by a relative property value factor.

The intention is to move to these rent levels over a ten year period in equal annual steps with a limit on real terms annual increases of 1.0% in the LA sector and 0.5% in the RSL sector. Where high capital values produce excessively high rent levels a cap is applied on the annual rate of increase. The Government's intention is for LA and RSL rents, which were markedly different before the strategy was introduced, to converge over the period. The intention was to hold a three year review of how the system is working so as to feed into the setting of rents in 2005/06 but the review has not yet reported.

Rents by sector

These different rent-setting mechanisms have in the past produced a clear 'rent gradient' - council rents have normally been lowest, then RSL rents then private rents. Weekly rents in 2003 as a proportion of average male earnings were (Wilcox 2004, Table 72):

Local authority	**13.3%**
RSL	**15.3%**
Private (in 2000)	**22.2%**

Local authority rents for comparable properties are still lower than RSL target rents in all regions of England by a margin of typically 15-20% (Wilcox 2004, Table 74). But the differential between council and RSL rents is narrowing. From 1980 to 2003 the percentage of average male earnings taken by rent rose differentially in the three rental sectors (Wilcox 2004, Table 72):

Local authority	**93%**
Housing association fair rents/assured rents	**37%**
Private 'fair rents'/market rents (to 2000 only)	**122%**

In absolute terms average rent levels have risen sharply in all three tenure groups since 1980 (Wilcox 2004, Table 72, not corrected for inflation):

Local authority	**+666%**
Housing association fair rents/assured rents	**+464%**
Private 'fair rents'/market rents (to 2000 only)	**+685%**

With the narrowing of the differential and the sharp rises in local authority rents the availability of decent quality housing at rent levels affordable by the very poorest is falling sharply with obvious consequences for affordability.

The non-match of rents to incomes

Given the trends towards widening income inequalities and the severe reduction of state financial support to develop lower rent stock to match lower end incomes there is a growing structural problem of non-match between household incomes and housing availability. This is especially evident in 'high demand' housing areas. This structural problem is at present being dealt with by an ever-increasing reliance on Housing Benefit payments plus increasing dependence on high cost and socially damaging emergency solutions.

Appendix 4 - Evidence of housing shortage

(Peter Ambrose and Robina Rafferty of Housing Justice)

Recent under-investment

The present shortage on affordable housing stems partly from a recent history of under-investment in low rent housing compared to the pre-Thatcher period and even the last pre-New Labour year (all data is from Wilcox 2004):

- The 2003 UK housing completion figure for local authority housing was 286 and for housing associations 17,993 making a total of 18,279 'social housing' homes; in 1980 the figure was 110,012 and in 1996 it was 34,705 (Table 19l)

- Government housing expenditure in 2000/1 was only 1.2% of all public spending compared to 6.1% in 1980/81 and 1.8% in 1995/96 (Table 15a)

- Housing capital investment in England by local authorities and the Housing Corporation has fallen from £8.28 billion in 1980/81 to £4.32 billion in 1995/96 and to £3.58 billion in 2000/01 (all at 2000/01 prices) (Table 62b)

- RSLs' gross investment fell from £4.27 billion in 1992/93 to £2.19 billion in 2001/02 and even the boosted plans for 2004/05 will bring the investment to only 71% of the 1992/92 figure: the expenditure plans for 2004/05 depend on borrowing over £1.0 billion from private sector sources (Table 59)

- UK housing investment as % of GDP is little over half that of Germany, Netherlands and Italy and at 3.2% is the second lowest of thirteen comparable countries; the only lower figure is Sweden which is very well housed (Table 8)

These data all relate to Strategic Issue 1 in Appendix 1.

The Barker Review and responses

The Barker Review (Barker 2004) drew attention to the annual rise in house prices of approaching 8% over the same period (1995-2001) that private housebuilding declined by 11%. The Review argued that to bring the annual rate of price increase down to the EU average of 1.1% per year an additional output of 120,000 private sector homes would be required. The Review called for much faster release of land for building so as to stabilise prices. The Royal Institution of Chartered Surveyors supported the general recommendation for an increased housing output and put the requirement at 250,000 homes per year.

The Campaign to Protect Rural England and other bodies with an interest in rural protection take the view that it is not land supply limitations that are the main factor in the rapid price increases. With the World Wildlife

Fund they stress that simply increasing the overall supply will not deliver sufficient affordable or ecologically sustainable housing. The response from the Henry George Foundation (Lloyd 2004) also took issue with the notion of a supply side solution, suggested that population projections may be over-estimated, drew attention to geographical imbalances and pointed out that even if output is rapidly increased 99% of homes will be existing, not newly produced, ones. It argued that excessive demand based on the growing levels of mortgage debt evidenced in Appendix 2, and bolstered by expectations about further price rises, is the key inflationary force:

> 'More than any other goods, the price of houses represents not what people can afford to pay, but what they can be persuaded to borrow.'

Vigor and Robinson (2005) have drawn attention to the strong demographic driver provided by the projected population and household growth in the South East up to at least 2021. They also argue that:

> '...it is not clear that the Barker Review's arguments that significantly increased housing supply is an appropriate way to address affordability needs...more public spending will be required to meet the increased affordable housing output...'

Other estimates of social housing need

Estimates of the need for additional 'social housing' depend very heavily on assumptions made about future household growth, household size, type and likely income, life expectancy, rates of in- and out-migration, affordability in the private sector and a number of other variables that are difficult to predict. The Barker Review argued that an increase in the supply of social housing of the order of 17,000 homes per year is required over the next ten years with an additional 23,000 per year required if inroads are to be made into existing shortfalls. This is widely regarded by campaigning organisations such as Housing Justice as an under-estimate of need.

In the recent past (2001/02 to 2003/04) although the amount of Government investment in social housing has increased the output has continued to fall, partly as a result of the need to spend on existing stock and because of land costs (see also the comparative case study in Appendix 9). There is also the requirement to spend in the order of £19 billion to ensure that all social housing meets the 'decent homes standard' (DHS) by 2010.

The Comprehensive Spending Review 2005-2008 provides for a 50% increase in the social housing budget. The spend is to be £1.3 billion more in 2007/8 compared to 2004/5. This is expected to produce perhaps 10,000 additional social homes per year, a fraction of the Barker Review recommendations. There is to be emphasis on development in the Thames Gateway east of London, Ashford, Milton Keynes and the M11 corridor towards Cambridge. The first of these may raise some land release difficulties since a report from the Association of British Insurers (*Making Communities Sustainable*, February 2005) and work by Every and Foley (2005) has already drawn attention to the undesirability of building on floodplains in the Thames Gateway and elsewhere.

A recently updated Shelter report (Holmans, et al. 2004) carries out an assessment of expected changes in the population and the number of households between 2001 and 2011, divides the growth in need between the market and social sectors, takes account of existing unmet need and allows for the necessary replacement of existing unsuitable stock. It concludes that there will be an annual requirement overall for 206,000 new homes each year to 2011 to meet newly arising need. This total is divided as follows:

139,000 per year in the market sector
67,000 per year in the social sector

In addition to reduce the current backlog of unmet need by 50% over a 15 year period would require an additional 22,000 social homes per year. The total annual requirement for additional social housing according to the Shelter calculations is therefore 89,000 per year. This is well over twice the Barker Review recommendation and considerably in excess of any rate of output within the Government's declared spending intentions.

Holmans et al. (2004) estimate that only up to 2,500 of this annual requirement can be provided through 'planning gain' and without the use of Social Housing Grant. They estimate that at best only 34,000 social housing homes can be provided annually at current rates of spend. They consider that an additional £6.7 billion of annual investment would be required to meet newly arising need and the backlog of need for social housing. This figure appears very large in relation to the Comprehensive Spending Review intentions, to the figures announced in the latest ODPM document (ODPM 2005) and to any likely Government programme since it is about twice the amount of the spend in 2000/01 (Wilcox 2004, Table 62b). On the other hand it is small compared to the annual growth in the total lent each year to finance the purchase of owner-occupied housing (about £43 billion per year - see Appendix 2).

Bramley (2005) in a detailed analysis of housing need, argues that the Barker Review underestimates overall social housing need and has over-netted the relative lack of shortage in the north against the pressing needs in the South East.

The situation in London

The Draft London Housing Strategy for 2005 to 2016 was produced for consultation by the London Housing Board in November 2004. It pointed out that total completions for 2003 were just over 20,000 of which only about half were 'affordable'. The situation is urgent in that 36% of Londoners are living in non-decent homes, 72% of them in the private sector. The average stay for people in temporary accommodation is two and a half years, 4,000 people in this kind of accommodation have support needs and the 'hidden homeless' in London includes about 20,000 asylum seekers.

The Draft Strategy argues that there is a shortfall of 10,400 homes per year compared to current production rates and that 30-35,000 new homes per year are needed for the next ten years, 66% of them to be 'affordable'.

Information is available on the extent of substandard housing in the owner-occupied sector. There are an estimated 9,877 unfit owner-occupied homes in the Borough of Newham alone (London Borough of Newham 2002/03) and in the Forest Gate area 41% of privately owned homes are likely to be unfit within five years. Poorly maintained housing affects the elderly most seriously and unsafe stairways and inadequate lighting can be a major cause of falls. It has been estimated that hip fractures caused by falls costs the NHS nearly £726 million per year (Parrott 2000).

One indicator of increasing shortage

One outcome of the under-investment in social rented housing is that the number of households accepted as homeless by local authorities (itself an under-indication of need) and homeless households in temporary accommodation in England has risen as follows:

	1980	1996	2003
Accepted as homeless	**60,400**	**113,590**	**137,220**
In temporary accommodation	**4,710**	**51,690**	**118,350**

(Wilcox 2004, Tables 90 and 91)

At current and proposed future rates of spend on affordable housing it seems inevitable that these figures will continue to rise.

Have Section 106 planning agreements produced enough?

A recent project funded by the Joseph Rowntree Foundation has examined the extent to which Section 106 planning agreements, which use the granting of a planning consent to secure a proportion of 'affordable' housing from private sector developers, have been successful in providing sufficient low cost output (Monk et al. 2005). They looked especially at the issue of whether increasing output using planning agreements was at the expense of other forms of provision.

The research found that the number of affordable homes produced under Government Housing Investment Programmes (HIPs) fell from 45,000 to 29,000 over the period 2000/01 to 2002/03 and that it was becoming increasingly difficult for social landlords to secure sites for development other than via the Section 106 route. The proportion of provision under Section 106 was found to be increasing although 75% of these completions still required some Social Housing Grant (SHG). The negotiation of the partnership agreements is very costly in time and money and some agreements take up to four years to negotiate. In addition while the number of Section 106 planning consents for affordable housing was rising quite steeply up to 2002/03 the number of actual completions was rising much more slowly. Of those completed in 2002/03 91% were dependent on SHG or other form of public funding.

In 2003 the Government proposed putting in place an optional planning charge that applicants may pay to the planning authority instead of getting into a Section 106 negotiation. The survey of housing associations and local authorities carried out by the project produced generally negative reactions to the planning charge proposal because it would make it more difficult to gain access to land and would inhibit the building of mixed tenure types on the same site.

The key message from the project was that housing associations are finding it increasingly difficult to develop housing through non-Section 106 means and are therefore more dependent on provision that occurs as a by-product of market-led activity. In relation to the estimates of social housing need set out earlier (i.e. up to 89,000 homes per year) the present, and apparent future, level of affordable output via both Section 106 and non-Section 106 means is totally inadequate. In the light of this and other evidence Vigor and Robinson (2005) argue that:

> 'Section 106 ...cannot be relied upon to deliver the increased social housing required.'

Overall the Section 106 mechanism is a weak one compared to development by a local authority using

Compulsory Purchase powers to acquire sites and working perhaps in partnership with a Community Land Trust to provide elements of common ownership. Much stronger and more innovative supply mechanisms will be required if the affordability problem is to be seriously addressed.

Appendix 5 - Changes in the affordability of owning

(Peter Ambrose)

There are a number of historical indices of house price changes and all tell much the same story. The Nationwide historical index shows an approximately eighty-fold growth in the UK current all-house price index from the end of 1952 (average price £1,891 = 100.0) to the end of 2004 (average price £153,778):

All houses	**8,132.1**
New houses	**7,711.3**
Modern houses	**7,575.3**
Older houses	**9,880.4**

These figures need to be compared to rises in earnings. The Nationwide average gross earnings index dates only from 1970. The changes in the gross earnings index and the all-house house price index since then are:

Gross earnings index	**x 18.7**
House price index	**x 34.5**

Thus house prices have risen at nearly twice the rate of earnings over the past 35 years.

Affordability changes since 1993

Much of this divergence between the two indices has occurred during the eleven years since 1993 when house prices have outpaced earnings by a factor of over five:

1993-2004 change in gross earnings index	**+59.1%**
1993-2004 change in house price index	**+306.8%**

The same Nationwide source provides a series on the ratio of house prices to gross annual earnings. For much of the period since 1953 this has ranged between about 2.5 and 4.0. In periods of sharp house price inflation, for example in 1972-3 and 1988-90, the index moved up very close to 5.0. Since the second quarter of 2003 the index has been above 5.0 and it stood at 5.95 at the end of 2004. For London in particular the index has been mostly in the range 3.0 to 4.5, reached over 6.0 briefly in the 1988/89 period of inflation and has been over 6.0 for the ten quarters up to the end of 2004. Housing affordability is therefore worse in London than at any previous time.

The ratio of mortgage cost to incomes devised by Wilcox (Wilcox 2004, Table 2.3.2) calculates the proportion of average incomes for all working households required to access an average first-time buyer home. This proportion for the whole of the UK has worsened from 12.5% to 16.1% over the ten years and from 13.3% to 19.0% for London - a worsening of nearly 43% in affordability over a decade.

The Barker Review (Barker 2004) noted that only 37% of new households could afford to buy in 2002 compared to 46% in the late 1980s. Similarly ODPM statistics (ODPM 2004) show that the proportion of first time buyers aged under 25 has fallen from 25% in 1993 to 16% in 2003 and that the proportion of first time buyers paying in excess of £100,000 has risen from 6% to 46% over the same period. Clearly affordability for this group has diminished sharply.

The latest ODPM document (ODPM 2005) seeks to address this issue with a First Time Buyers Initiative. The intention is to provide 15,000 new homes for first time buyers up to 2010 on land to be provided by English Partnerships from former NHS and other public sources. Half will be for 'key service workers'. The homes will be sold at construction cost plus and there will be provision for occupiers to acquire equity shares. The landowners will have first refusal on resale.

The same document announces a Design for Manufacture competition to build up to 1,000 homes on English Partnerships land for a target cost of £60,000, 'without sacrificing quality' and with a view to mainstreaming 'high quality modern developments for volume developments'. This has been interpreted in some quarters as meaning homes will be available for £60,000 but unless firm steps are taken to ensure that resale prices are cost-related and rise only in relation to general inflation, rather than behaving in the same way as the general run of house prices, any affordability gain will be short-lived.

Regional variations in affordability

The current regional variations in affordability are evident from the latest Joseph Rowntree Foundation data (Joseph Rowntree Foundation 2004). This compares the local price of two and three bedroom houses with the gross income of households that include working people aged 20 to 39. The ratios are:

England	**4.11**
London	**4.69**
South West	**4.66**
South East	**4.61**
East of England	**4.27**
West Midlands	**3.80**

Of the 10 local authorities with the highest ratios, five are in the South West, two (Westminster and Brent) in London and three (Chichester, Adur and Lewes) in the South East. All these except Lewes have a ratio over 6.0. It should be noted that the mortgage ratio of loan approved to income for a multi-earner household is rarely over 3.5. On this evidence access to home ownership is difficult, if not impossible, for first time buying households of this type in very large areas of England.

The area with the lowest ratio, 1.97, is Sedgefield.

Affordability and take-home pay

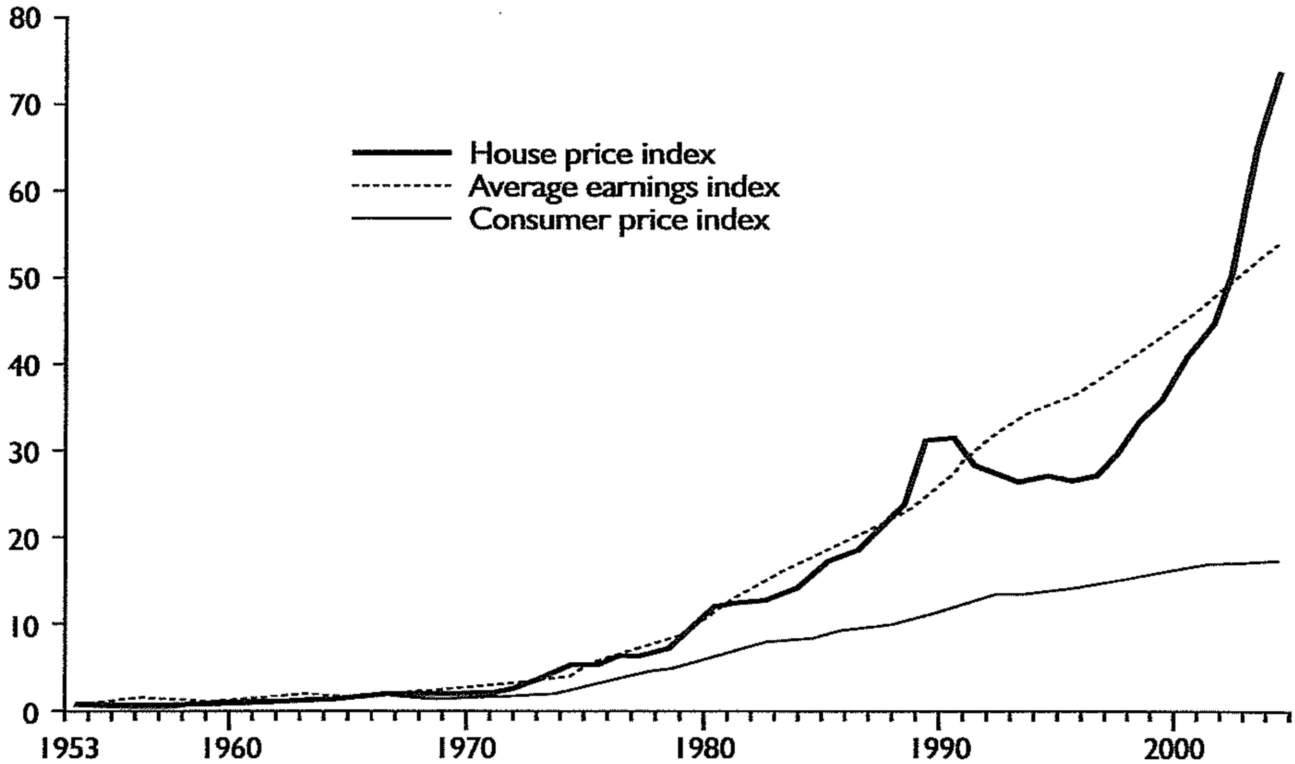
Affordability can also be measured in terms of the percentage of take-home pay required for mortgage repayments. The Nationwide series of this indicator runs from Quarter 1 of 1985 (index = 100). For the UK as a whole this index rose into the 150s during the 1989 house price inflation but was running in the 50s and 60s for much of the mid-1990s. It has now risen again and at the end of 2004 stood at 107.4.

Given the unprecedented rise in house price levels it may seem surprising that affordability, in terms of take-home pay used to pay the mortgage, should have remained relatively low in the early 2000s. The explanation probably lies in a combination of factors - historically low interest rates, 'low-start' mortgage products and lengthened repayment terms are all possible factors that reduce the month by month impact of expending higher capital sums on house purchase. Clearly there are dangers here if interest rates rise and/or disruptive life events such as unemployment, disability or relationship break-up occur during the extended repayment period.

