



Government Response to the Communities and Local Government Committee's report: The Supply of Rented Housing



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*Presented to Parliament
by the Minister of State for Communities and Local Government,
by Command of Her Majesty
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Preface to Select Committee Response

The House of Commons Communities and Local Government Select Committee published its report on the supply of rented housing on 21 May 2008. We welcome the Committee's interest in this important area of work and are grateful for its helpful report which has been considered carefully.

The Select Committee has raised a number of important and timely issues. The Government believes that everyone deserves a place they can call home, at a price they can afford. We have made substantial progress over the last ten years in improving the quality and access to housing through investment in decent homes, increases in the supply of affordable housing, and a reduction in rough sleeping and the long-term use of bed and breakfast accommodation for families, but of course, challenges remain.

In July 2007, the Government published *Homes for the future: more affordable, more sustainable*¹. This set out plans for the biggest housing supply programme in decades to address the long-term imbalance between supply and demand, including increasing the provision of affordable housing to rent and buy. This will be supported by the recent passage of the Housing and Regeneration Act which establishes the new Homes and Communities Agency. The Agency will focus on delivering more new and affordable homes across all tenures, in mixed and sustainable communities, and will drive and invest in regeneration and the revitalisation of existing communities. The Act also establishes the Tenant Services Authority (TSA), the new regulator of social housing, responsible for ensuring that registered housing providers meet the needs of tenants. We are committed to bringing local authorities within the scope of the regulator as quickly as practicable.

Many of the themes highlighted by the Select Committee were also identified in February 2007 by John Hills² in his report on the future role of social housing. John suggested four areas where more could be done – to support more of an income mix within neighbourhoods, to support the livelihoods of tenants and others in housing need, to offer a more varied menu for tenants and to increase attention given to existing stock and tenant population.

Since publication of the Hills Review, we have been considering these issues further. In December 2007, Yvette Cooper MP, then Minister for Housing made a series of announcements including proposals to tackle overcrowding and increase mobility and the launch of reviews of council housing finance and the private rented sector. Speaking at a Fabian Society Conference in February 2008, her successor Caroline Flint MP, Minister for Housing and Planning,

¹ <http://www.communities.gov.uk/housing/housingsupply/housingsupplystrategy/homesforfuture>

² <http://sticerd.lse.ac.uk/dps/case/cr/CASEREport34.pdf>

launched a debate on how social housing can act as a springboard for opportunity and how we can better meet the need of social tenants.

We intend to build on this work over the next few months and publish a Housing Reform Green Paper towards the end of the year³. This will set out proposals to provide housing services and options which help and encourage people towards greater economic independence and social mobility, and deliver greater fairness and make the best use of resources. We provided early notice of a housing green paper to open up a debate over the coming months, and have already begun consulting with stakeholders.

The Government has responded to each of the Select Committee's recommendation in detail below. However, on a number of important issues, it intends to return to them in more detail in the Housing Reform Green Paper. We will, of course, consider the Select Committee's recommendations as part of this work.

³<http://www.official-documents.gov.uk/document/cm73/7372/7372.pdf>

Recommendations and Conclusions

Introduction

1. We have throughout our inquiry continually returned to the same fixed point: the supply of homes is insufficient. If the recommendations we make here have a common theme, it is that all the actors – central government, local government, housing associations, and the private sector – need to redouble their efforts to increase supply. (Paragraph 3)

The Government agrees that there is a need to increase housing supply. Last year, the Housing Green Paper set out plans to increase housing supply to 240,000 additional homes a year by 2016. The new Homes and Communities Agency will support this and will secure the delivery of 70,000 new affordable homes per year by 2010-11 of which 45,000 will be social homes.

In the short-term, there are challenges to overcome in the housing market but the fundamental need remains to respond to the long-term increasing demand for homes. In July, we published a further document, *Facing the Housing Challenge*⁴ announcing measures designed to help alleviate the current challenges and to address long term need. On 2 September, we announced a £1 billion housing package⁵ to help first time buyers struggling to get onto the housing ladder, support vulnerable homeowners at risk of repossession, and support the house-building industry. As part of this package, we are bringing forward £400m from our 2010-11 affordable housing budget to deliver up to 5,500 social rented homes over the next 18 months on top of current assumptions. Our original profile has come under strong pressure from the credit crunch and a fall in S106 schemes and capital receipts from sales. We have brought forward funding to tackle these problems, which we anticipate will help sustain social housing delivery. We remain committed to a substantial increase in social housing and 50,000 units a year remains our long-term aspiration. 2010-11 is still some time away and it remains too early, given current uncertainty, to predict outputs in that year. In the meantime, we think it is right to bring forward money for use this year and next, given the current market pressures.