Summary - earnings, retail prices and house prices since 1952

Figure 1 shows the movements in gross earnings, consumer prices and house prices since 1952. The gross earnings and house prices data are derived from the Nationwide website www.nationwide.co.uk/hpi/downloads/UK_house_price_since_1952.xls and the consumer price data from the Economic History Resources site www.eh.net/hmit/ukearncpi. All three series have been reduced to 1952=1.00. It is possible to take issue with the particular measures used and no doubt changes in definitions over half a century have produced some inaccuracies. But the main features of the comparative movements in the three indices are clearly discernable.

Figure 1 - Earnings, Prices and House Prices 1952-2004



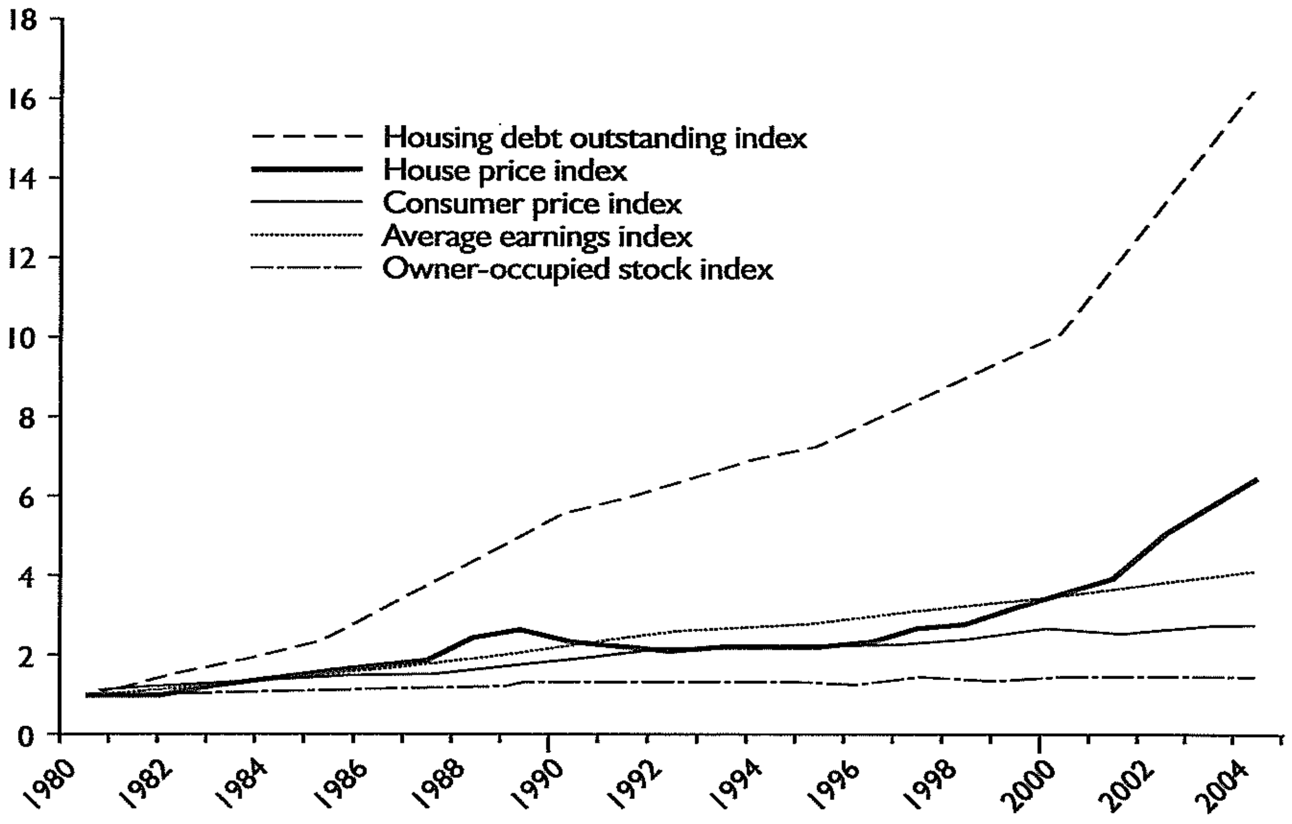
Until about 1970 the three indices remained in close touch and grew only very slowly. From about that year there has been a growing divergence between the consumer price index and the other two. Earnings have risen much faster than consumer prices until they now stand at about three times the prices index. This reflects the approximately threefold rise in real earnings and living standards that has occurred since the second world war and primarily since about 1970.

The house price index has behaved in a much more volatile fashion. It remained in close touch with the earnings index until about 1987. Since then it first rose faster than earnings, then fell back to well below the earnings index by the mid 1990s then rose more steeply than earnings until finally since 2002 it has risen to nearly 84 compared to the earnings index of about 55 (1952=1.00). Why should this be? And why in particular should house prices get so out of touch with earnings?

Total housing debt and house prices

The relationship since 1980 between changes in the total amount lent to purchasers of houses, the total stock of owner occupied housing, house prices, consumer prices and earnings is shown in Figure 2. This reproduces some information from the previous graph covering the period since 1952.

Figure 2 - Housing debt, house prices, owner-occupancy stock, consumer prices and earnings 1980-2004



Average earnings have risen since 1980 rather faster than the Consumer Price Index, reflecting a rise in real living standards. Housing debt has been rising much faster than both these indices throughout the post-1980 period while the stock of owner occupied housing rose from index 1.0 to 1.21. The sharp rise in lending in the 1980s appears to have produced the house price boom in the late 1980s after which prices fell back gently till

1992 (although the fall was anything but gentle for the many thousands of home owners repossessed during this period). All through the 1990s total housing debt continued to rise much faster than earnings and the Consumer Price Index and at an accelerating rate. This began to pull house prices first above the CPI index from about 1996, then above the earnings index in about 2000 and then into a steeply rising curve from that date to the latest available figures.

By 2005 housing unaffordability has become all too clear from the wide gap that has opened up between the house price and earnings indices. Since over the period the debt outstanding rose by over 1600% while the stock of houses to be purchased increased by only 21% it would be remarkable had there been any other outcome than rapid house price inflation and sharply declining affordability.

Appendix 6 - The loss of low rent housing

(Peter Ambrose)

Over the course of the twentieth century profound changes took place in almost all aspects of UK housing provision and tenure patterns. Around 1900 the vast majority of households rented from a private landlord with only about 10% owning the property they lived in. The rate of home ownership in the UK is now 72.3% (Wilcox 2004, Table 17d).

Conditions have improved immensely as a result of 100 years of housing and public health legislation although in 2001 4.2% of housing in England (or 885,000 units) were still classed as unfit for habitation (Wilcox 2004, Table 23b). There has been very little change in the number of rooms per housing unit over the last 100 years but the level of occupancy has fallen from about 4.0 people per household to 2.4 in 2001 (Glennerster et al. 2004, p57). The 2001 Census shows that now almost one third of households had only a single member and only one fifth had dependent children.

Over the first six or more decades of the twentieth century the UK housing provision system (see Appendix 1) shifted towards a dual tenure pattern. The bulk of the output was either housing for sale to owner-occupiers or local authority housing for rent. The stock of local authority housing in the UK peaked at about 6.5 million units, or 31.5% of total stock, in 1976. It has since declined to about half that number - about 3.3 million units (Wilcox 2004, Table 17c).

Loss of council stock to owner-occupancy

Much of the explanation for the loss of public stock lies in the large volume of individual sales from local authorities to owner-occupancy under the 'right to buy' legislation. Mrs Thatcher was a firm opponent of council housing. Under her administrations local authority housing ceased to be seen as a financially rational and socially acceptable solution to housing needs and became instead the problem. The 'right to buy' policy was a sure-fire electoral success. Sales of local authority stock into owner-occupancy totalled over 2.2 million units between 1980 and 2003 and the annual number has been rising sharply under new Labour (Wilcox 2004 Table 20d). The loss of council stock has especially affected many rural areas in the home counties and low cost housing has virtually disappeared.

Sales have been at a massive discount, the average ranging from about 50% in 1999 to 42% in 2002 (Wilcox 2003a, Figure 2.4.1). Following the sale of a local authority house or flat the average stay of the purchasing tenant is maybe 15-17 years but then the unit is lost to low rent stock and for the rest of its life changes hands at market prices. Many council houses in, for example, Buckinghamshire were sold to tenants for £25,000 and have since been sold on at figures in the £150,000/200,000 range.

In addition a substantial and growing number of sales are for 'buy to rent'. The number of 'buy to let' loans has increased sharply (Wilcox 2004, Table 55):

End of 1998	**28,700**
End of 2000	**120,300**
End of 2003	**408,300**

This has the effect of transferring significant numbers of units from council renting to private renting. As was shown in Appendix 3 it is private sector rents that have outpaced the other categories over the past two decades both as a proportion of average earnings and in absolute terms. Finally it is also relevant that the house sales and transfers normally include the freehold land on which the house stands so this becomes a factor precluding the future development of this land for low rent housing by the local authority. It also precludes the local authority from benefiting from future land value rises.

Loss of council stock by transfers to RSLs

In the 1988-2003 period about 970,000 formerly local authority homes have been transferred to housing associations by 'stock transfer' (Pawson in Wilcox 2004). The average price per dwelling in the 126 transfers in England over this period was £8,096 (Wilcox 2004, Table 68a). This transfer of stock largely reflects the political reality that funding by means of Social Housing Grant to enable councils to reach the Decent Homes Standard (DHS) by 2010 is heavily dependent on moving homes from local authority to some other ownership - unless the housing authority reaches 'high performing' status (DETR 2000). This reflects an even more fundamental drive to enable housing providers to access funds from the private capital market so as to remove as much of the capital cost as possible from the Public Sector Borrowing Requirement.

Most transfers, especially in midland and northern cities, have been of the whole stock and this has '...eliminated state housing from about a third of England' (Pawson ibid) and from Glasgow. Much of this stock has been transferred to housing associations specially set up for the purpose in order '...to retain some vestige of local accountability' (ibid).

A tenant vote in favour of transfer is a prerequisite. 'Yes' votes have, until recently, been in the majority. The pattern of results partly reflects the much greater level of funding available to the Yes campaigners compared to the No. But in a number of high profile cases, notably Birmingham and Southwark, there has been a No vote in the tenant ballot. In recent months this has been repeated in such disparate areas as Leicester (92% against transfer), Wandsworth (83% against), Bristol, South Derbyshire, Milton Keynes, Harrogate, Lewes, Cambridge, Oxford and a number of other authorities. In other areas such as Blackpool the council has advised tenants to reject transfer.

Probably to a large extent Yes votes by tenants reflect a perception that this is the only way to access funds for much needed repairs and renewal. This is substantially true in terms of direct Government investment in local authorities to carry out repairs, although other routes to funding approval are available such as turning over the stock to management by an ALMO – an Arms Length Management Organisation.

There is a vigorous campaign led by Defend Council Housing, supported by over 250 MPs and many councils, for the implementation of the fourth option of more direct investment in councils to build and manage stock. This is in addition to the currently available three options - transfers, the use of the Private Finance Initiative and ALMOs. This fourth option was virtually promised by the Deputy Prime Minister in September 2004 but is still subject to political negotiation.

The effects of transfer on rents, security and management

The effects of transfer on rent levels for this large segment of formerly low rent housing depends on the rent agreements made at the point of transfer. Before 2002 these generally provided for rent increases at RPI+1% although some transferee's business plans envisage RPI+2% for perhaps a 30 year period. Following the Government's rent regime introduced in 2001 the rent increases are expected to be only RPI+0.5%. This does not sound draconian but it means that under all these alternative scenarios rents will rise in real terms when the prices of most other consumer goods are falling in real terms. One outcome of the transfers of stock has been an increase in the cost of housing benefit. In 2003 the average weekly housing benefit payment to local authority tenants in Great Britain was £48.10 and to RSL tenants £58.00 (Wilcox 2004, Table 118).

Transfer also has an effect on the security of tenure and statutory rights of tenants since the tenancy becomes 'assured' rather than secure. According to *Inside Housing* (19 February 2003) evictions by RSLs have risen by 36% and figures from Communities Scotland show that the number of housing association evictions had risen by 64% in the two years to 2000/01 to nearly double the rate for council evictions.

Pawson (2004) notes that there have been changes in the culture of housing management following transfer with '...more managerialist and entrepreneurial tendencies.' This has occurred concomitantly with the shift towards housing groups that combine a number of pre-existing RSLs in a loose structure. Housing groups now own over 70% of the RSL stock. Given the very wide diversity in RSL type, size and specificity of provision there is no very clear guidance from the Housing Corporation about the make-up of management boards, although there is a requirement in the various regulatory codes that board members have an appropriate mix of skill and experience for good governance. There is some emphasis on tenant involvement in management and a clear statement on this issue is required from RSLs by 1 April 2005.

The Audit Commission (Audit Commission 2004) has criticised councils for 'mis-selling' the role of board members when promoting transfers. Resident representation does not necessarily empower tenants or leaseholders since the resident members are normally in a minority and may not be representative of local people as a whole. In any case all board members, whether residents or not, are legally obliged to give primacy to the company's interests and are not separately accountable to those they are appointed to represent. The report finds no clear evidence of benefits arising from resident board members.

There are no clear signs of management improvement gains from transfer. In fact it has been found (National Audit Office 2003) that:

> '...nearly a fifth of English transfer Housing Associations have given rise to serious Housing Corporation concerns in relation to their financial viability and/or governance.'

Pawson (in Wilcox 2004) concludes that there is:

> '...remarkably little evidence available to inform any judgement as to whether transfer HAs actually manage housing more efficiently and effectively than local authorities'.

Furthermore:

'...stock transfer has created social landlords which, whilst subject to state regulation, cannot be directly controlled by central government' [an interesting echo of Nye Bevan's observation that the speculative housebuilder was not a plannable instrument]

Pawson goes on to point out:

'This is an important issue given transfer HAs' capacity to generate future revenue surpluses beyond Whitehall's reach (HACAS Consulting 1999; Malpass and Mullins 2002), and therefore not susceptible to re-distribution according to centrally defined priorities.'

Given that no low rent or management advantages appear to stem from transfer, and that there is a clear loss of democratic accountability, it is tempting to conclude with Pawson and Fancy (2003) that transfer is part of a project which seeks to bring commercial disciplines rather than local democratic oversight into this important area of service provision (see Strategic Issue 5 in Appendix 1). If so it appears to have an ideological rather than a rational basis - perhaps a latter day muted version of the rationales for property ownership advanced by Bellman, Chamberlain and others in the inter-war years in the last century.

Residualisation of council housing

Council housing was initially available at a wide range of rent levels and tended to produce 'mixed communities'. Under some of the subsidy arrangements that have been in force the design and build quality of council housing has been high (Ambrose 1994, pp.103-117). But the tendency to build 'down to a price' over the past 50 years (see ibid, section 3.2, for a case study of false economy in the late 1940s in Stepney) plus the pushing of 'high rise' solutions by governments and commercial providers (until the move away from this in late 1960s) plus the reduction of management and maintenance budgets over the decades have all worked to undermine the morale of housing staff, impede quality improvements and reduce space standards.

Much council housing has been built in large estates to achieve scale economies. As the stock has shrunk and rents have remained low compared to all other options, this form of occupancy has been more and more the only choice for those with lowest incomes. Most recently the tenure has become one of 'last resort' for new entrants to housing and in 'high pressure' areas such as Brighton and Hove almost all the allocations are to those in some kind of urgent housing need (Ambrose, MacDonald et al. 2002). This has often meant the concentration of in close proximity of large numbers of low income households most of whom are likely to be facing a set of poverty-related problems.

The consequent lack of local market power has often produced 'area effects' in terms of the decline of local services of all kinds, poor access to lower cost food outlets and the prevalence of longstanding characteristics such as low participation in the labour market. This combination has often lowered collective and individual aspirations and led to stigmatisation and a form of generalised scapegoating. The concentration has also encouraged an over-facile depiction of the problem of poverty as one largely confined to 'deprived' or 'problem' estates whereas many studies from Townsend (1979) onwards have shown that poverty is virtually ubiquitous.

The RSL sector - making good the gap?

Most governments over the last three decades have promoted the idea that the RSL sector should replace the council sector as the main provider of 'social housing' (for a discussion see Black and Hamnett 1985). But the increase in the level of output from the RSL sector has not remotely matched the almost total decline in output from the council sector. Housing Associations completions in Great Britain which were running at over 30,000 per year between 1993 and 1996 were down to about 17,000 in 2000 (Wilcox 2004, Table 19h). As a direct consequence of this drop in output, plus the near cessation of council provision, the availability of 'social housing' lettings in the RSL and council sectors combined has fallen sharply from 540,000 in 1995 to 432,000 in 2003 (Wilcox 2004, Tables 96 and 98).

'Key worker' schemes – making good the gap?

One government response to the worsening shortage of affordable housing has been a set of crisis-response schemes aimed at making it easier for middle and low income 'key worker' households to access housing, especially in London and the South East. The Starter Homes Initiative began in 2001 with a £250 million budget to help up to 10,000 workers access housing. This has now been replaced by the Key Worker Living Programme which offers 'homebuy' loans up to £50,000 for teachers, nurses, police staff and so on (or up to £100,000 for future education 'leaders'). It also seeks to facilitate shared ownership, where a loan is made for purchasing a proportion of the property, perhaps 25%, 50% or 75%, and to permit renting at an 'intermediate' rent between market and RSL levels.

All these schemes appear to be limited in scope in the face of the affordability problem and they raise divisiveness issues since selections have to be made between applicant households all of whom may be in severe housing need. In terms of the model in Appendix 1 they are also classically demand side 'solutions' and are likely to exert yet more upward pressure on house prices and rents.

Summary - transfers from low rent to high rent sectors

The figures in this Appendix show a transfer of about half the previously existing local authority stock to RSLs and to private landlords. The sectoral rent trend comparisons in Appendix 3 make it clear that each of these transfers has moved a home from a lower rent tenure to a higher rent tenure and, probably in the majority of cases, imposed an additional cost on the housing benefit system. This severe loss of low rent stock helps to explain the general picture of increasing unaffordabilityand of residualisation where some stock remains.

There is no inevitability about these trends. The local authority stock, and the tenure as a whole, has been run down by a series of policies designed to undermine this option. There is no inherent reason, given proper planning, design and funding and more investment in staff and training, why public housing should not once again be capable of delivering high quality, sustainable homes in socially and economically mixed communities – and with the clear gains in welfare outcomes over the private rented sector evident in Australia (see Appendix 10). Equally a return to historically pooled rent-setting could see these benefits delivered at low and stable rents.

Appendix 7 - Some problems of demand side support

(Peter Ambrose and Paul Nicolson)

The rising cost of housing related benefits

An inevitable consequence of the rise in all categories of rent evidenced in Appendix 3 has been the increasing cost to the Exchequer of housing benefits and related allowances. The average benefits paid weekly to housing association tenants rose from £32.20 in 1992 to £58.00 in 2003 while for private tenants the rise was from £40.70 to £71.60 (Wilcox 2004, Table 116b). The national cost rose from £5.4 billion (1986/87 outturn) to £15.8 billion (2002/2003 outturn) and to a planned £19.7 billion in 2007/08 (Wilcox 2004, Table 114). This form of housing support makes up over 14% of all social security benefits and tax credits.

This raises the strategic issue of the longer term rationality of spending so much housing support on the demand side, where it works to support rising rents, rather than on the supply side, where it would work to stimulate housing production (Strategic Issue 4 in Appendix 1).

How it fits in with the Appendix 1 model

In terms of the framework in Appendix 1 these payments flow along line B at the bottom of the diagram. Until the 1990s there were also substantial flows along line B in the form of MIRAS, the tax concession to purchasing owner-occupiers. The cost of this concession peaked at £7.7 billion per year in 1990/91 when it was worth £800 per year to each recipient (Wilcox 2004, Table 105).

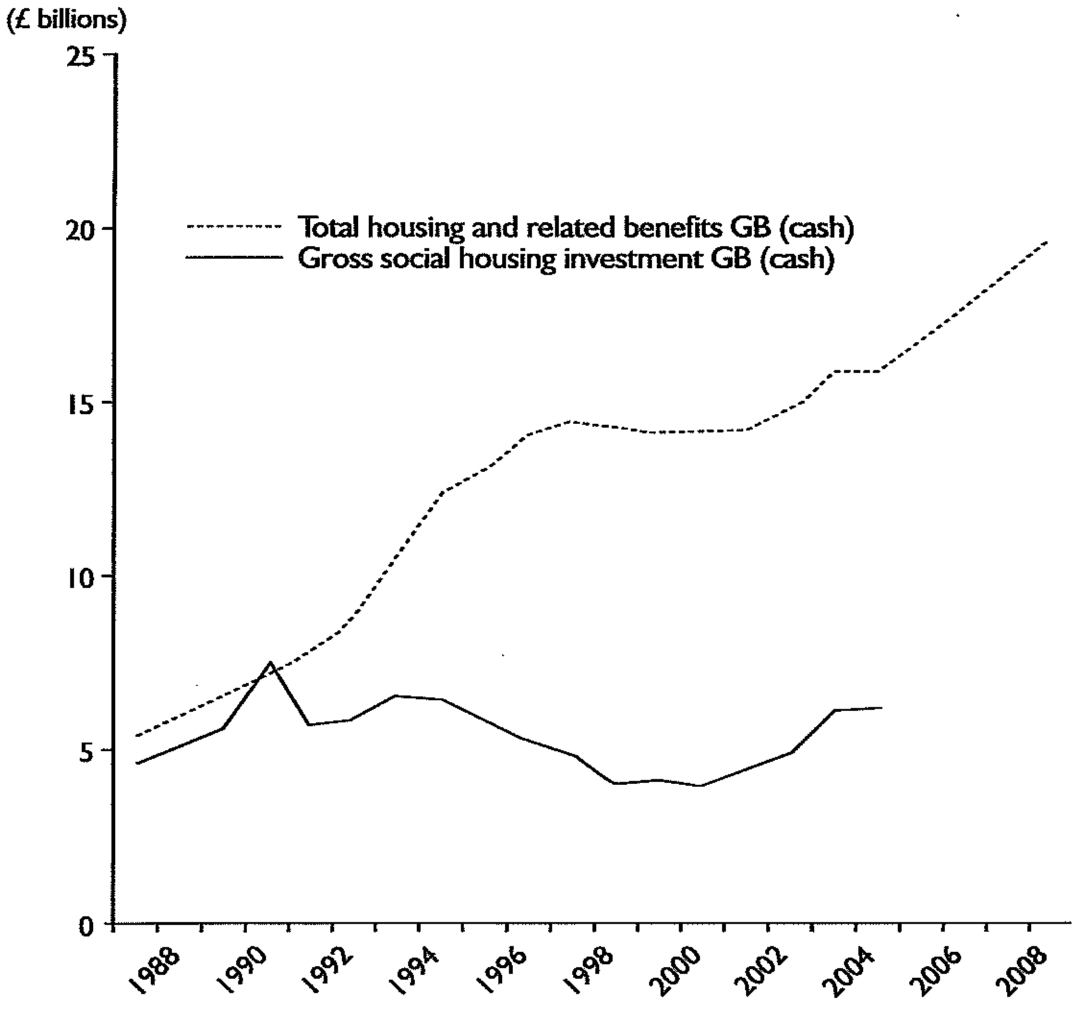
By the end of the 1990s MIRAS had effectively been ended. It had become obvious that the concession, which was available to the purchasers of existing as well as new homes, simply worked as an additional factor pushing up house prices rather than as a stimulant to increase housing production. The same argument, in relation to rent levels, applies to housing benefits. There is little evidence that this increasingly expensive form of support helps to increase supply but clearly it increases rents to the evident benefit of the owners of rented property. It is widely and correctly seen as a subsidy to landlords. But as long as housing costs remain at current levels of unaffordability it is also essential to the incomes and well-being of the unemployed and low paid.

A 'gap-plugging' measure - opportunity cost of the support

This form of support is a clear example of a self-defeating 'gap-plugging' subsidy (discussed further in Appendix 16) that is a clear second-best to policies geared to reducing rents.

Over much the same period as housing benefits have at least doubled in real terms the investment in local authority and housing association new build and renovation and private renovation has fallen in real terms from £6.1 billion in 1983/84 to £2.8 billion in 2000/01 (Wilcox 2004 Table 62b). Thus in very rough terms over the past 20 years the ratio of public investment in *the production* of rented housing compared to public funds spent on *supporting rent levels* has fallen from near parity at a ratio of 6 to 5 to a much lower ratio of 3 to 16. This is equivalent to a fall from over 54% of total support to about 15%. The relationship between the two trends is shown in Figure 3.

Figure 3 - Social housing investment and housing benefit 1987-2007 (planned)



Source: Wilcox 2004, Tables 57a and 114

The results in terms of an acute shortage of low rent housing were evidenced in Appendix 4. The rise in housing support payments has clearly been caused by the growing gap between rising rent levels and the persistent low incomes of many of those seeking public sector housing.

Some adverse effects on recipients

Dependence on housing benefit payments to cover necessary rent outgoings, while currently necessary for millions of people, brings its own difficulties for recipients. These come under three main headings - stress arising from the pressures exerted by benefits agencies, very high marginal tax rates when moving into work and take-up rates below 100%.

1. Stress in dealing with the benefits agencies

There are constantly occurring examples of bureaucratic oppression of vulnerable households. The situation is often exacerbated because those in arrears, RSLs and local authorities are often unaware of the National Standards for Enforcement Agents issued by the Lord Chancellor's Department in April 2002. These seek to provide a degree of protection for vulnerable and socially excluded debtors in a number of ways but they are not always observed.

The following five examples of inappropriate pressure are typical.

Housing Association 1 (2002)
In the early days of Working Families Tax Credit the husband of a couple with two children was employed as a delivery driver. He had been under pressure from the Jobcentre to get a job. He had to be at work at 4am when there was no public transport. He therefore had to have a car to get to work which cost £33 a week The local authority decided that they had overpaid £383.95 housing benefit at the six month review under the WFTC rules and so deducted £8.10 a week from their housing benefit. The absence of Council Tax benefit, rent arrears and the cost of getting to work made them worse off in work than unemployed. They were £1200 in debt to Provident plc the last loan being £1000 plus £700 interest or 170% APR. They were evicted for rent arrears. They separated and she was housed by the local authority in another Housing Association property at rent of £175 a week.

Local Authority 1 (2003)
A pregnant woman with three children and a husband with heart disease was threatened with eviction by a local authority for rent arrears of £600. The local authority was shown a letter from the doctor confirming these circumstances but insisted on taking the matter to court instead of coming to an arrangement for the arrears to be paid off. On sight of the doctor's letter the judge decided not to evict and an arrangement was made to pay off the arrears as had been proposed.

Housing Association 2 (2004)
The Housing Association threatened eviction and demanded an impossible payment of £50 a week on a date when the Housing Benefit was due from the Local Authority a month in arrears. The letter from the Housing Association was written without any attempt to enquire whether the circumstances of the unemployed lone parent with two children had changed. Clearly prompt and regular payments of £50 a week were impossible out of unemployment benefit after separation from her husband. The unemployment benefit had been applied for but not paid for three months, the dependent housing benefit likewise. Rent arrears had been mounting up at over £700 a month.

Her husband left her with two young children just before Christmas. She became depressed and was now receiving medication. The shortage of affordable housing resulted in this family being placed in a Housing Association property at a rent of £175 a week (social housing rents are normally £60 - £90 a week). She became ill and unemployed.

(The upshot of this case is that she is paying off rent arrears at £7 a week deducted from an already inadequate JSA - but she was not evicted)

Housing Association 3
Private Landlord 1
2001/2005
Due to the complications of tax credits the local council claimed there had been an over payment of £1500 housing benefit to the Housing Association in 2001 and took the money back. The Housing Association then claimed £1500 rent arrears and evicted the couple with two children, adding £1000 to the rent arrears for repairs. The family moved through two private rented properties and finally found a private rented home at £180 a week. They are now receiving full housing benefit. The woman had a baby and there were a number of changes of circumstances involving unemployment, separation and coming together again with which the housing benefit agency did not keep up. More rent arrears occurred and they were advised by the local authority that if they were evicted they would be classed as intentionally homeless. She is receiving treatment for depression. They are now being questioned under caution because the LA says they were not informed about a change of circumstances. Special payments for commencing fraud proceedings are being made to local authorities by central government. This family on £161 a week plus tax credits is worse off in work than unemployed, and they are paying off £30 a week rent arrears. The landlord now wants to sell the property and they are being evicted so he can gain vacant possession.

Local Authority 2 (2004)
In this case the local authority assumed that an unemployed lone parent's son had been living at home as non dependent and sent her a computer driven claim for £2638 rent arrears, with threats of the bailiffs and county court appearances. He had in fact left home two years earlier to undergo training as a chef. They had been told.

2. High marginal tax rates on moving into work

In the survey of low paid workers carried out as part of the 'Low Cost but Acceptable' project in Brighton and Hove (Ambrose 2003) it was found that in some household situations moving off benefits into work could lead to a gain of only 11p per hour when account was taken of the reductions in income brought about by the tapers in income support and other benefit payments. Marginal tax rates of up to 97% were calculated for those moving into a job. It was found that the 'poverty trap escape point' was at a gross household income of £22,620 per year (as at 2003) and that up to a quarter of households in the area had incomes below this level.

When so many households have to depend on housing benefit payments to enable them to access appropriate housing there are clearly disincentive effects to moving into employment. This runs counter to Government 'welfare to work' intentions.

3. Take-up rates below 100%

While take-up rates for housing benefit and Council Tax benefit are high they are significantly below 100%. In 2001/02 housing benefit take-up rates for local authority tenants were in the range 89-94% and for private renters in the range 80-89% (Wilcox 2004, Table 117). Take-up rates for Council Tax benefits were marginally lower than these and as low as 39-44% for eligible owner-occupiers. Take-up rates for both forms of benefit were especially low for non-child households and for pensioners.

The need to re-balance support

The shortage of low rent housing and the escalating public cost of helping lower income households to access suitable housing points to the need to consider a re-balancing of housing support arrangements to regain the balance of the late 1970s. There seem to be clear arguments for an increase in supply side support in order to increase the production of low rent housing, whether in the local authority or RSL sectors, and a return to rent-setting strategies that make use of pooling the historic cost in order first to stabilise and then to begin to reduce rents.

In combination these two factors should gradually reduce the expenditure necessary on demand side payments such as housing benefit. This might begin to redress the balance of line A to line B finance flows in the model in Appendix 1 to something more like the balance in the early 1980s.

The need for sensitive transition arrangements

If, following a modelling of the effects, the need for a re-balancing of support is accepted the strategic aim might be to bring about a reduction in total annual housing benefit payments by some specified amount per year. But the transition arrangements would need to be very carefully worked out so as not to add further pressures on the finances of poorer households. *The rent reductions would need to occur first* and then the public finance benefits in terms of reduced requirements for housing benefit, a reduced incidence of NHS costs generated by stressful situations and less impediment to transitions from benefits to work, would begin to be felt.

Appendix 8 - An international comparative study of housing privatisation

(Peter Ambrose)

What does 'privatisation' mean?

The housing policies of the Thatcher administrations, which have been broadly adhered to by the two post-1997 New Labour governments, have brought about a marked shift in the private to public balance of housing provision, ownership and management. This has been loosely termed 'privatisation'. But in a complex and segmented activity like housing production this term is not an especially helpful one unless carefully defined.

With reference to the five-stage model in Appendix 1 the private/public balance at Stage 1 (promotion) matters because this sets in train the pattern of new production. It also matters at Stage 2 (financing) because housing provision is capital-intensive and the outcome depends very much on the terms at which loan capital and grant subsidy is made available. If capital is available only at full market rates and repayment terms then costs will be higher than if some preferential arrangements apply. Stage 3 (construction) has always been mostly in private ownership so the issue is less sensitive here.

At Stage 4 (allocation) the private/public balance is crucially significant because it determines how much housing is allocated according to market power and how much according to need. The more that market power is the determinant the more income inequalities will be reflected in, and reinforced by, housing inequalities. The private/public balance of stock will be affected only marginally by the balance of new production since this is provides only about a 1% increment per year. What matters much more is any transfer of the existing stock from allocation on the basis of need to allocation on the basis of market power - in other words sales and transfers of the public stock.

Apart from the issue of the differences in sensitivity by stage it should be noted that there are at least two meanings of the term 'privatisation'. It can mean privatisation of the actual stock (by means of ownership transfer) or it can mean privatisation of the rights of the owner (by means of deregulation of rents, tenure security and management practices).

What effects does 'privatisation' have?

While privatisation, broadly defined, is likely to have profound effects on housing supply, access and management, the methodological problems of carrying out any before and after study of its effects are obvious. The processes are complex, there are a host of intervening variables and there is no control group. There is also no very clear view of what the housing system is trying to achieve so there is no self-evident test of 'success'.

Nevertheless in the early 1990s the question of the effects of housing privatisation became of keen interest to the Russian and Swedish governments. The Russians were passing through a rapid process of privatisation following the political changes and they were keen to assess the likely effects in the field of housing. The Swedish government had recently partly dismantled the previous housing arrangements following the 1991 Election that had produced a marked swing to the right. Housing experts in both countries sought to learn what they could from the housing privatisation in the UK following the rapid ascendancy of market forces during the Thatcher years.

The INTAS comparative study

Consequently a study was initiated funded by INTAS (The International Association for the Promotion of Co-operation with Scientists from the New Independent States of the Former Soviet Union) and the Swedish Council for Building Research. The study was carried out by teams from the EUROGRAD Institute in St Petersburg (led by Professor Boris Grinchel), the University of Örebro (led by Professor Berth Danermark) and the Centre for Urban and Regional Research at the University of Sussex (led by Dr Peter Ambrose). The project reported in 1998 (Ambrose, Danermark and Grinchel 1998).

It was agreed between the three teams that there was no feasible way of carrying out a comparative study through time other than by using the framework set out in Appendix 1. The analysis was designed to include all forms of housing, private, public and voluntary sector. The Swedish and UK data on promotion, financing and sources, construction, allocation, re-allocation and stock balance were sufficiently robust to calibrate the model. The Russian data had been collated in entirely different forms and was judged to be less reliable.

The timescale of the privatisation process was also very different in each case. In the UK case the years 1978 to 1995 were chosen to illustrate the spread of effects whereas in Sweden there was a shorter timescale, 1990-1995, since the move towards market processes had started only in 1991. The Swedish team felt that most benefit for them would come from learning from the experience of the UK case about how the early effects of privatisation might develop into later effects. For this reason a separate analysis of the early period of UK privatisation, from 1978 to 1984, was built into the study.

Definitions of 'success'

Socio-political differences made it extremely difficult to arrive at any consensual set of indicators of 'success' in the three countries since, in one case, the test might be the increase in executive housing in smart city-centre locations whereas in another it might be better access for lower income households. Nevertheless several very simple tests seemed valid across the three systems - the main one was the extent to which investment committed at Stage 2 turned into housing output and more allocations at Stages 3 and 4. Clearly in any cultural setting it is reasonable to expect that more input should be matched by more output.

Results - reduced cost-effectiveness

Applying this test the results for Sweden and the UK were quite clear.

In the UK the first period of privatisation saw an increase in investment from index 100 to 118 (in real terms) and a decrease in output in units from 100 to 75 - a clear loss of system efficiency. The owner-occupancy component in the output rose from 53% to 79% producing a narrowing of housing options. The effects in the Swedish case was more extreme - a 1990-95 decrease in investment from 100 to 18 and a decrease in output from 100 to 22.

Over the longer term comparison between 1978 and 1995 the UK showed a continuation of the trends evident in the first six years. There was an increase in real terms housing investment from 100 to 122 and a fall in units of output from 100 to 68 - roughly speaking an increase of 22% in money in and a decrease of 32% in production out - a marked loss of cost-effectiveness over the longer term.

It was not possible within the project to seek reasons for this apparent sharp fall in the efficiency of the UK system. Given the data on land price trends given in other appendices it might be reasonable to infer that some investment found its way into land holdings rather than construction. The sector composition of the UK 1995 output was 79% owner-occupancy, 20% voluntary sector and 1% public. Over the five year Swedish study period the same trend was evident and private output rose from 36% to 51 % of total, largely at the expense of co-op housing. In both cases the pattern of output tended to limit choices.

The need for further studies

The study was an isolated one and we are not aware of any further attempts to assess the effects of housing privatisation on system efficiency. In the Swedish and UK cases the introduction of more market forces into housing provision and management seemed to have entailed both a reduction in system cost-effectiveness, in that more money was going in and less housing was coming out, and a reduction of housing tenure choice. Since both major political parties in the UK currently make repeated claims that market forces lead to more efficient solutions and more consumer choice it might now be timely to test these assertions in relation to housing provision with further empirical research.

Appendix 9 - The flow of development land - how not to do it

(Peter Ambrose)

The problem of managing the flow of development land in such a way that competing interests, both financial and conservational, are balanced has not been effectively solved. Three case studies - one an international comparative study of development in 'growth' regions, one of inner city regeneration and one of development on an urban fringe - will illustrate how the UK system of development land supply fails to achieve cost-effective and distributively fair solutions. Appendix 16 will discuss a range of better solutions.

Case Study 1 - Housing development in growth regions

In the late 1980s a comparative study, funded by ESRC and Swedish Building Institute grants, was carried out by researchers at the Centre for Urban and Regional Studies at the University of Sussex in collaboration with researchers at the University of Örebro. The aim was to establish which of three national land supply and housing provision systems, those of France, Sweden and the UK, responded best to the pressures created by rapid sub-regional employment growth. The four areas selected for study were a group of nine communes in the E4 corridor between Stockholm and Uppsala, a group of municipalities to the south west of Paris, the metropolitan area of Toulouse and the county of Berkshire.

All these areas were experiencing rapid employment growth in 'high-tech' manufacturing, financial and producer services and research and development activities. They were drawing in new workers, many of them highly qualified and highly paid, and there were consequent pressures on the existing housing stock, much of which was not of 'executive' standard (the study is fully written up in a number of works including Barlow, Ambrose and Duncan 1988, Danermark and Vinterheimer, 1991, Barlow and Duncan 1992, Barlow 1993 and Ambrose 1994, Chapter 10).

The areas were compared in terms of a number of indicators such as the rate of new output, the range and tenure balance of housing produced (so that the needs of low income as well as high income workers were met) and the inflationary effects noted both on house prices and land prices.

At the heart of the Swedish system at this time was the State Housing Loan arrangements which provided construction finance at preferential rates if builders worked to the housing requirements laid down by the communes and within specified cost limits. The communes themselves were effectively the monopoly providers of land for development since they had powers to acquire land for this purpose at very close to existing use value. The Swedish construction industry had been found from previous research (Dickens et al. 1985 and Duncan 1986) to be more cost-effective than that in the UK. This earlier work had established that in Sweden constructors competed largely on construction quality and innovation whereas in the UK more profit was to be made from land holding and speculation so less was invested in actual construction improvements and productivity.

The evaluative comparison focused largely on the UK and Sweden. The Swedish arrangements produced a higher level of output at 7.3 housing units per 1000 population compared to 6.1 per 1000 in Berkshire. Also in the Swedish case there was a diversity of outcomes - 38% of the new housing was built by the communes for renting, 27% was built by co-ops, mostly for renting, a small proportion was for private renting and the rest was for owner-occupancy. In Berkshire the proportion build speculatively for sale was 85% in 1980 and had reached 94% by 1989. There was very little production of low rent housing.