The experience of tenants

Perceptions of rented housing

2. One key objective of any further reform of the private and social rented sectors has to be to challenge the unhelpful perception that renting is always second best. Whether from necessity or choice, significant numbers of people are and will continue to rely on the rented sector. Their needs and aspirations are every bit as important as those of homeowners. (Paragraph 19)

⁴<http://www.communities.gov.uk/publications/housing/facinghousingchallenge>

⁵<http://www.communities.gov.uk/news/corporate/950558>

We recognise that homeownership is not right for everyone at every stage in their lives: both social and private renting sectors are therefore important.

We want to make sure that people have access to the right sort of homes under the right tenure arrangements for them. The private rented sector can make a real contribution here. It is by no means an homogenous market catering for a wide range of households for many of whom it is the tenure of choice. Nearly two thirds of households in the private rented sector are categorised as economically active and over three quarters are under 35 years of age. For these, the attraction of private renting is its flexibility and there is no sense that the sector is “second best”. The sector also provides housing for vulnerable and low income households – just over a fifth of all private tenants are on Housing Benefit. For these, the challenge is to ensure that there exists in the sector sufficient choice and quality to support their aspirations where reasonable. The independent Review of the Private Rented Sector has this as one of its key themes. We intend to address any relevant issues raised by the Review in the Housing Reform Green Paper.

Mixed communities

3. We found a widespread degree of consensus among our witnesses that more effort must be put into creating mixed communities where the most vulnerable households and those on the lowest incomes are not concentrated into ghettos of deprivation, but live side by side with more affluent households. The need for more mixed communities has significant implications for the future delivery of the supply of rented housing. The creation of mixed communities to reduce social polarisation should pervade all spatial and housing policy; local authorities must be allowed the necessary freedoms to pursue this aim. We look for confirmation by the Government, and action on the part of local authorities to demonstrate, that mixed communities are being pursued as a long-term objective, and are not merely a desirable by-product of other means of dealing with the housing shortage such as infilling and the use of s.106 planning obligations. (Paragraph 24)

Mixed communities, for planning purposes, is defined in *Planning Policy Statement 3: Housing (PPS3)*, which says that the key characteristics of a mixed community are a variety of housing, particularly in terms of tenure and price and a mix of different households such as families with children, single person households and older people.

But the definition, creation and maintenance of ‘mixed communities’ goes beyond planning and tenure. It brings with it, amongst other things, questions about race, willingness to mix (social interaction), the mix of people within social or market housing, the viability of development, employment opportunities, income, choice and services. The Government developed a Mixed Communities Approach Initiative, which was launched in January 2005. This is delivered through 12 Demonstration Projects which are being supported by experts in design and finance.

The Select Committee report raises some important issues for mixed communities. We are currently evaluating the Demonstration Projects and intend to clarify our approach to mixed communities in the Housing Reform Green Paper.

Quality in the private rented sector

4. We welcome the fact that the Government is to review the private rented sector, reversing a previous statement to us. The Government and the private rented sector itself need to face up to the poor quality and management of too much of the private rented stock. Tenants in the private sector can too easily be mistreated by their landlords, and a minority of private landlords are not fulfilling their obligations to their tenants to provide a decent home. The Government must address the bad practices of some landlords and letting agents by strengthening the regulatory approach to the private rented sector. Achievement of the aim of a decent home at an affordable price for private tenants depends on significant improvements in standards of management in the sector. (Paragraph 31)

We are pleased that the Committee welcomes the independent Review of the Private Rented Sector that Ministers have commissioned from Julie Rugg and David Rhodes at the University of York. The quality of the private rented stock is a key theme for the review which will report in October 2008.

In considering what emerges from the review and the very real concerns expressed here and elsewhere about stock condition and poor landlords, it will be important to remember that the private rented sector is very far from homogenous – ranging from luxury apartments to Houses in Multiple Occupation (HMOs). It is, therefore, dangerous to make generalisations about tenant-landlord relationships and the overall condition of the stock. Whilst we would acknowledge that pockets of very poor condition stock exist within the sector, overall, condition is improving – in 2001 the *English House Condition Survey* found that 49% of private rented sector dwellings did not meet the decent homes standard. By 2004, this had reduced to 43%. Since then the Housing Act 2004 introduced extensive powers for local authorities to tackle private rented housing in the worst condition through the Housing Health and Safety Rating Scheme, mandatory and discretionary licensing regimes and management orders.