In terms of user costs there was very little rent inflation in the Swedish case whereas in Berkshire there was considerable house price inflation, partly due to a rise in housebuilding costs in Britain of 47% between 1981 and 1987 (the corresponding figure in Sweden was 24%). These trends in house prices were reflected in trends in development land prices. These rose by 436% in Berkshire during the decade so that by 1988 the average price for single-dwelling housing land was £301,000 per hectare in the E4 corridor and £1,222,000 per hectare in Berkshire.

No analysis was carried out of the effects of the two very different housing outcomes on issues such as the recruitment and retention of labour for employers in the two areas. But it may be surmised that Swedish employers benefited from the increase in the supply and range of housing in the E4 area to a greater extent that did employers in Berkshire where new recruits to the area would face limited housing choice and very high costs and would demand more in the way of relocation packages.

The comparison was instructive in that the highly regulated land and finance supply system operating in Sweden had delivered more output, more variety, more consumer choice and lower user costs than the emphatically 'free-market' system operating in Berkshire. Yet it is the free market that is supposed to provide more choice at lower costs.

Case Study 2 - the Stepney Gasworks site

What happened

The former gasworks site in the Central Stepney Single Regeneration Budget (SRB) area provides another good illustration of the present shortcomings of the planning system. The site was originally owned by British Gas, themselves members of the SRB Partnership. It was already largely disused in the early 1980s when it was one of 22 'windfall' sites considered under the Heseltine review of development possibilities in docklands. The ownership has now largely passed into the hands of private sector housebuilders and developers. In mid-2002 it remained undeveloped but under a draft Section 106 planning agreement dated March 2001 the proposed uses are 320 housing units for sale, 62 for shared ownership and 34 for rent, a few of them larger properties. There was also provision for accommodation for about 250 'key workers' and some office space.

In December 2003 Bellway Homes (Thames Gateway) Ltd lodged a full planning application for:

> '...redevelopment to provide two to six storey buildings comprising 532 residential units, including 96 affordable housing units and 119 key worker units, 2110 sq. m. for business use (Class B1) and community use (Class D1) with associated access, open space, landscaping and car parking.'

In February 2004 Bellway made a further application to carry out remedial engineering work to render the site fit for residential and non-residential purposes. The application was accompanied by an Environmental Impact Assessment submitted under the provisions of the Town and Country Planning (Environmental Impact Assessment) Regulations 1999. This latter application has been approved and the development application is under consideration. It will be subject to a further Section 106 Agreement and the approval, due to the size of the development, of The Mayor of London's office.

There appears to be no mechanism to control the prices at which the housing for sale will become available and subsequently change hands (in an area with a desperate shortage of low cost accommodation). There has also been a delay of approaching thirty years in bringing in any development to replace the redundant gasworks and a site with key significance to the regeneration has remained neutralized for that period.

What could have happened

There is an alternative scenario that would have served a wider range of interests. As the site was coming to the end of its previous use sometime in the 1970s the Borough of Tower Hamlets could have been preparing a Compulsory Purchase Order. Given that the site was heavily contaminated, that it was zoned as 'industrial land', and the Council as planning authority could have made it clear that there was no current intention to re-zone it, the financial offer might well have been 'existing use value'. This would have been effectively at zero or even at a negative value to reflect the investment necessary by the purchaser to prepare the site for redevelopment (legally the responsibility of the polluter).

Following acquisition by the Council wide consultation could have taken place with local residents and other interests to determine a Development Plan with an optimum pattern of uses to meet local needs (similar to a Swedish commune housing plan). This could have been translated into a new zoning with a mix of residential and other uses. It could hardly have been argued by the gas company who had been bought out by the CPO that the Council had a re-zoning intention all along. The matter had not at that time been subject to public consultation or a Plan prepared. Once it had been, the Council would have been acting in its proper capacity as guardian of the long term public interest. In any event no Council can speak definitively of the land use decisions to be made by successor administrations since land use zonings will change to reflect changing needs. Had any action brought against the Council been successful the clear effect would have been to advantage the interests of gas company shareholders (whose prime business was presumably the production of gas not long term speculative land profits) over the interests of several thousand poorer members of the local community. It would appear difficult to defend this outcome on moral or even legal grounds.

The Council would then have proceeded to manage the redevelopment of the site while retaining the entire freehold. Within the housing component, an optimum pattern of residential unit sizes and types (including some special needs housing) could have been specified given the known needs of the area. This need not have precluded the inclusion of a small amount of executive housing for leasehold sale along the canal to help balance the finances (and to deliver the claimed advantages of 'tenure diversification'). Some of the land could have been leased out to housing associations to diversify the design and management style of the housing. The Council and RSLs could then have invited tenders for the construction contracts. The contracts could have been set to ensure an attractive rate of profit for the constructors.

The housing units could then have been allocated for renting by the Council and the other landlords, or in some cases sold leasehold, according to local needs. The rents could have been arrived at in the light of construction costs (which would have included no or very little land costs). The prices at which the Council sold could have been set at a level simply to give them a reasonable premium over the construction cost (since again there was no land cost to be covered in the prices). This would have meant prices way below local market levels. To maintain the pool of low cost housing through time the sale agreement could have specified that on every resale the Council had the right of first refusal at the original sale price updated by the retail price index.

Almost all interests would have been served. The original vendors would have got reasonable value, given that at the time of sale there was no prospect of future development of the site for a more lucrative use. The constructors would have got contracts giving an attractive rate of profit and they would have had a flow of business without the initial problem of looking for sites to build on. The Council would have acquired valuable freehold land as collateral and the advantage of long-term control over future redevelopment rights. There would have been a good increment to the public stock of housing for rent and some homes for sale and subsequent resale at sub-market prices. This would have assisted both those locally on low incomes and incoming lower paid workers who might be needed by the local economy (there are several hospitals and many schools in the area).

In addition the decant process would have been much less disruptive and costly since it would have been possible to begin to provide new housing for people to move into as their previous homes were demolished. This would have meant single moves rather than double moves. There would have been a set of non-housing uses in line with the consultation process about the needs of the area. The leases for these could have included ground rent reviews to reflect rising rack rents. These would have provided further income to finance the scheme. And finally one might have expected the whole acquisition and construction process to have been carried out by the mid to late 1980s - twenty years ago.

Why didn't it happen?

It is instructive to speculate why this scenario did *not* happen. Would British Gas as original owners (and signed-up partners in the regeneration) have been in no position to fulfill their responsibility to de-contaminate the site, or to accept a negative price that might reflect that responsibility? Would Government (in the early Thatcher years) have simply blocked public acquisition? Would no constructors have been found to bid for the contracts on these terms? Would the Council simply not have had the expertise, political will and/or capacity to carry through the scheme? Or would something else have got in the way? Certainly had an annual land value tax related to the newly zoned use been in place the site would not have laid idle for so long whoever the owner.

Regardless of *why* things did not happen in this way it seems at least arguable that it would have been better for local affordability if they had - and the overall effect would have been progressively redistributive.

Case Study 3 - How house prices bid up land prices

In this case study a medium sized housebuilder heard that the owner of 1.2 acres of farmland near one of his existing developments was considering selling. The value of the land in agricultural use was about £2,500. The vendor had already obtained outline planning consent for 10 semi-detached houses on the site. The housebuilder needed to arrive at a bid price for the land that would be acceptable to the vendor in a competitive market.

From his assessment of the local housing market and employment trends the housebuilder estimateed the selling price for the completed houses at £275,000 each. From discussions with a quantity surveyor he estimateed the building cost at £100,000 per house. He allowed also for design fees, overheads and interest charges. He set a required profit of 15% on the net sales value.

The upper limit of the bid for the site was calculated:

Sale value of the 10 houses		£2,750,000
Less selling costs @ 3%		82,500
Net sale income		2,667,500
Less:		
Construction costs for 10 houses	1,000,000	
Design fees @ 10% of costs	100,000	
Overheads and office costs	100,000	
Bank finance costs	80,000	
Profit @ 15% of net sale income	400,125	
Total costs		1,680,125
Available to bid for site (1.2 acres)		£987,375

In this case the site was bought for this figure and all the houses were completed to schedule and sold within six months of completion. Subsequent to the land sale the local planning authority allowed 12 houses to be built on the site, with a consequent benefit to the profit taken from the scheme.

The bid price for the land was sensitive to expectations about the selling price of the houses. If the sale value estimate had been £300,000 per house, and other costs and profit rate required had remained the same, the land bid would have been £1,194,500. Had the expectation been £250,000 per house the bid would have been £881,250. In any of these cases the vendor would have realised a considerable capital gain over the agricultural value of £2,500.

Clearly rising expectations about house prices, based partly on expectations about lower interest rates and/or higher lending multiples for borrowers, will feed through to upward pressures on land prices. This makes land an attractive option for investors, whether they themselves are planning housing development or not, since the ultimate factor creating rising value is society's need for more housing and other forms of development. Given the nature of the unknowns at the point of land purchase, the wide swings in value and the possible need to 'play' a market which is markedly cyclical in the short term it is more accurate to describe many dealings in land as 'speculation' rather then 'investment'.

Appendix 10 - Some effects of poor housing on health, education and welfare

(Peter Ambrose and Sian Griffiths of the Royal College of Physicians)

The link between poor housing conditions and health status has been documented at least since the reports of the 1845 Royal Commission on the Sanitary State of Large Towns and Populous Districts. Research in London in 1892 and Glasgow in 1901 showed a clear positive relationship between overcrowding and death rates.

Christopher Addison, Minister of Health in the early 1920s and himself a doctor had no doubts that poor conditions and overcrowding increased vulnerability to ill-health and that the ill-health cost a lot of money. He set the Registrar General the task of calculating the public cost of various manifestations of ill-health which he regarded as a direct outcome of poor housing conditions and high room densities. These included the increased incidence of TB, the generally poor health of children in elementary schools and the levels of preventable sickness in the workforce (Addison 1922). The Registrar General came up with some estimates of these 'exported costs' (over £42 million annually in 1921 values for a partial set of costs). Addison's strategy to use these findings as an argument for further housing investment resources from the Treasury, in accordance with the 'Homes fit for heroes' election cry, was cut short by his prompt dismissal from office by Lloyd George.

Socio-economic status, housing and health

Appendix 12 of the *Memorandum to the Prime Minister on Minimum Income Standards* included a review of some of the salient academic literature on the link between housing and health since the 1980 Black Report *Inequalities in Health*. The housing quality that can be accessed is closely related to socio-economic status. Many recent studies cited in the previous *Memorandum*, notably Marmot et al. (1991), Syme (1994), Airey et al. (1999), Coleman (1999), Graham ed. 2000), Attanasio and Emerson (2001), Gravelle and Sutton (2001) and Jefferis et al. (2002), have explored the link between poor socio-economic status and poor health and educational status. According to Sandel et al. (1999), a deficit of adequate housing has resulted in 21,000 American children having stunted growth and more than 120,000 being anaemic. They also report that 77% of children in their study with chronic conditions such as asthma need improvements to their home as part of their treatment.

The Acheson Report *An Independent Inquiry into Inequalities and Health* (1998) and the annual Health Surveys for England, produced by the Department of Health, are among the official publications highlighting the link. Acheson stressed the need to address factors *outside* the NHS, and some of his recommendations called for measures to reduce poverty and improve education and housing.

An annotated literature review has discussed a number of studies linking poor housing and living conditions not only with poor health but also with negative 'outcomes' in education and with higher rates of crime experienced (Ambrose, Barlow et al. 1996). An earlier set of essays (Burridge and Ormandy eds. 1993) has also reported on a wide range of adverse health effects. A recent publication from Shelter (Shelter 2004) has drawn attention specifically to the effects of poor housing on children. It points out the one in twelve children are more prone to asthma, bronchitis and tuberculosis as a result of poor housing.

While there is no doubt about the linkage between poor housing and poor health the research required to demonstrate the effects is not easy to carry out. A recent discussion of work on urban regeneration and health (Popay 2001) has drawn attention to the urgent need to move towards a better resourced and systematic research drive on this issue. A subsequent review (Thomson et al. 2002) has found that while there are many thousands of studies linking housing improvement to health gain only a handful have offered robust evidence about a 'before and after renewal' benefit.

One of these was the study of the 'health gain' that accompanied the redevelopment of some very poor housing under the Central Stepney SRB Regeneration in an area of east London between 1995 and 2001 (Ambrose 2002). This study demonstrated that following housing improvement and the drastic reduction of the overcrowding (there had been 1.43 people per habitable room) there was a reduction in the incidence of self-reported illness days from 37 per hundred person/days to 5 per hundred. A round of interviews with over 50 health and other professionals working in the area confirmed the views of residents that their state of health was closely related to the housing conditions. The most commonly self-reported forms of illness, both 'before' and 'after', were coughs and colds, aches and pains, asthmatic conditions, digestive disorders and depression. The study demonstrated sharp falls in costs generated both for the NHS and for police services as a result of the housing improvement.

The effects of the renewal were not all positive. A follow-up project demonstrated that the effect of housing improvement and the transfer of the housing to RSLs was an increase in weekly living costs (primarily rent and Council Tax) of approximately 27%. This had led to increased debt and reduced expenditure on health-related items such as food, clothing and recreational activity (Ambrose and MacDonald 2001).

Indoor cold and health

Poverty and poor housing conditions are frequently associated with low indoor temperatures. There has been much research on the effects on health of low temperatures in the home since the pioneering assessment of the cost of indoor cold (Boardman 1991). Rudge (2001) has been active in developing a methodology to assess the cost-effectiveness of investment in warmer homes. Baker (2001) from the Centre for Sustainable Energy has produced a review of evidence linking living in a fuel poor home with increased risk of illness. This shows in particular a strong association between indoor cold and increased risk of strokes, heart attacks and respiratory illness. Evidence is also reviewed on the impact of cold stress causing cardiovascular strain, the increased incidence of dust mites in poorly ventilated homes affecting asthma and eczema, particularly in children, and the effect on mental and physical health of the presence of damp and mould growth in the home.

The relationship between inadequate indoor heating and excess winter deaths has been extensively studied (for example Eurowinter Group 1997). Similarly Wilkinson and colleagues (Wilkinson et al. 2001) concluded that there is an excess of about 40,000 deaths each winter compared to the death rate in non-winter months. In particular there is a 23% excess of deaths from heart attacks and strokes. Indoor temperatures below 16° centigrade are a particular risk and are most likely to affect old and poorly heated housing with low income residents. In 37% of lowest income quartile homes the indoor hall temperature was likely to fall below 16° when it was below 5° outside. The authors conclude that there is

'...a credible chain of causation which links poor housing and poverty to low indoor temperatures to cold-related deaths.'

Given the link between poor housing conditions and the incidence of asthma, it is relevant to see what some of the social and economic consequences of this disease might be. According to the Office of Health Economics (1999) asthma is reported to have accounted for 328,000 hospital day beds in England in 1994-5 and to have cost the NHS £730 million in 1995-6. Brandon (2002) cites a report finding that in the United States 14 million days of school are missed each year due to asthma.

The link to poor nutrition, health and behaviour

Since both food and housing are non-substitutable essentials for life it is intuitively evident that the more the incomes of poor households are given over to housing costs the less will be available for sound nutrition, especially when, as noted in Appendix 3, housing costs in excess of Housing Benefit may need to be found from income support payments. This relationship was evidenced in a direct way in the Stepney area regeneration study when it was found the one of the consequences of the 27% increase in housing costs following the transfer to RSL landlords was a reduction of expenditure on food (Ambrose and MacDonald 2001).

More recently a study was carried out on 24 low paid workers in Brighton and Hove earning considerably below the 'Low Cost but Acceptable' level calculated in the light of local living costs (Ambrose 2003). The living costs faced by these households were powerfully inflated by local private sector rental costs since only six of the sample had been able to access local authority housing, virtually restricted to those in emergency need in the Brighton area. Very few of those interviewed could afford the variety of diet they would have liked, particularly in relation to the 'five a day' recommendation of fruit and vegetables. Only ten of the sample (which had an average age of 37) were members of a final salary pension scheme.

A study by Gesch et al. (2002) on 231 young adult males in a British prison found that dietary supplements had a strong positive effect on behaviour standards:

> 'The experimental, placebo-controlled, double-blind methodology has demonstrated that supplementing prisoners' diets with physiological dosages of vitamins, minerals and essential fatty acids caused a reduction in antisocial behaviour to a remarkable degree. It is not advocated that nutrition is the only cause of antisocial behaviour but the difference in outcome between the active and placebo groups could not be explained by ethnic or social factors, as they were controlled for by the randomised design.'

In addition Dowler and colleagues have written much about the relationship between poverty and poor nutrition and about 'food deserts' – areas of poor access to the lower food prices and greater variety of offerings found in supermarkets (Dowler, 2001, Dowler et al. 2001, Dowler and Finer 2003).

The link to low birth weight

Poor nutritional standards and environmental conditions and low incomes are intimately related to the risk of low birth weight babies. The incidence of low birth weight in the UK is the highest in western Europe. It has shown little if any decrease since the 1950s and a slight increase since the mid-1990s (reply dated 25 July 2004 to a Parliamentary Question from Lord Morris of Manchester to the Department of Health, Column WA 161). It is as bad as in the United States and not much better than in Romania or Bulgaria (UNICEF/WHO Estimates of the Incidence of Low Birthweight, 2000). In some inner-city areas the rate is in the 'third world' range of 11-14% of live births (Barking and Havering NHS 2004).

Work by Crawford and colleagues in east London and elsewhere over many years has shown the links between poor nutrition, low birthweight and various effects for the brain and for vascular and immune systems (see for example Crawford et al. 1997 and Doyle et al. 1999). It has also shown a trans-generational effect in that a woman with low birthweight had a one in three chance of herself producing low birthweight babies so the effects of poverty and poor nutrition may take a generations to work out.

Numerous studies cited in Appendix 12 of the *Memorandum to the Prime Minister on Minimum Income Standards* showed a clear connection between socio-economic status, poor nutrition and low birth weight. Other studies cited, carried out in Canada, New York and London, showed links between low birth weight, poor physical and cognitive development and lower subsequent achievement levels at school and university.

The link to education

A recent report from the Australian Housing and Urban Research Institute (Phibbs and Young 2005) has explored the link between movement into improved housing conditions in assisted public housing in Brisbane and Sydney and a number of positive 'non-shelter' outcomes. The study, which reviews a wide range of literature, was carried out to assist in the development of a whole-of-government cost/benefit analysis of the value of housing assistance.

The populations had previously been housed mainly in private sector renting, often sharing accommodation. There had been a pattern of negative conditions, overcrowding, transience and changes of school. Following the move the surveys indicated that there was more money to spend on food, more room to prepare it and therefore less reliance on pre-packaged food, greater tenure security, less mobility and better neighbourhood safety. Light users of Medicare services tended to become slightly heavier users but there was a much reduced usage by previously heavy users, especially in relation to stress-related conditions.

From the survey carried out in Brisbane the clearest benefits of the move to public housing lay in educational outcomes. There was access to better schools, less transience and school moves, more space to do homework (private space rather than the kitchen table), more chance to play outside in private spaces and less noise and parental tensions. In terms of the children's Subject Performance at school after the move 53% of respondents indicated that it was better than previously, 7% that it was worse and 40% the same. Interviews with teachers confirmed that a reduction in moves and disruption was especially beneficial for the children.

Summary

The considerable literature linking poverty, and poor and unaffordable housing, with a number of adverse birthweight, developmental, behavioural, morbidity, mortality and educational outcomes clearly establishes that the provision of adequate and safe accommodation at an affordable cost is a matter that far transcends the field of housing policy-making, especially when the lifetime costs of these adverse outcomes are taken into account. The policy and cost implications evident to Addison in the early 1920s (see Appendix 1) appear to have been lost sight of in the UK if not in Australia.

Appendix 11 - High housing costs and low pensions

(Peter Ambrose and Toby Lloyd of the London Rebuilding Society)

Some recent evidence

It is intuitively plausible that high housing costs will further reduce the capacity of poorer households to invest in personal pension arrangements. In the 2003 study of 24 workers in Brighton and Hove earning substantially below the Low Cost but Acceptable level (Ambrose 2003) it was found that only 10 were members of a final salary-related pension scheme. In this sample eight of these were local government workers who are fortunate in being able to benefit from an excellent occupational pension scheme. The remaining 14 in the sample (whose average age was 37) were not in a position to make provision for their retirement although several said, when asked how they would spend additional income, that such provision would be a high priority.

The Pensions Commission

The recent preliminary report from the Pensions Commission (Pensions Commission 2004) makes these points (page xi):

> 'Given present trends many people will face 'inadequate' pensions in retirement, unless they have large non-pension assets or are intending to retire much later than current retirees...Our estimates suggest that around 9 million people may be under-saving, some by a small amount, some severely.'

It is evident that many homeowners may be increasingly dependent on their housing assets to provide then with a pension in some form. In a recent survey 46% of homeowners expected to access the equity in their home to fund their retirement (Smith 2004). But there are many uncertainties here, not least the poor value for money of many equity release schemes currently on offer. The Commission's report points out (ibid, page xii):

> 'While the liquidation of housing assets during retirement will likely remain limited in scope, the inheritance of housing assets by people who already own a house may play an increasing role in retirement provision for many people. But house ownership does not provide a sufficient solution to the problem of pension provision given (i) uncertainty over future house prices; (ii) other potential claims on housing wealth such as long-term care; and (iii) the fact that housing wealth is not significantly higher among those with least pension rights.'

This, like the point about 'under-saving', seems to under-state the problem. Given the scale of the pensions shortfall and the amount of housing wealth that has accumulated among the elderly, the regressive distributional consequences of increased reliance on inherited property wealth are extremely serious. While some stand to inherit substantial assets, the number of people with no assets at all has doubled over the past 20 years (Wilcox 2003b). A very high proportion of the poorest households have a housing wealth of zero so this route to a post-retirement income simply does not exist for them. Of the 25 people in deep consumer debt interviewed in the recent Brighton and Hastings study of debt as an impediment to moving into work (Ambrose and Cunningham 2004) only one was a homeowner.

A sclerotic market

Young people face chronic affordability problems, while the elderly find it difficult to utilise their asset wealth to improve their quality of life. Those who benefit from inherited property are those that need it least and the benefit will be at the time they need it least. This inefficient pattern of wealth redistribution is worsening. The housing market is becoming increasingly sclerotic: the recent house price boom was the first that was not accompanied by increased market activity. In fact, as prices rose during the late nineties, market turnover fell from its long run average of 8.6% to 7.3% and is predicted to fall further and remain low for the foreseeable future (FPD *Savills Residential Property Focus*, Vol. 4 2004).

There is a strong tendency to misread housing market signals in this area. Recent research has shown that the emphasis on providing more smaller homes is based on a misguided interpretation of behaviour in the market. Demand for smaller homes has been strong, and this is assumed to be due to smaller household sizes. But at the same time the number of rooms per household has been increasing in all but the most expensive areas, suggesting that people are buying smaller homes because they cannot afford anything else, not because that is what they want. This bodes ill for the Government's long-term growth strategy, as residents in the new developments will not stay long if they cannot realise their aspirations (King and Hayden 2005).

This projected increase in overcrowding at one end of the market is already matched at the other by under occupation, currently effecting 36% of households (*Housing Statistics* 2004, ODPM). That under occupation and overcrowding can co-exist is powerful evidence of an inefficient and sclerotic market. The implication is that this misallocation of equity will worsen over time as more and more housing wealth accumulates in the growing elderly part of the population and fewer larger homes are built.

Equity release issues

Financial markets should provide solutions to this problem, but so far have only worsened it. A highly competitive mortgage market has simply helped push prices up further, and widen the ratio between values and earnings. But at the same time it is widely recognised that the equity release sector has failed to respond to demand at the other end of the market. The sector is currently worth only £1.1bn, compared to a estimated potential market of £100bn (Anderson 2004). Despite projections of growth in the sector, none of the large banks offer equity release and just two lenders – Norwich Union and Northern Rock – make up 80% of the market. Equity release also has a bad name amongst consumers following mis-selling scandals in the late eighties.

Major lenders are reluctant to enter an uncertain market with a bad reputation without substantial state subsidies or guarantees - which suggests that the traditional mortgage debt approach is not the best way to liberate stagnant housing equity.

There is an obvious synergy between the needs of equity rich, cash poor elderly people and young working families unable to access housing wealth, but financial institutions are failing to clear the market. What is evidently needed is a more holistic approach to equity that would make housing wealth more flexible and the market more responsive. Encouraging older people to release equity and reinvesting it at the bottom of the equity lifecycle would bring benefits at both ends of the market, allowing people to save more easily and access housing more affordably.

Such a policy shift would fit well with recent moves towards asset based welfare such as the introduction of Child Trust Funds (CTFs) and the Savings Gateway. It is therefore regrettable that Treasury rules specifically exclude the investment of Child Trust Fund money in housing, because this is the first attempt to achieve universal asset ownership. If the natural link between housing equity and CTF money can be made, coming generations will avoid the wealth gap that afflicts today's older people.

Poverty and pensions

The Pensions Commission report makes only an oblique reference to the fairly evident point that many of the poorest with no housing assets would find it extremely difficult to make provision for themselves since housing costs are already eating into inadequate income support level incomes (page 159):

> 'For low income house renters we assume that the higher percentage of income replaced by the government (as a result of housing benefit) fully offsets the higher replacement rate needed to cover rent expenditure, (i.e. we have assumed no difference in required savings between homeowners and renters). This is an over-generous assumption used for reasons of modelling simplicity. In fact housing benefit does not always fully offset the costs of renting. We may therefore underestimate the number of under-savers among low income renters.'

This is an understatement of the problem. It was pointed out in Appendix 3 that the net cost of housing for the poorest has been estimated as 6% of their expenditure (Glennerster et al. 2004). It appears that this issue of the impact of higher housing costs on pensions provision has so far neither been sufficiently researched nor sufficiently considered by the Pensions Commission.

Further barriers to participation in voluntary pensions schemes are posed by the complexity of the decision-making involved (Pensions Commission 2004, page xii):

> 'There are however big barriers to the success of a voluntary pension saving system, some inherent to any pension system, some specific to the UK. Most people do not make rational decisions about long-term savings without encouragement and advice. But the cost of advice, and of regulating to ensure that it is good advice, in itself significantly reduces the return on saving, particularly for low earners. Reductions in Yield arising from providers' charges can absorb 20-30% of an individual's pension saving, even though they have fallen to a level where provision to lower income groups is unprofitable. This poses a fundamental question: in principle can a voluntary market for pensions work for low income, low premium customers?'

This last question is key and perhaps under-emphasised. The move away from an adequate state pension funded out of taxation began in the 1960s under a Wilson government. The principle of relating the state pension to earnings has been lost and its value in real terms has been declining. It appears that this trend will continue and that there will be growing dependence on investment-related private pensions in one form or another, many of them reliant on individual initiative. The returns from such forms of pension provision are obviously less reliable than statutorily determined payments, geared to adequacy needs, paid out of general taxation.

The combination of rising housing costs, felt disproportionately by those in poorer households, increasing dependence on privately arranged pension provision and a sharp divide between asset-rich homeowners and renters with no housing assets seems destined to lead to sharp increases in post-retirement inequality. Increased housing costs therefore seem to be one mechanism for prolonging into the future, and exacerbating, current inequalities.

Appendix 12 - High housing costs and employment issues

(Peter Ambrose)

A recent MORI poll of more than 2000 people for Shelter found that 71% agreed that Britain was in the middle of a housing crisis. No doubt much of this response reflects worries about whether or not house prices will fall and/or concerns about the extent of homelessness and rough sleepers.

These are serious matters but there are more systemic issues relating to the effects of high housing costs on the workings of the national economy and sub-regional economies. Some of these have already been referred to in Appendix 9. The high cost of a non-substitutable commodity such as housing is likely to find its way into higher pay claims. Similarly employers in high housing cost areas may well have to offer higher wages and relocation packages to attract key workers. Having attracted the workers they may experience retention problems as employees find the housing costs unsupportable on their incomes. A high rate of staff turnover imposes its own costs. Equally from the employees' viewpoint the highly differentiated housing costs in the UK can act as a serious impediment to job mobility. Sufficient affordable housing is therefore a necessary item of infrastructure to underpin the efficient functioning of the economy.

The latest housing discussion paper from the ODPM (ODPM 2005) recognises this problem and proposes a MoveUK scheme which will '...offer social housing tenants and jobseekers greater choice about where they live and work'. The service is however designed to be simply an on-line information service about job vacancies and housing opportunities in other parts of the country. This will extend the information available to those seeking to move for employment reasons but unless differential housing costs are also addressed it may make little practical difference to the options open to movers. In any case the scheme presumes universal access to a computer and capability to use it on the part of a population whose means of communication may be limited to a 'pay as you go' mobile phone.

The 'More and Better Homes' Campaign

This concern about housing costs and labour mobility has recently found expression in a new campaign, the Campaign for More and Better Homes. This was initiated early in 2005 by an alliance of unprecedented breadth including Unison, the Confederation of British Industry, Shelter, the National Housing Federation, The Town and Country Planning Association, CABE and two of Britain's largest housebuilders, Wilson Bowden and George Wimpey. The Campaign is urging the South East of England Regional Assembly to recognise the acute shortage of housing in the south east and to increase significantly the number of homes built in the light of both market demand and social need.

Given that '...our housing system continues to provide so inadequately for so many of our citizens' one of the aims of the Campaign is:

> '...to change the terms of the debate and deliver a better deal on housing for the nation.'

The Campaign points out that house price inflation in the UK is more than twice as high as in the rest of

Appendix 13 - Other effects of high housing costs and debt

(Peter Ambrose)

Apart from the effects on house price levels the massive rise in the total housing debt outstanding (Appendix 2) has a number of other consequences, some of them clearly adverse.

1. Risk of repossession

Inability to continue servicing a housing debt can lead to calamitous outcomes if the property is repossessed. If it is subsequently sold by the creditors for less than the loan outstanding the occupiers not only lose their home, they also remain in debt.

Repossessions rose to very high levels in the early 1990s (75,540 in 1991) but have since fallen considerably (7,630 in 2003 - Wilcox 2004, Table 51). Both this figure and the sharp reduction in the extent of mortgage arrears probably reflect the historically low interest rates of the early 2000s. Nevertheless court actions entered for mortgage repossessions have shown little sign of decline over the period 2000-2004 (ibid, Table 52). Of the total Court Orders made for repossession in 2003, 29.1% were in London and the South East (ibid, Table 53f). In these areas average weekly mortgage repayments including endowment payments in 2002/3 were £138.60 and £133.34 respectively compared to a UK average of £97.41 (ibid, Table 50).

2. Thinking holistically - some other economic, political and social consequences

There is a wide range of other consequences of rapidly rising house prices, massively increased mortgage indebtedness and the consequent heavy calls on household income. These may well be felt especially in the early years of the mortgage. These effects, while intuitively evident, have in most cases not been subjected to systematic research:

Effects on land values - as was seen in Appendix 9, the rising prices of newly developed houses feeds through to inflate development land value, with consequent implications for the buyers of land for 'social' purposes.

Effects on private sector rents - private landlords are seeking to gain a competitive rate of return on the capital value of their assets so the higher capital values go the higher the rent they will seek.

Effects on labour mobility - the lack of affordable housing in 'high demand' areas reduces labour mobility and causes additional difficulties for employers who seek to attract and retain workers in lower paid jobs (Appendix 12).

Effects on the power of organised labour - the relationship between high levels of mortgage indebtedness and workers' potential and propensity to take industrial action has been recognized since at least the 1920s: the commitment to mortgage repayments is the most frequently stated reason for not joining a strike.

Effects on fertility rates - the more the income of second earners in a household is taken into the loan calculation the more it is likely that couples will put back the age of having a first child and perhaps further children. The number of live births per 1000 women in the UK has changed as follows:

	1981	2002
All ages	**62.1**	**54.3**
20-24	**106.8**	**68.2**
25-29	**130.4**	**91.3**
30-34	**69.5**	**89.8**
35-39	**22.4**	**42.8**

Source: *Social Trends 34*, 2004, Table 2.16

Fertility rates are down in total and are sharply down in the under 29 age groups. But in 2002 women in their early 30s produced far more babies than in 1981 and for those in their late 30s fertility has almost doubled. This pattern is no doubt the product of a number of factors and it is differential by socio-economic group. Increased and longer participation in the labour market, often related to the servicing of a mortgage, may well be one of the factors affecting the fertility of those in socio-economic groups able to access a mortgage loan. Given the possible incidence of more complications for older mothers there may well be implications for NHS costs arising from these changing patterns.

Effects on family life - the continuance of both parents in work following the birth of a child, which may be necessary when both incomes have been calculated into the mortgage multiple, may have a range of effects. Some may be judged positive and some negative. Very often the requirement that two incomes continue may close down preference options about patterns of parental care and increase the need for bought in childcare.

Effects on other spending - it is axiomatic that the higher the proportion of lifetime earnings devoted to property purchase the lower the proportion available for other forms of spending. The shift is towards capital spending and away from revenue spending at the household level.

Complications when life goes wrong - higher loan multiples and longer lending periods mean increased exposure to risks when household finances are disrupted by frequently occurring factors such as relationship breakdown, redundancy, poor health or disability. Increase stress may be felt not only when these events occur but also in the period when they are clearly on the horizon.

Effects on the quality of life of older parents - in the latest burst of house price inflation since the later 1990s it is clear at least anecdotally that many older parents are making use of their own capital to help children in their 20s and 30s to get on the 'property ladder'. This issue appears to have been little researched so its precise extent and effects are not known although one survey carried out in 2004 by MORI for the Joseph Rowntree Foundation found that parents now expect to contribute on average £17,000 to help their children get onto the property ladder.

3. Equity withdrawal and increased consumer debt

Steeply rising house values have given more 'headroom' for owners to borrow for other purposes. It has been pointed out by Wilcox (2004, Section 2) that the recent rise in house prices has permitted record levels of equity withdrawal. This rose from £45.6 billion in 2002 to £60.8 billion in 2003. It amounted to 8.77% of all consumer spending (ibid, Table 7), a much higher proportion than that reached in the house price boom of the late 1980s. As the previous appendix made clear there is considerable scope for increase in this proportion.

This has a number of effects on the economy and the society. It clearly contributes to economic growth and indirectly to employment levels. But equally it has an inflationary effect and has been one reason behind the five increases in the Bank of England base rate since October 2003. Increased spending is conventionally seen as an unmitigated economic benefit. But at a time of deep concern about the social and cultural implications of very high borrowing levels, especially when the debt is incurred by more vulnerable borrowers, 'economic growth' may well not be the prime indicator by which the health, morality and cohesion of a society will be judged.

4. Constraints on use of the interest rate as a cyclical regulator

Governments of all political colours have in the past used the base rate as a regulator either to lift the economy out of recession or to dampen down an overheated economy. The facility with which base rate can be adjusted up or down is significantly restricted when the financial viability of millions of heavily indebted households is put at risk by upward movements in mortgage interest rates. As General Elections loom the setting of the interest rate may well have more to do with electoral calculation than with economic judgement.

5. Opportunity cost of this investment pattern

It was shown in Appendix 2 that the amount of house purchase lending in the deregulated regime over the past 23 years has been almost £600 billion more than might have been expected had lending risen in line with general consumer prices. The housing debt outstanding has risen from 23% to 72% of GDP. This vast lending flow has been used to inflate house prices when it could alternatively have been invested in public infrastructure (schools, roads, hospitals, etc.) or in more productive ways such as the modernisation and better capitalisation of UK industry, the research and development of new inventions and so on. It is also instructive to compare this £600 billion figure with the estimated one-off £19 billion now required to bring all social housing to a decent standard.

The modelling of alternative investment flows over the past quarter century would be a complex task but intuitively there seems little to be said for the way in which house purchase lending has come to dominate the use of investment funds in the economy.

Appendix 14 - An overview of 'exported costs' from poor housing

(Peter Ambrose)

Poor quality living conditions and 'exported costs'

The interface between living conditions and welfare outcomes is a complex one and it needs to be accepted that it is futile to search for simple 'cause/effect' relationships. Nevertheless evidence gathered from many studies shows clear patterns of association between poor conditions - for example cold, damp, infestation, noise, poor air quality and overcrowding - and an increased incidence of ill health. Whether these conditions derive from inadequate housing standard regulations, poor construction, poor maintenance, aspects of 'lifestyle' (as has been argued) or some combination of all these is not the immediate issue.

It is obvious that an increased incidence of ill-health must increase costs for health services which are already under increasing strain in Britain and other European Union countries as a result of various factors including ageing populations (see the comprehensive collection of essays edited by Burridge and Ormandy, 1993 and the pioneering work on the health costs costs issue by Boardman, 1991, Carr-Hill et al., 1993, Lawson, 1997 and Crawford 1997 and colleagues). The issue is broader than this since poor living conditions can be expected to generate additional costs not only to health services but also to other key service providers. These include:

- the education service (because children in poor and overcrowded conditions cannot learn as effectively)

- the police and judicial services (because poor housing and environmental design and construction is associated with a higher incidence of some crimes)

- the emergency services (because poor housing conditions and 'secondary heating' increase accident and fire risks)

- the energy supply services (because poorly designed housing uses excess energy and produces ecological damage).

Over three hundred research studies examining these issues were reviewed as an early part of the Cost-effectiveness in Housing Investment (CEHI) programme of work at Sussex University (Ambrose, Barlow, et al., 1997). It was evident that poor living conditions implied additional costs for a wide range of service providers. The CEHI team termed these costs 'exported costs' because they are generated by under-investment in one sector (housing in this case) and then 'exported' to others.

A matrix of exported costs

One of the products of the series of empirical studies carried out by the CEHI team was the gradual development of a more thoroughly worked out matrix of cost categories and headings where the volume of costs felt was likely to be affected to some degree by the quality of the living environment. This systematisation is regarded as an essential step along the path to fuller quantification. For reasons given earlier there is no assertion here of *direct causal relationships* between living conditions on the one hand and health and other outcomes on the other. Instead it is argued *that systematic and to a degree predictable patterns of association* exist between the quality of the built environment and the health status and other cost-generating outcomes observed.

The health and other costs that could well be exacerbated by poor living conditions can be categorised in at least four ways as follows:

1. **Capital Costs** versus **Revenue Costs**

2. **Personal Costs** felt on the personal finances of individual residents versus **External Costs** felt by service providers of one kind or another (although some of the latter no doubt work through to the individual in the form of higher taxes).

3. **Systemic Costs** that impact regularly, and sometimes imperceptibly as life is lived versus **Formalised Costs** felt in more visible and formalised ways such as in the annual bid for funds by a healthcare or other service whose funding formula recognises the high cost of service delivery in run-down areas. Such Formalised Costs might impact in the form of special responses to situations where the state of run-down needs to be addressed via expenditure on special Government programmes such as the Single Regeneration Budget or New Deal for Communities.

4. **Degree of measurability** - costs can be ordered in terms of their susceptibility to accurate measurement. The categories adopted here are:

H	**Hard** - costs that can be precisely quantified
M	**Medium** - costs that one can see a way of quantifying given better data
NQ	**Non-quantifiable** - costs that clearly exist but are currently non- quantifiable

A matrix of this nature not only provides a framework for the task of estimating some of the total costs incurred but it also prompts questions which require further examination, for example:

- how is the cost of poor living conditions distributed between residents and service providing agencies?
- of those felt by the latter, which agencies bear most costs?
- which agencies might therefore save most as a result of increased investment in housing?
- which costs are currently poorly recorded or measured?
- how do revenue costs and capital costs compare in terms of 'weight'?
- what *forms* of increased investment in better housing might most reduce both 'costs-in-use' and exported costs?

By identifying a range of more measurable costs (H), the matrix also gives some guidance concerning the most promising ways to continue the task of evaluating exported costs.

A matrix of costs whose levels can be related to poor living conditions

	PERSONAL COSTS	EXTERNAL COSTS
Systemic - Capital	high annual loss of asset value if property owned (H)	high annual loss of asset value if property rented (H)
Systemic - Revenue	poor physical health (H to M)	higher Health Service costs (H to NQ)
	poor mental health (M to NQ)	ditto
	social isolation (NQ)	higher care services costs (M)
	high home fuel bills (H)	high building heating costs (H)
	high insurance premiums (H)	high insurance payments (H)
	uninsured contents losses (M)	
	spending on security devices (H)	spending on building security (H)
	living with repairs needed (NQ)	high housing maintenance costs (H)
	under-achievement at school (NQ)	extra costs on school budgets (H)
		homework classes at school (H)
	loss of future earnings (M)	loss of talents to society (NQ)
	personal insecurity (NQ)	high policing costs (H to M)
	more accidents (M)	high emergency services costs (H)
	poor 'hygiene' conditions (NQ)	high Environmental Health costs (H)
	costs of moving (M)	disruption to service providers (M)
	adopting self-harming habits (M)	special health-care responses (H)
Formalised - Capital		Government and EU area renewal programmes (H)
Formalised - Revenue		'Statements of need' (H)
		Police funding formula (H)
		Fire and Ambulance services funding formulae (H)

The '10%' question

As part of discussions to assess the success of the Hackney Central Estates Initiative in the late 1990s focus groups were arranged to which the providers of key services - health, police, education, housing, etc. - were invited. The question was put:

> 'If you could have a 10% increase in your budget next year which could be spent only on another service rather than your own, which service would you choose with a view to making your own operations more effective?'

At the reporting back sessions increased housing expenditure was the most frequent answer.

Appendix 15 - Limited Liability Partnerships as development mechanisms

(Chris Cook of Partnership Consulting)

Property Rights

Property ownership rights - whether over land, financial assets, intellectual property - have evolved in the West into two mutually exclusive *absolute* categories. In the UK, the Law of Property Act 1925 gave us freehold (permanent) and leasehold (temporary) for a defined term.

However, the unique flexibility of the UK legal system has allowed another body of Law - Trust Law or 'Equity' - to develop over a thousand years or more and permitting rights of *use* of land to augment these bare *tenure* rights provided by statute thereby reflecting reality more flexibly and equitably. The result is a minefield, which we are able to navigate only with expert legal assistance.

However, as the Scots verdict of 'not proven' illustrates (as opposed to *either* 'guilty' or 'not guilty'), we need not deal in absolutes. So it is that a new form of *indefinite* property right is now emerging based upon a new relationship encompassing both rights of *use* and rights of *ownership* in a simple common framework.

This 'Co-ownership' property right arises out of the new possibility of a partnership between the 'owner' and the 'user' of property where the property is owned in common by the partnership. The 'User' member then pays an agreed 'Capital Rental' to the 'Owner' member for the indefinite term for which he uses the property.

This development in both the ownership of, and investment in, Land and property is one of the unintended consequences of a recent innovation in UK Partnership Law.

The UK Limited Liability Partnership

On 6 April 2001 a new legal entity, the Limited Liability Partnership (LLP), came into effect in order to protect professional partnerships from the consequences of their own negligence.

Confusingly, an LLP is *not* legally a partnership. It *is*, however - like a company - a corporate body with a continuing legal existence independent of its members. Also, as with a limited liability company, you cannot lose more than you invest in an LLP.

Unlike a company there is no requirement for a Memorandum of Incorporation or Articles of Association. It is also not subject to the body of legislation governing the relationship between investors and other stakeholders, and particularly the directors who act as their agents in managing the company.

The 'LLP agreement' between members is totally flexible. It need not even be in writing, since simple provisions based upon partnership law apply by way of default. Let us consider how this new legal tool may be applied in respect of the investment in, and ownership and occupation of, land and property.

The Community Land Partnership (CLP)

A Community Land Partnership has four Members:

(a) a **Trustee** Member - which holds the freehold of the Land in perpetuity on behalf of the Community

(b) an **Occupier** Member - which consists of the community of individuals and/or enterprises which occupy the land and the property on it

(b) an **Investor** Member - which consists of the consortium of individuals and enterprises who invest money and/or money's worth (such as the value of the land) in the CLP

(d) a **Developer/Operator** Member, which provides development expertise and manages the CLP once the development is complete.

Examples

1. One example would be a reasonably high profile project - the London Olympics. The Investors will be pension funds who are invited to invest in building high quality and energy efficient homes to be used as the Olympic Village. Their young members will then be invited to occupy these properties after the Olympics are over by paying an inflation-linked rental set at an initial level sufficient to provide a reasonable return on capital. The participating pension fund therefore acquires a simple property-backed and inflation-linked rental stream perfectly suited to match its long-term liabilities.

For the Occupiers there is an indefinite right of occupation for as long as they pay the 'Capital Rental'. They may choose not to pay in cash but rather to transfer 'equity shares' instead from savings made previously. If an Occupier pays rentals ahead of the due date then she/he automatically becomes an Investor.

The Community retains ownership of the Land and the Developer/Operator obtains a reasonable reward in respect of the delivery and maintenance of a high quality and energy efficient Olympic Village. The outcome is that that instead of the council tax-payer funding the Olympic 'Legacy', the Legacy funds the Olympics.

2. By way of further example a Community Land Partnership may acquire a piece of land on which is to be built a school, a hospital or a new bridge. A reasonable 'capital rental' is agreed for the use of the property and the CLP is divided into 'n'ths' which consist of proportional shares in the rental revenues. Again, such property-backed revenue shares are ideal for ethical investment at a local level and are a close match for the requirement of pension funds for assets yielding long term and inflation-linked revenue streams.

3. Another example is a small housing development of seven properties. Two of the buildings will be converted into three units of 1-bed each while the other five properties will be converted into five 1-bed units on the ground floor with five 2-bed units on the two floors above. In addition to this space there will be common space and facilities at ground level. In all this produces accommodation for, say, 20 people in eleven 1-bed flats and five 2-bed flats. Ground source heating and other energy-efficient features would be installed.

(a) Finance

Each of the seven plots is worth £100,000 and the current value of the buildings is 2x£125,000 and 5x£100,000. The rebuilding cost is £70,000 per building or £490,000 so the total cost of the scheme, allowing £10,000 contingencies, is £1,950,000. The local council contributes £500,000 for a 50% partnership in the land value (£350,000) and a 20% partnership interest in the buildings (£150,000). The remaining £1,450,000 is contributed by an Investor Member seeking an initial 3% return or £43,500 per year. Divided between the 20 occupiers members this is £2,175 each or just under £42 per week. This would be inflation-linked and would therefore provide a real asset-based return of 3% to the investor regardless of movement in interest rates.

Any rental above this figure paid by an occupying member would enable her/him to acquire Equity Shares in the property and in so doing to reduce the rental due in the future, to take a rental holiday or to build up savings.

(b) Fair Shares and Land Rental Units

In addition to the building rental members would pay a Land Rental under the Community Land Partnership agreement. This Land Rental constitutes a pre-distributive mechanism internal to the CLP and utilising two separate parameters - Income and Land Use.

(i) Income Pooling

Assume a contribution to a 'pool' of 5% of income.

5 members on £50 per week state benefits pay in total	£12.50
5 members on £100 per week pay in total	25.00
5 members on £150 per week pay in total	37.50
5 members on £200 per week pay in total	50.00

The outcome is a levy of £125 per week which is then divided between the 20 members giving a dividend of £6.25 each. This could give a net rebate to those on less than £125 per week and a net contribution by those earning more. The effect is for the income component of land rentals to cross-subsidise the building rentals for those least able to afford them. The contribution rate could be higher or lower than 5%.

(ii) Land Use Pooling

The land occupied by the CLP members would be assessed using Land Rental Units (LRUs). In the example five properties each occupy three units of land while the other two are bigger and occupy five units - a total of 25 LRUs The members agree a value payable per LRU by the occupants of each property into a pool. Again net value transfers (payments or receipts) result from those having most land use per person to those having least.

Members could decide to retain value in the pool to subsidise members in adverse circumstances and there could be transfers in terms of 'money's worth', for example services rather than cash. The effect is similar to a form of land-backed community currency. The methodology is in line with that of the Land Value Tax proposed by Henry George and others.

It is worth noting that this 'Capital Partnership' mechanism has been in use - albeit in prototype form - in the commercial world for over two years. For instance, in late 2002 the Hilton group entered into a 27 year revenue sharing agreement with a development finance consortium which invested £350m in an LLP vehicle which acquired 10 UK hotels. There was no mortgage or interest and neither was there a 'sale and leaseback' of the freehold.

Encouraging sustainable development

Existing modes of development encourage, even mandate, sociopathic behaviour on the part of property developers. Land is acquired and developed with borrowed money secured by a mortgage on the property. The developer is motivated to develop as quickly as possible and as cheaply as possible with no real regard for the long-term consequences in terms of the energy efficiency and 'liveability' of the project beyond that which he is mandated to provide.

The CLP model is entirely different. The developer does not buy and sell the land but instead acquires shares in the revenues which will flow over time from its successful and sustainable development and operation. The more energy efficient the development, and the better the quality, the less money is necessary to pay for repairs and for heating and the higher the rental value will therefore be.

Conclusion

We see in the new LLP legal form an innovative mechanism enabling new solutions to be provided in respect of the problems set out elsewhere in this Memorandum. Through the concept of 'co-ownership', and the 'asset-based finance' which flows from it, we see the possibility of a truly sustainable development model where it is in the interests of developers to develop property that is energy efficient and sustainable rather than the reverse.

Appendix 16 - Capturing rising land values for the community

(Peter Ambrose and Toby Lloyd of the London Rebuilding Society)

Some fundamentals about land

Four fundamentals need to be borne in mind when considering the land issue:

1. 'Buy land my boy, they've stopped making it'. This advice from Mark Twain is more or less literally true give or take changes in sea level, land reclamation schemes (such as those of Charles I in the Fens) and marina developments (for example the Brighton Marina issue in the 1970s which was more about the development land to be created, and how much the council could be induced to pay for the infrastructure, than about sailing).

2. The value of land about to be developed is determined by the expected revenue flow or capital gain from the completed development, less the construction cost. Since what and how much can be developed is determined by development consents, it is the planning system that, quite literally, writes the land value map.

3. The value of the site (or the completed development) can be powerfully affected by the actions of external forces, for example by the construction of a transport facility or an urban renewal scheme (positive effects) or the siting of a sewage works or new airport runway (negative effects). Beneficial effects brought about by these external factors give rise to 'betterment' and the reverse is sometimes termed 'worsenment'. It seems entirely reasonable to tax the former, so long as the tax is not added to prices, and pay compensation from public funds for the latter.

4. The value of a site can be established definitively only when it changes hands on the free market or when some public body sets its value in a forced sale or compulsory purchase situation. The value of all other land, whether currently built on or not, can only be estimated or imputed. This imputed value may well include some 'hope value' where the site is very likely to be approved for development. It may also include some 'floating value' when it is in an area (such as a green belt) where there is an expectation that sites of this general type will come up for development but it is not yet clear which one. If the site is already built on its value can be estimated fairly accurately by imagining the destruction of the building upon it. The site is then worth the market value of a similar replacement building less the construction cost of replacement.

The three case examples in Appendix 9, and the evidence of several other appendices, have shown that the UK development system has failed to ensure sufficient affordable housing. This is largely because the regulatory interventions have been too weak either to capture the rise in land value for the community, broadly defined, or to condition outcomes that include sufficient housing at access cost levels to match the range of earnings.

The size of land value gains

The gain in land value when a site becomes available for a higher revenue use is spectacular. Typically the value might increase from about £5,000 per hectare in agricultural use to £2 million or more for housing development. Much higher figures can be reached for retail or office uses. At the height of the London Docklands boom land values for commercial developments reached around £50 million per hectare.

This raises the complex issue of how best to distribute these immense gains in value, how to balance legitimate competing interests in a situation where power is unequally distributed and, in the context of this Memorandum, how to ensure the best possible supply of affordable housing.

What a land flow system needs to accomplish

Appendix 9 illustrated some of the serious failings of the present land flow arrangements in three case study situations - one of rapid urban growth in Berkshire, one of 'brownfield' regeneration in east London and one of a small housebuilder in the home counties. It was shown how present practices make land coming up for development more an attractive area of speculation and less a necessary input into the production of the built environment.

This enables us to specify more precisely what a reformed land flow system should ideally be capable of achieving. It should:

- facilitate an economically required and socially appropriate pattern of development in both greenfield and brownfield situations
- produce the solutions at the required volumes
- be able to acquire the freehold land necessary at existing use value even from unwilling vendors
- deal equitably with reasonable claims for compensation for lost future development rights from unwilling vendors
- eradicate the possibility of speculation in land
- have the power to influence the access rents and prices of the housing element in the development so as to ensure a spread of access costs and tenure types
- be able to bring about this development to a specified time frame
- incentivise private sector developers to carry out the development in a secure economic environment for them
- make full use of energy conservation practices both in terms of environmentally sustainable land use patterns and higher energy efficiency standards for new building
- retain the land values created by the development for the benefit of some combination of the local community and the nation
- retain the long term interest in the land in some form of council or other common ownership to safeguard future common interests
- be democratically accountable both locally and nationally
- command broad political assent so as to be acceptable to successive governments
- be generally comprehensible so as to command popular support and to engage local communities in the process

There have been a number of policy interventions aimed at achieving these ends.

The 1941/1947 planning system

Wartime origins

The post-war system has been the most comprehensive attempt to deal with these issues. It was initiated in the depths of the second world war as part of a morale-boosting offer to a population suffering from heavy enemy bombing. In January 1941 a deputation of seven civic leaders led by the Mayor of Coventry requested a meeting with Sir John Reith, minister responsible for reconstruction, to seek information about the nature of post-war redevelopment regimes. Somewhat rashly he assured them that their cities would be fully compensated and that reconstruction would not be impeded by land speculation.

Reith then asked a small expert group headed by Augustus Uthwatt, Q.C. to produce a report to guide postwar planning. Their Interim Report (Uthwatt 1941) contained radical proposals which need to be seen in the context of a time when it appeared unlikely that there would be any 'post-war'. There was to be a Central Planning Agency, provision for all land outside the cities to be acquired compulsorily by public authorities at 31 March 1939 values and then leased out for development while land developed within cities was to be subject to a 75% betterment levy (see Parker 1985 for a cogent discussion).

An aggrieved commentator in the *Estates Gazette* (31 May 1941, p.582) made the point that these proposals

> '...strike at the very root of the principle of private enterprise in property'

and property interests brought pressure to bear on the government. Not surprisingly, as the war progressed, the proposals were watered down first by the Uthwatt group's Final Report (Uthwatt 1942), then in the June 1944 White Paper (*The Control of Land Use*) and finally in the 1947 Town and Country Planning Act. This 'long retreat' is discussed in Ambrose (1986).

The 1947 Act when it emerged effectively brought into public control not the *ownership* of land but the *right to develop* it - a very different thing. For those who could prove that there was unrealised gain from future development on the day the Act came into force a sum of £300 million was set aside for compensation. For all other landowners there was to be no compensation for lost future development rights because it was held that it is society as a whole, and its need for new development, that creates development values. Under the Act 'floating value' became fixed value by the pattern of development consents granted.

Some weaknesses of land use control interventions

The main power of the planning system is the granting or withholding of planning consent as and when developers choose to bring individual sites forward. Planners therefore write land value into market existence - but they do not create that value. Land value is the value of one particular location over another, which is either created by nature or by the actions of the whole community, past and present. As such, land value is by nature a public good that is captured by private landowners, subject to the constraints of planning permission.

For this reason, economists from Adam Smith onwards have recognised that increases in land value are a natural source of public revenue. At present, agreements under Section 106 of the Planning Act (which is replaced by Section 46 of the new Act this year) are used to capture some of the 'betterment' created by the granting of planning permission, by forcing developers to make a cash or in kind contribution to the local authority. Planning consent for housing developments is generally granted on condition that a certain proportion of the houses built are 'affordable' - in London the Mayor's target is 50%.

But both planning consent and Section 106 are extremely blunt instruments for guiding land use, because they focus entirely on the moment of development. Recent reforms of the planning system (Planning and Compulsory Purchase Act 2004) do little to change this. Although forward planning is now based on wider spatial strategies, the system is still incapable of dealing adequately with the dynamic nature of land markets. Similarly, the Planning Gain Supplement (PGS) proposed by the Barker Review will operate only at the moment planning permission is granted. Ultimately these approaches add to building costs and deter development, and therefore increase the cost of both new build and existing housing. On three separate occasions since the second world war Labour governments have attempted to capture planning gain through one-off taxes: each has failed and been repealed by the next Conservative government.

Another limitation is that most property - and especially housing - does not get redeveloped very often, and so the planning system can only influence the housing market at the margin. Whatever contributions developers are forced to make are one-off events that have no lasting impact on affordability. Once houses have been built they will continue to exist for decades and it is not easy to put in place mechanisms for controlling their future prices or for capturing future socially-created increases in land values. This is a serious omission, and a major cause of the affordability crisis. Ironically, this problem is worsened by sustained economic growth - the extra value created by growth is channelled into an unconstrained housing market, meaning that housing costs rise faster than wages and the benefits of growth accrue disproportionately to land owners.

The 1947 Act has conditioned all subsequent planning acts. Its development control powers, and the 'greenbelt' legislation, have proved very successful in keeping the urban and rural landscapes looking better than they otherwise would. But it has been very weak in positively bringing about a preferred pattern of development, to a required timescale and in influencing the price and rent at which housing becomes available.

Other public policy effects on land development

Public policy directly influences the flow of development land most obviously through the planning system, but also through government sale or purchase of land (including compulsory purchase); the development (or not) of publicly owned land; the location of public agencies; investment in all types of public infrastructure and services; and the taxation system. More subtly, economic policies that effect growth, interest rates, employment and the environment will all effect people's motivation to develop land or buy property, as will social policies that influence the quality of neighbourhoods.

Modern land use policy has generally failed to consider these multiple influences in the round, leading to adverse selection and unintended consequences.

Economic growth and rising land values

The dynamic relationship between growth and the land market was first identified in the nineteenth century by David Ricardo and developed by Henry George. Today it has obvious negative effects on housing affordability, wealth distribution, social justice and intergenerational equity. Ultimately it leads to economic sclerosis as labour market immobility, the misallocation of investment funds and the squeezing of non-landowning enterprises destroy the efficiency gains of the growth period, forcing the economy into another down turn. As prices rise beyond the means of many people, social housing becomes increasingly residual and a growing intermediate sector of low-middle income working households find themselves unable to access housing at all.

In this context, direct housing subsidies intended to promote affordability act as a further boost to the market, meaning that ever greater subsidy is needed for the next generation of workers unable to afford a home. Similarly, affordable housing requirements, Section 106 agreements and the proposed Planning Gain Supplement (PGS) all fail to tackle the underlying causes of unsustainable land and housing price inflation (GLA 2001, Barlow et al. 2002). Planning control will always be necessary, and there may be a role for one-off interventions like PGS, but we also need a means of capturing socially-created rises in value for the community and locking in any subsidy so that affordable housing remains affordable.

The potential of current planning powers

Despite the limitations noted, the Stepney Gasworks case in Appendix 9 has shown there appears to be no decisive reason why the removal of land speculation, and the ensuring of desirable outcomes to a prescribed timescale, cannot be achieved under existing planning legislation. It appears to have been habitual practice and lack of political will, rather than a lack of legal powers, that has limited an equitable apportionment of the land value gain arising from this development. For a wide range of reasons local authorities have been in the position of granting valuable development consents *after* sites have been acquired by private developers rather than themselves acquiring (or holding) the sites *before* granting the consent that generates the value.

Community Land Trusts (CLTs) as one way forward

As argued elsewhere, and in Recommendation 5, the simplest way of maintaining affordability, preserving the value of subsidy and safeguarding future redevelopment opportunities would be to keep a substantial proportion of housing in public ownership and to initiate a renewed public housing development programme. But at present there is little political appetite for a return to council house provision. In addition there is always the danger that future governments may again resort to the short-term expedient of selling off publicly owned housing cheaply for electoral advantage.

A way forward to complement other forms of public provision is now being presented by the initiation and development of some variant of the 'community land trust' idea. As shown in Appendix 15 this can be combined with new legal forms and financing mechanisms.

Community Land Trusts (CLTs) were developed in the US by Bob Swann in the 1960s. Swann was inspired by Henry George's idea that land was fundamentally different from the other two factors of production (labour and capital) and should be treated differently in the economy. He believed people should certainly be able to own their homes, but that the land underneath them belonged to the community by right.

In the United States CLTs have been used extensively not only to provide affordable housing but also to serve as environmental conservation trusts. There are around 130 CLTs in the US, in both rural and urban areas, ranging from small neighbourhoods to entire towns. The largest, Burlington CLT in Vermont, now provides over 600 affordable housing units, both owner occupied and rented, and has 2,500 members. A recent study of all resales in Burlington CLT showed that 74% of those selling had bought in the private market, implying that preserving affordability with a restrictive resale formula had not lead to the residualisation of CLT housing (Davis and Demetrowitz 2003).

Separating the land value rises from the buildings

The key point of a CLT is to separate out the two elements in any development - the land and the buildings placed upon it. The land is a natural resource and it is entirely equitable that those living in the vicinity should have long-term rights over its ownership and use analogous to those held over 'commons' in the feudal system. It is also reasonable that increments in value of the site deriving from public investment should be retained for communal benefit. The buildings placed upon it from time to time, on the other hand, are the product of investment by a variety of interests (who may be in the private, voluntary or statutory sector) and it is legitimate for those interests to wish to see a return on their investment over the useful life of the building.

A CLT implements these distinctions. The site is acquired freehold by a trust or perhaps a neighbourhood or parish council having the long term interests of the local community as a priority. It is acquired by means of market purchase, donation or transfer of public land. It is effectively removed from the market for ever. Housing can then be built on the land for the construction cost alone. Individuals, co-operatives or housing associations can rent these houses or buy them on leasehold, often for a 99 year term in the first instance. The revenue stream, in the form of lease payments or rents, is used to service the original loan to acquire the land and to cover building costs and then to feed back into the trust or council for further development on the same principles.

When a homeowner chooses to sell, the CLT either buys the property itself or specifies the price at which it can be sold. This prevents the spiralling price rises that make houses unaffordable. The precise resale price formula adopted varies widely between CLTs, but most attempt to give the homeowner some of the benefit from capital appreciation while preserving affordability relative to local income levels.

While clearly *ad hoc* in nature this set of ideas offers flexibility and clear advantages in several key respects:

- a more equitable distribution of the gain in site values resulting from consent to develop

- much closer involvement of the local community in ensuring that developments meet the needs of their area; CLTs are democratic organisations designed to represent all local stakeholders, not just residents.

- the retention of the freehold, and thus a permanent interest in the site undergoing development, so as to control both new use and future redevelopment potential

- any subsidy that goes to acquire the land is effectively locked in, meaning that more subsidy is not required for the next generation

• trust law is used to remove the land from the market in perpetuity and to prevent future members of the CLT from 'carpet-bagging' or selling the land at market rates in return for a one-off windfall gain

• residents can still own their homes and see their equity rise in value over time, but restricted resale conditions mean they cannot make the huge capital gains possible in the mainstream market.

The CLT idea is a way of equitably and efficiently balancing the various interests involved and of capturing land value gains for the community in perpetuity.

The range of CLTs and what they can do

Over the last two or more decades a wide range of initiatives have occurred under the general CLT heading. There are examples in at least the United States, Norway, Brazil, Denmark, Poland and the four home countries. The issue was the subject of the Joseph Rowntree Foundation Land Enquiry (Joseph Rowntree Foundation 2002). Other key documents have been produced by the Burlington Community Land Trust (Davis and Demetrowitz 2003), Greater London Council (GLA 2004), CDS Co-operatives (New Economics Foundation 2004) and The Countryside Agency (The Countryside Agency 2005). An umbrella body, The Development Trusts Association, was founded in 1992.

An early example in England was Letchworth Garden City. This used the co-operative land development system devised by Ebenezer Howard and is still operating on the same lines today. Other CLTs are currently in operation in Stonesfield (Oxfordshire), the Isle of Gigha in the Hebrides, where some small rural communities have managed to buy the estates of feudal landlords and place them in trust, High Bickington (Devon), Meden Valley (Leicestershire), Norton Radstock (Somerset), Stroud (Gloucestershire) and elsewhere. As is evident most of these are small-scale examples in villages or small towns. They are directed towards producing limited amounts of housing which is more affordable because the land costs have been removed, retaining key village services and/or generating workspace or community facilities.

In an urban context CDS Co-operatives are working on some pilot projects in several London boroughs. Given that in 2003 the average London house price was x12 the wage of a bus driver and x11 the wage of a nurse, these schemes are aimed primarily at extending the 'home ownership ladder' further down the income scale rather than providing housing for the very poorest. The key element is that the land remains in the permanent ownership of the CLT, the housing is leased to housing providers and the basis is mutual home ownership and the build up of equity shares (Conaty et al. 2002). The payment for leases is set to be about 35% of the occupier's income and is geared to rise as her or his income rises. Those on higher incomes are therefore funding more units of equity in the scheme. Leavers take away about 90% of the growth in value of the house or flat leaving a sum to be reinvested in further development. The scheme is aimed especially at providing affordable housing for key workers and has won the public support of the Mayor of London and the GLA.

The nature of the subsidy - long term not one-off

It is significant that in the United States, where the CLT idea has been more widely implemented, it is city governments who are getting behind the development of CLTs. Since the late 1970s there has been a sharp decline in Federal support for housing. Prices and rents have moved up much faster than incomes and an 'affordability gap' has been the result. Demand side subsidies have been applied to plug the gap between what people can afford and what they need to pay for housing. But city governments are among those that have realised that the subsidy necessary to fill the gap is getting larger and consequently more expensive on public finances. By promoting CLTs, which effectively take the land costs out of housing, the subsidy has a permanent rather than a self-defeating transitory effect.

Future forms of social organisation and ownership - Walterton and Elgin Community Homes (WECH)

In 2000, WECH was judged by the World Health Organisation to be among the top three projects in the world for successfully empowering residents and improving their health. WECH is acknowledged by the leading UK experts to be at the cutting edge of resident controlled housing and to be a model for delivering both affordability and social capital.

The WECH initiative began in 1985 among a number of residents in an area of Paddington. Most of the housing stock was over 100 years old, but it also included two 1960s tower blocks. The Victorian houses had few amenities, leaked and were damp. The tower blocks were riddled with asbestos. The landlords, Westminster City Council, were seeking to evict residents and sell the stock for conversion into luxury premises.

The residents campaigned to save their homes and formed a Trust to buy the stock. In 1992 they assumed ownership under the law obliging local authorities to dispose of tenanted stock if a buyer, approved by the Housing Corporation, made an application. WECH was founded as a Community Based Housing Association and registered with the Housing Corporation. It began to renovate and manage the 660 homes in a fully participative way. While 23% of the properties are leasehold, WECH retains the freehold.

The Board is almost entirely resident-based, with expert input, and rents are set so as to cover management and maintenance and to safeguard the future of the stock. There is no relationship at all between rent setting and the capital values of the properties. This produces some of the lowest rents in the South East (ranging from £53 per week for a one bed flat to £111 per week for a five bedroom house) and delivers the highest quality homes, management and maintenance. WECH uses around thirty homes to house homeless households in a high quality social and housing environment and it is this income which is expected to provide for expansion.

A key element in the organisation is the highly participative management style and the provision of supportive services. This produces social conditions with demonstrably effective health promotional effects (evidenced in Ambrose 1996). There is evidence of dramatic extensions to the longevity of older and at risk individuals. The explanation for this appears to be the organisation's emphasis on an asset-based, internally-focused, relationship-driven model of management.

The residents now view themselves as a family rather than a community. In a sense everyone lives under one roof owned collectively by WECH and 12% of the households are related to one other in the form of co-located family networks.

The emergence of a large family from a community based housing association is a remarkable and challenging sociological development. It offers exciting possibilities for public policy – a mechanism for improvement that is older than stone tools. It also suggests that humankind's most resilient, yet sorely tested, form of social organisation – the family – far from being dead is able to thrive in some surprising institutional forms.

Recent UK Government statement on CLTs

In his speech to the Labour Party conference in 2004, John Prescott announced his intention to use government owned land to build houses, but using a CLT approach to avoid what he called 'an asset giveaway.' These houses would be sold to key workers and others at the bricks and mortar cost, but the land itself would be kept in trust to prevent the initial subsidy being lost to the market and to keep the cost of the houses down. The ODPM is now developing the details of this scheme

This initiative is to be welcomed but the CLT approach has the potential to be applied far more widely than to a few surplus government sites. By separating the land from the buildings, CLTs allow people to own there own home without depriving the rest of the community or future generations of community-created value.

Fiscal reform as a way forward

CLTs are generally most applicable to new build developments: although it is possible to assemble existing housing into a CLT, it is more difficult and expensive. As 99% of the housing supply consists of the existing stock this is a serious omission. Any fundamental solution to the housing problem must tackle the ongoing dysfunctionality of the market in second hand houses.

The vast majority (80%) of the housing stock is privately owned - and 70% is owner occupied. As land for private housing is far more valuable than most other land categories, and land prices are driven by house prices, reforming the distorted land market is impossible without tackling the broader problem of inflated house prices. The only currently available public policy tools than can have a sustainable impact on the price of the existing private housing stock are interest rates, benefits and the tax system.

The first of these is an extremely blunt instrument that has in any case been handed to the independent Monetary Policy Commission. House prices have boomed dramatically since they were given control of the interest rate. So far, MPC policy has strongly favoured maintaining house prices in the interest of current owners over promoting affordability for non-owners.

Benefits to homeowners have been reformed to reduce the worst inflationary effects by the abolition of MIRAS and of mandatory urban renewal grants. But many new government programmes repeat these mistakes by pumping more money into an overheated market. Despite attempts to promote intermediate housing schemes like Shared Ownership, by far the most popular scheme has been Homebuy, in which key workers receive up to 25% of the price as help to buy their own house in the private market. It is also intended to extend the current Right to Buy and Right to Acquire to a further 300,000 tenants (ODPM 2005). This form of demand side support effectively raises the price of housing further as more money chases the limited number of existing homes (and repeats the self-defeating experience of programmes in the US aimed at funding 'the affordability gap'). Housing benefit is also counterproductive: nearly £16 billion was handed to landlords in 2004/5, increasing yields and so pushing up land prices (Wilcox 2004, Table 114, see also Appendix 7).

Even more perversely the tax system provides huge incentives to homeownership, which fuels the speculative pressures that drive up prices. The cost of Capital Gains Tax exemption more than outweighs Exchequer gains from stamp duty and council tax (Lloyd 2004). At present there is a negative user cost of owning housing that inevitably encourages speculative behaviour. This adds to the destructive confusion between a home as a place to live and a house as a speculative capital investment.

Rebalancing the tax system to end the perverse incentives to land holding and hoarding and encourage the productive and sustainable use of land would do more to address the problems of the land market than anything else. By extension, it would have a positive effect on the affordability crisis.

The benefits of a land value tax

Beyond the various supply-side solutions that have been proposed, it is clear that some demand-side measures need serious considerations. It is essential to reform the tax system to remove the distorting incentives to landownership that drive up prices. The most effective and efficient way to do this would be to develop an annual tax on land values consistent with the evolution of policy on council tax reform. It has long been noted that taxes on land rents have the least distortionary effect. Working towards the combining of current property taxes with a genuine land tax would therefore enable the housing market to function more efficiently.

It has long been noted that taxes on land rents have the least distortionary effect. Replacing the current property taxes with a genuine land tax would therefore enable the housing market to function more efficiently.

An annual charge levied on the unimproved site value of landholdings would also address most of the issues raised by the Barker Review. It would remove the incentive to hold underused land and encourage its release into the market for more productive use. It would increase the cost of landholding, thereby removing the potential to make supernormal profits from speculating in property. It would rebalance the tax burden, ending the perverse tax advantages of landowners over occupiers.

All these effects would, in turn, reduce the speculative pressures on land prices, which would decrease the volatility of the housing market dramatically and would ultimately lead to lower house prices in general. Taxing land values makes land cheaper to buy but more expensive to hold. This would encourage a more liquid market and greater allocative efficiency.

A recent article on this issue (Huhne 2005) concedes that there are formidable practical and political difficulties in the way of implementing site value taxation but also argues that such a measure would address the root of the landflow and land speculation difficulties. A sensible way forward, advanced as Recommendation 6, would be for the Government to undertake a feasibility study of the practicalities and of the benefits to be derived from taxing site values.

Previous development taxes

Although there have been repeated attempts to capture land rents for the public purse, they have all been seriously flawed. This is widely interpreted as a sign that land rent cannot be captured. But in fact the history of failure represents merely the overly complex, confused and compromised nature of the particular legislation enacted.

The three attempts at land taxes by Labour governments since 1945 have all targeted the profits made by developers *at the point of sale or of planning permission being granted.* This simply added a further incentive to hold land rather than to release or develop it. These measures cannot be considered genuine taxes on land rents. Rather they are taxes on development. Development taxes discourage development. This is counterproductive and places further pressure on developers who are already severely squeezed between high land prices and government interventions.

A true land value tax would be levied annually *on the unimproved value alone.* This would have the opposite effect of previous development taxes, and would stimulate the construction market by making housing cheaper to build and developers less risk averse.

Realpolitik

Significant reforms in well-established political systems are usually impeded by some combination of three factors:

- lack of new ideas (the thoughts have not yet been thought)
- inertia and the power of conventional wisdom (things are done the way they are done)
- the balance of power is against them (the reforms offend more interests than they please)

There is an additional barrier in the form of a lack of collective memory amongst civil servants and politicians alike. No one in Government has the clarity of vision on the land issue of Uthwatt in 1941 or on the health and housing issue of Addison in the early 1920s (Appendix 1).

In this context the prospects may now be promising for some fundamental reform of land supply and housing provision practices in the UK, especially in relation to CLTs. The ideas go back at least 100 years and are being implemented in many countries around the world. The thoughts are being thought by both housing suppliers and development participants as existing practices are revealed to be increasingly unable to cope. Such is the flow of innovative ideas and discussion that there are some signs of a break-down of inertia in key institutions such as long-term funders, the Housing Corporation, English Partnerships, the Treasury and the ODPM.

The key change may be the real balance of power and interest among the various participants to the development process. It seems highly significant in the United States that it is some city governments that are now firmly behind the CLT and mutual housing provision arrangements. This is primarily because they are aware that public support arrangements to plug the affordability gap are becoming ever less cost-effective. Either more and more is spent on them to keep pace with the 'affordability gap' or else the spending on them is cut and the problem manifestly gets worse. This seems to be a very accurate characterisation of the lasting predominance of demand side subsidy in the British case. More and more is spent on Housing Benefit and tax concessions to owner-occupancy. This may well be having some ameliorative effect on housing conditions but not really on housing supply. It also has the well-recognised side effect of exacerbating inequality.

It may well be that the real balance of interests is now moving in favour of reform. When listing who is in favour of escalating land and house prices and who is against, the balance is becoming more evident. Those in favour of present high prices appear to be a narrow group of interests comprising land speculators, the house purchase lending industry, some vendors of land for development (but by no means all) and all those interests that live off a percentage of values. Those against include the vast majority of employers (lower housing costs mean less upward wage pressure and fewer recruitment problems hence the *More and Better Homes* campaign for a stronger supply side response discussed in Appendix 12), the Government (support payments get more and more expensive and less effective), city and local government (high housing costs are a disincentive to location and impede local economic development) and even perhaps many housebuilders (for whom playing the land market may be an unhelpful complication). The latter group seems collectively more weighty than the former.

That leaves people at large as an interest group. The conventional wisdom is that escalating house prices suit them well, once they have achieved a 'foot on the ladder'. But the issue is habitually perceived in terms of growth of unrealised paper value not of growth in the proportion of lifetime earnings committed to ownership. There is also increasing unease amongst homeowners about whether the habitual instabilities in house prices will cause negative equity to strike again. Some are concerned with the felt obligation to help finance their grown up children as they seek to buy a suitable home. For others there is concern about the manifest unfairness of denying large proportions of the poor the standard of housing and tenure security enjoyed by those who are not poor. These factors probably all contribute to the finding that 71% of people feel we have a housing crisis (Appendix 12).

Present arrangements are creaking and reforming ideas are being advanced and implemented by an articulate group of enthusiasts. It will be interesting to see how the *realpolitik* works out over the coming years and decades.

Appendix 17 - Building more sustainably

(Peter Ambrose and Bill Dunster of BedZED)

The Kyoto Protocol

In March 2005 the Government announced that whereas the intention was to reduce CO2 emissions by 20% by 2010 compared to the 1990 level, current projections show that the reduction will be by only 13% on 1990. This is just within the Kyoto Protocol target but well outside the Government's own target. New data showed that 2003 CO2 emissions actually rose by 2.2% compared to 2002. Elliott Morley, the environment minister, expressed disappointment at the increase. He said:

> 'We are committed to our national targets. We shall succeed in our response to climate change. We cannot afford to fail.'

Unfortunately current building practices point towards failure. A recent report (Prime Minister's Strategy Unit 2005) has found that the UK housing stock is among the least energy-efficient in Europe and is 31% worse that the EU-15 average.

Given the current and future problems posed by carbon emissions there is a vital need to build in ways that will help to promote carbon neutral developments. This will empower people to make a difference to important global issues through their choice of home and workplace and at the same time improve their quality of life.

This need is recognised in the latest housing policy document from the ODPM (ODPM 2005) in a 'code for sustainable building' to be developed and tested by the end of 2005 and implemented in a number of areas from 2006.

Current lack of sustainable development

A normal developer makes between 10 and 30 % profit on a new development. Most developers make more profit from land acquisition and planning gain than in the actual construction and delivery of new homes. The volume house builders can build almost anything and sell it without difficulty in the South East because demand is so much greater than supply. Fossil fuel derived energy is still very cheap and fuel cost saving is not a major purchasing criterion.

Legislation requiring increased energy efficiency is increasing but progress is slow due to effective lobbying from the industry and building material suppliers. For these reasons there are few exemplary sustainable developments from the private sector. There is also little incentive to take rigorous sustainable development criteria seriously as the Government can introduce the legislative stick only when the carrot has proved ineffectual. In addition recent planning guidance in the form of PPG3 allows dramatically higher densities equating to substantial increased planning gain without requesting any compensation to the community and local authority.

So is there a way forward?

The development process at present is too complex and expensive with far too many consultants, blurred responsibilities and protracted time scales. Environmental innovation is seen as yet another unnecessary risk that can be avoided.

One developer (BedZED, www.zedfactory.com) has approached sustainable development from a completely different viewpoint. They have asked how can we minimise the environmental impact of new construction using simple modifications of existing well-proven products assembled in an innovative way. Working with a number of environmental consultants they have developed a strategy and design techniques that make it possible to reduce the heat and power requirements of high density mixed use development to the point where it can be economically met by renewable energy sources.

Working in partnership with a number of local authorities and RSLs the developers have designed a number of standard homes from 1-bed live/work studios to 4-bed townhouses.

A carbon neutral specification for both new build and renovation is inevitably more expensive whilst at demonstration stage - for the same reasons that a prototype car costs far more than a mass production model. The developers have therefore worked with many materials suppliers to ensure that previously one off specifications become standard products with excellent environmental performance at a defined cost with volume purchasing agreements already negotiated.

The developer's final product is a range of standard house types with known cost, programme, density, amenity and environmental performance. By being able accurately to define the cost of a carbon neutral specification at the planning stage, the developers are able to carbon trade with local authorities as part of Section 106 agreements. This involves requesting increased density to generate additional profit to offset the additional construction costs of the super green specification in the early stages of the programme. This will change as the products supply chain achieves sufficient volume to move away from prototype status to achieve reasonable economies of scale.

Patterns of energy use

A typical UK family's annual carbon emissions are approximately a third for heating and powering their home, a third for food miles with the average UK meal travelling a total of over 2000 miles from farm to dinner plate and a third for private car use and commuting. The average UK wage earner produces several tonnes of CO2 per year getting to work and congestion means that the average speed in London is now 12 mph.

There is no point in producing energy efficient buildings if transport and food miles are not addressed. This is why the developers, working with the BioRegional Development Group, have tried to design the lifestyle before the buildings. In some developments each home has been allocated enough space to grow up to 50 % of the fresh vegetable and fruit requirements from late Spring to Autumn. All the developer's homes have convenient bike storage for two or three bikes and many have workspace designed in to help reduce commuting mileage.

BioRegional have researched the ecological footprint and associated carbon reductions with each of these low impact lifestyle activities. Wherever possible each ecologically sensitive development will include a farm shop stocking locally produced organic food delivered by solar electric vans, a car pool incorporating a mixture of electric and LPG vehicles, a telecommuting centre for workspace, a combined heat and power plant run off urban tree waste, community composting schemes and on site childcare and shared sports facilities. Wherever possible all the above activities will be powered by renewable energy generated on site making the carbon emissions savings for the lifestyle initiatives as significant as those achieved by the infrastructure. These can be quantified for carbon trading purposes.

Land requirements

The standard house type produced by the developers can achieve around 100 homes per hectare with 3.5 habitable rooms per home. This makes it possible to meet the demand for around 4 million new homes by 2016 without substantial loss of agricultural land. By showing how high density urban renewal can be reconciled with high amenity - almost every home has a garden, a conservatory and carbon neutrality - the developers believe that for the first time the public can be offered a more sustainable lifestyle at the same time as improving the overall quality of life for most people. This is an important step for the green movement as it replaces the concept that green means self-denial and tries to refocus public attention on the dysfunctionality and waste integral in a typical suburban conventional lifestyle.

Creating a new market requires new ways of developing sites

The development process incorporates a number of innovative components. The experience is that there is a strong public demand for the concept with sales achieving between 10 and 30 % premiums over the products of conventional volume house-builders in the locality. The innovative processes include:

1. The consultants act as the developer, and the normal developers profit is re invested in the carbon neutral specification. The consultants request only industry standard fees.

2. The overall profit from the development goes to the landowner - often a local authority. This enables the authority to realise carbon neutral development on its own land and this could be a way of showing the private sector what is possible.

3. The developer and the landowner act as a partnership or joint venture. This means the developer can avoid the bank loan charges normally incurred by land purchase. Again this saving is reinvested in the carbon neutral specification.

4. The developers produce a multi disciplinary design service backed up by the consultants.

5. A proven range of standard house types is available for most sites - however one off designs will be appropriate for some locations. The more standard house types that can be used, the lower the design consultancy fees.

6. The developers market the new homes and workplaces using both conventional techniques and the web - with the objective of pre-selling all homes before construction is started.

7. A show flat already exists to provide a quality indicator for potential purchasers.

8. With presales achieved the developers negotiates loans to fund construction from the wide range of ethical investment companies.

9. The developer's supply chain ensures that the innovative component costs are fixed and construction costs can be accurately predicted with an agreed programme.

10. A project manager is responsible for construction management.

The developers believe that this type of 'joined up thinking' will deliver the kind of step change in environmental performance needed for the UK to meet its carbon emission reductions. The UK replaces its urban fabric at 1.5 % per year. This means that if appropriate steps are taken the UK built environment could be carbon neutral by the start of the next century.

Appendix 18 - Ethical issues from a Christian perspective - a universal pattern of crucifixion and resurrection

(Paul Nicolson)

Cultural change

In *Who Runs this Place* (2004) Anthony Sampson reflects on the changes that have taken place since 1965 (when he wrote the *Anatomy of Britain*):

> 'Most people of great wealth show a remarkable lack of interest in using their money to improve the lives of others. Above all they feel much less need to account for their wealth, whether to society, to governments or to God. Their attitudes and values are not seriously challenged by politicians, by academics or the media, who have become more dependent on them. The respect now shown for wealth and money making, rather than for professional conduct and moral values, has been the most fundamental change in Britain over four decades.'

That seems like a challenge to respond to as a Christian. This memorandum on housing has shown how the unregulated free market in money lending has been a big factor in lifting house and land prices. These costs eat into the already low incomes of the poor and create a massive bill in housing benefit for the taxpayer. It is the powerful wealthy and the moneylenders that have grown ever richer at the same time, ever more distant from poverty and powerlessness in Britain.

Faith in the City

Poverty is worse now than it was in 1985 when the *Faith in the City* report was published by the Church of England:

- The number of people with incomes under 60% of the median, the government poverty threshold, increased from 1979 to peak in 1997 but has not returned to even 1985 levels.
- The number of households accepted as homeless doubled from 60,400 in 1980 to 137,220 in 2003.
- Low birthweights increased from 6.6% of live births in 1973 to 8% in 2004, there are Third World rates at 11% - 14% of live births in some inner city areas. Low birthweight can lead to mental and physical ill health throughout life. The bill in the health service for psychiatric disorders and mental illness is now running at £12.5 billion (Wanless report). There are financial savings to be made from ending poverty.
- The expectation of life of the manual worker is 7.5 years shorter than that of professional workers.
- The Home Office reports that survival is the 'overriding motivation' for off street prostitution.
- No British government has undertaken official research into the minimum incomes needed for

healthy living.

Poverty happens under the surface. It is largely unseen and unheard by comfortable Britain. It is oppression by laws that threaten prison for council tax arrears and the truancy of a child. It means eviction for rent arrears against inadequate incomes, or reduces incomes to zero for weeks merely for failing to turn up at an interview at a jobcentre or as an asylum seeker failing to report arrival in the UK at the right time; it is exploitation by door-to-door money lenders at up to and over 300% APR.

The pattern of crucifixion

A Christian faith is rooted in the crucifixion of Jesus. For us he is the personification of love. He was aware that his radical interpretation of the need for human beings to live by love and justice was seen as subversive by the power brokers of his time and that, for political reasons, there could only by one end to his life. The cross was the normal way of disposing of troublemakers in a despotic State, as torture and execution are today. He refused to proclaim a call to arms to defend himself and his cause. That would have been inconsistent. What happened is this:

He has a meal with his friends
Judas betrays him for 30 pieces of silver
He is arrested in the garden of Gethsemane
He is taken to the religious court before the Chief Priest and refuses to answer the charges, false witnesses come forward
Peter denies he is a supporter of Jesus, but weeps when he remembers
Jesus is taken to the secular court before Pilate, the crowd is persuaded to call for his crucifixion by the Chief Priest
Pilate has him flogged and tortured by the Soldiers and sends him to the cross
He forgives them all before he dies - he says 'They don't know what they are doing'

This is a universal and repeating pattern of events that has nothing whatever to do with the race or nationality of the people who took part then or still take part in similar events. It is that pattern of oppressive human behaviour that has inspired Christians ever since to side with the poorest and the powerless and hold them up as a mirror to society in general and the powerful in particular in every generation.

That is what I shall now attempt to do realising that a reflection in a mirror is never that whole picture. The objects and persons reflected hide much behind them, in their hearts and minds, that cannot be seen in the mirror. Any attempt to depict them runs the risk of producing a caricature or even a cartoon. I aim to do it in the spirit of Christian leadership described by Henri Nouwen:

> 'Dealing with burning issues without being rooted in a deep personal relationship with God easily leads to divisiveness because, before we know it, our sense of self is caught up in our opinion about a given subject. But when we are securely rooted in personal intimacy with the source of life, it will be possible to remain flexible without being relativistic, convinced without being rigid, willing to confront without being offensive, gentle and forgiving without being soft, and true witnesses without being manipulative.'

Mr 'Watson'

In 2002 the Local Government Ombudsman reported the case of Mr 'Watson' (not his real name), a single, semi-literate adult lived alone in Southwark. Jobcentreplus had mistakenly told Southwark Council that they had cancelled his Job Seekers Allowance (JSA). That stopped housing and council tax benefits, creating a debit in his accounts and triggering the blind, computer driven enforcement. Threats of eviction for rent arrears were not far off.

JSA was £53.05 a week after rent and council tax. (Increased to £54.65 in April 2003; £55.65 in 2004 and £56.20 in 2005). The London School of Hygiene and Tropical Medicine and the Family Budget Unit have shown that a national minimum income for healthy living for a single adult needs to be £91 a week, but £125 in London and £131 if buying locally rather than in a super market.

On 12th January 2001 CSL, Southwark's out sourced agent collecting council tax, sent Mr. Watson a summons for unpaid council tax of £235.10 plus costs, for a hearing on 9th February 2001. The summons contains the following threats, in bold type and highlighted. Thousands are dispatched daily:

> **'If a liability order is granted the council will be able to take one or more of the following actions: Instruct bailiffs to take your goods to settle your debt - this can include your car. You will be liable to pay the bailiff's costs, which could substantially increase the debt. Instruct your employer to deduct payments from your salary or wages. Deduct money straight from your jobseekers allowance or income support. Make you bankrupt. Make a charging order against your home. Have you committed to prison'.**

His sister-in-law called on him. His body was hanging in his flat. The police found the summons with him, paper littered with rough calculations and a note:

> 'Dear ... I at to do this I am in so much in Detr good By for ever Love......'

Millions of threats of eviction for rent or prison for council tax arrears are generated by computer and dispatched daily by officials of local authorities, and housing associations, and solicitors for private landlords to vulnerable households.

After the issue had been raised with the Secretary of State for Work and Pensions in a Parliamentary Question he sent the case to the head of Jobcentreplus who administered the benefit of £53.05, and who wrote me an apologetic letter. I replied it was not his fault.

A universal pattern

The universal pattern of the crucifixion is to be found in Mr Watson's case. It happens inadvertently. Journalists, politicians, the city and local government officials do not set out to crush hope out of the lives of the poor in the UK. They are simply getting on with their job maintaining the structures of society, as were the officials in the arrest, trial, torture and crucifixion of Jesus. They are blind to the painful consequences of their actions or inactions. In the parable of the sheep and the goats (Matthew 25) this blindness is found in the question:

'When was it that we saw you hungry, thirsty, an alien, naked, ill or in prison
and did nothing for you?'

A blindness recognised from the Cross when he said "Forgive them, they don't know what they are doing", Jesus had placed himself among the habitually oppressed before he entered the sufferings of the crucified.

The Editors

The Chief Priests in Mr Watson's case can be found behind the editorial desks of the powerful tabloid press persuading the crowd that everyone receiving benefits from a lone parent to an asylum seeker are ripping us off, fraudulent, idle or work shy. The conclusion reached by Elaine Kempson of Bristol University and Sue Middleton of Loughborough at an ESRC seminar was that:

'In general low income people manage their finances with care, skill and resourcefulness but no money management strategy can be sustained if income is too low to make ends meet.'

Andrew Marr has written in *My Trade*:

'After the problems of trust, there are, just as serious, problems of tone - above all exaggeration. The tabloids pretend to quiver and shock about the absolutely normal. We wring the facts to get the biggest emotional impact.'

The Politicians

Mr. Watson's benefit was half the minimum income needed for healthy living established in research at the Family Budget Unit and the London School of Hygiene and Tropical Medicine because politicians have adopted the position that it is very difficult, if not impossible, to increase it and remain in power. Politicians have found the principles of economic justice drowned by the exaggerations of the tabloid press. Like Pilate their need is to retain political power from the support of a largely hostile, distrusting or apathetic population.

The Wealthy

The pressure from the wealthy for the reduction of taxation, or an increase in their share of the national or global wealth, puts them in the role of Judas, claiming the thirty pieces of silver to betray their fellow citizens, who are abandoned to the courts that enforce their high-interest unrepayable debts against inadequate statutory minimum incomes with threats of eviction and prison.

Writing in the Spectator on the 12 March 2005 Stanislas Yassukovich, a former chairman of the Securities Association and deputy chairman of the International Stock Exchange commented:

'The City cannot prosper in moral isolation from the general public. Unless it rediscovers the difference between right and wrong - as a concept separate from technical compliance with written rules - it risks damaging the entire economic system on which its prosperity depends.'

It is not enough merely to comply with company law that puts the shareholders first and that leaves the lowest paid workers without a pension, holiday or sick pay on a minimum wage below the poverty threshold and enables the shareholders of wealthy companies to profit from the subsidy provided by taxpayers in tax credits, housing and council tax benefits.

The Local Authorities

The blunt instrument of the hammer can be found as a computer under the fingers of the local government officials, who are the Soldiers. They have no option but to send out on behalf of councils impersonal letters of enforcement that are totally blind to the circumstances of the vulnerable constituents to whom they are addressed.

Mr. Watson, semi-literate living alone, committed suicide. His is a very extreme example of vulnerability. But the pattern of crucifixion is repeated daily. I rarely go to court in support of a family threatened with eviction without a letter from their doctor saying the mother is being treated for depression. I have listened to the tears of a lone parent who, in addition to the threats of eviction and court appearances for rent arrears and threats by the bailiffs of prison for council tax arrears had been fined for the truancy of a son with emotional and behavioural difficulties. We won all the appeals for her and she was acquitted on the truancy charge, which removed the stress until the next time.

Conclusion - the light shines in the darkness

Jesus allowed himself to be tried, convicted and crucified to point to a better way of ordering society than allowing the powerful a free rein to trample on the powerless. In many ways, despite the appalling descent into chaos by the Christian Churches at some all too obvious times in our history, that message has been realistically applied by very many of his followers. Our benign influence in his name breaths through the work of many charities and such great statements of principle as the American Constitution and the Universal Declaration of Human Rights devised by the United Nations in the aftermath two cruel world wars.

Capitalism and the free market, however, are morally neutral. It is the practice of them by fallible people that produces both benign and malignant consequences. A comparison between Al Capone and Joseph Rowntree makes the point.

The powerbrokers of the national and global economy have yet to show that their skill at creating wealth can be matched by the sense to ensure its just distribution. The House of Lords report on the Global economy quoted the White Paper on globalisation - *Eliminating World Poverty: Making Globalisation Work for the Poor*. It is stated that whether globalisation works well or works badly will depend on policy intervention:

> 'Managed wisely, the new wealth being created by globalisation creates the opportunity to lift millions of the world's poorest people out of their poverty. Managed badly and it could lead to their further marginalisation and impoverishment. Neither outcome is predetermined; it depends on the policy choices adopted by governments, international institutions, the private sector and civil society.'

All those powerbrokers should take note of the observations of Anthony Sampson, Andrew Marr and

StanislasYassukovich, quoted earlier in this Appendix, even if they reject this reflection from the Christian Faith. For Christians the Resurrection, in which the shackles of death are broken, has a dynamic energy that can be seen in the efforts made to break the shackles of poverty. The fruits of the Resurrection are made known not only on a spiritual level but also on a practical level, when an unemployed person finds employment, when the poor are enabled to rise above poverty, or when someone finds affordable housing which will enable them and their families to live a decent life, the sick are cared for and the prisoners visited. We tend to dwell too long on how purposes of the love shown to us by Jesus are marred by human and structural failure but proclaim less often the power of that love to effect change, to break shackles and our responsibility to work with it. We have to try to realise the peace and justice of the Kingdom of God as much as is humanly possible here and now.

Among journalists, politicians, civil servants, wealthy employers, in the city and in the local authorities, there are minds that worry, voices that speak, and people who act to relieve the oppression of the poor in the UK. In everyone engaged inadvertently in a blind act of oppression there is a spirit of compassion ready to emerge. That spirit is by no means dead in the United Kingdom but the forces we combat become ever more impersonal, oppressive and detached.

(Rev. **Paul Nicolson** is Chairman of the Zacchaeus 2000 Trust *(020 8376 5455, 07961 177 889, paul@nicolson.com, website www.z2k.org)*. He first attended court to support an unemployed lone mother with one child, who had been shoplifting, when he was at Theological College in 1967. She was a cleaner in a local hospital receiving poverty wages. She was given a conditional discharge, fainted, hit her head on the dock and was taken to hospital. Since then, following a gang fight that involved a murder, he was founder manager of the Stevenage Youth Workshop, designed to occupy the young men involved in the gang after their return from Borstal; he regularly visited the Finnemore Wood Youth Detention Centre when he moved to a parish in Buckinghamshire; he has visited prisoners in Rochester Borstal, Wormwood Scrubs and Pentonville and been Chairman of a project designed to recover homeless addicts in High Wycombe.

He has also been involved in national campaigns against the closed shop and the Poll Tax on the grounds of their injustice to vulnerable households. He was a worker priest for 16 years in industrial relations first in the Central Personnel Department of ICI and then a General Secretary of the Confederation of Employee Organizations. He was elected Independent District Councillor for the Kimpton Ward of the North Herts District Council and served on the planning committee from 1979 to 1982.

He co-founded the Zacchaeus 2000 Trust with three Barristers, an accountant and a worker priest as trustees. Archbishop Runcie was the founding Patron with Chris Moss SJ and Professor John Griffith. It has had a contract with Wycombe Magistrates Court since 1997 to help fine defaulters fill in their means statements at the enforcement court on Wednesday mornings. He trains McKenzie Friends and works hands on with impoverished households in debt in London since he moved to Tottenham in 1999).

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Zacchaeus 2000 Trust

Significant cause of debt in the UK is the inadequacy of statutory minimum incomes for people in work, unemployed or pensioners. The Zacchaeus 2000 Trust provides and trains volunteer advocates for people who are facing draconian enforcement of rent and council tax arrears against the inadequate minimum wage, unemployment benefits, tax credits, and state pensions, or who are being exploited by door-to-door lenders at up to and over 300% APR.

We are petitioning the government for independent and transparent research into the minimum incomes needed for healthy living with the support of 68 Non Governmental Organisations with 10 million members, who include the BMA, the Royal College of Nursing, the Faculty of Public Health at the Royal College of Physicians and the UK Public Health Association.

In addition, the General Synod of the Church of England, The Methodist Conference, the General Assembly of the Church of Scotland and UNISON have unanimous conference decisions supporting the petition. The list also includes The Catholic Agency for Social Concern, the Muslim Council of Great Britain, the Children's and the Pensioners' Charities and the National Consumer Council.

We are a Christian Trust committed by our constitution to work with people of good will of all faiths and of none.

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