We have commissioned research from BRE on the impact of the new licensing regime. They are due to report around the turn of the year. Existing powers, together with the need to foster growth within the private rented sector, will also form the context for the independent Review of the Private Rented Sector.

Housing benefit

5. Refusing to accommodate people just because they use housing benefit to support their needs is wrong. We recognise the problems landlords have faced when rent, through housing benefit, is not paid. Communities and Local Government and DWP must monitor the

implementation of the Local Housing Allowance very closely and address problems with delays in administration and payment rapidly to promote confidence within the private sector. If councils pay housing benefit promptly, it will remove all justification for discrimination by landlords against benefit claimants in the provision of housing. (Paragraph 35)

The Department for Work and Pensions (DWP) accepts the recommendation to monitor the implementation of the Local Housing Allowance (LHA) for delays in administration and payment. The department has already taken action in this regard and also plans further action.

Prior to commencement of national rollout of LHA in April 2008, the new scheme was extensively evaluated in nine Pathfinder areas and monitored specifically for impacts on processing times as well as effects on the supply of housing to let in the private rented sector.

- In pathfinder areas processing times fell by 35% over the evaluation period, compared to a fall in processing times of 28% in other local authorities over the same period.
- There was no evidence of a significant increase in rent arrears as a result of the LHA and reported rent arrears decreased slightly among claimants who remain on direct payments by the end of the evaluation.
- Overall, the supply of accommodation to LHA recipients increased by around 7% during the evaluation period.

More generally, Housing Benefit administration has improved significantly over the last few years. Between 2002/03 and 2007/08, the average time taken to process a new claim has halved from 55 days to around 26.

The Department for Work and Pensions evaluation of the LHA pilots also showed that, whilst some landlords were indeed worried about the perceived slow administration of benefit, their main concern was that Housing Benefit customers would receive their benefit but not pass on the rent. This is why comprehensive safeguards have been put in place to make payment to the landlord when customers struggle to cope or get into arrears with their rent based on the lessons learned from the pilot areas. Local authorities are encouraged to engage with local landlords and to take seriously their evidence that individual customers are getting into arrears. Many local authorities have published their safeguard policies on their websites.

Going forward, Ministers have committed to completing a review of the LHA scheme over a two year period. As part of this review it is planned to monitor the administration of the LHA. We will examine processing times and the operation of safeguards as well as interactions between local authorities and landlords. In addition, the review will examine issues of financial management among tenants and, through engagements with landlords and voluntary organisations, The Department for Work and Pensions plan to monitor any impacts on landlords' willingness to let to tenants on benefit.

6. The complexity of the benefit system, especially as it operates during the transition into work, contributes to the creation of a poverty trap, and exacerbates the fears that people have of being unable to climb out of it. In areas where rents are high, this problem becomes particularly acute. There is an urgent need, as identified by the Freud report, to provide clearer guidance to benefit recipients about the network of benefits and credits that alter with income, and to ensure that they receive the necessary advice about the effects of increasing their income from work. But the operation of the various systems must also be better coordinated and made more flexible to take account of changes to individual circumstances, as well as to changes in the local housing market. We recommend that the Government take immediate steps to address these problems. (Paragraph 42)

We recognise that the current Housing Benefit system can be perceived as a barrier to work. As part of the Budget 2008 statement the Chancellor announced a review of Housing Benefit⁶, which is now underway. It is a joint internal review between the Department for Work and Pensions (DWP) and HM Treasury, which is focusing on the working age Housing Benefit system, looking at its effectiveness, particularly in promoting work incentives, efficiency and fairness, and ensuring it represents value for money for the taxpayer. The review is expected to conclude by December 2008.

The poverty trap⁷ is often at the forefront of any debate on work incentives and Housing Benefit. Around 500,000 working age Housing Benefit recipients face a Marginal Deduction Rate (MDR)⁸ in excess of 40%. Including the effects of taxation the maximum MDR a Housing Benefit claimant can be on is 95%. However, when taking into account the impact of taxation, Housing Benefit and Council Tax Benefit account for less than a quarter of that rate. So although Housing Benefit does have a significant impact on MDRs it's not the overriding issue.

It is a common assertion that high rents can discourage people from getting a job. However, high rents in themselves do not necessarily act as a work disincentive. Housing Benefit is available to those both in and out of work. Housing Benefit customers with higher rents will normally receive more benefit than those with lower rents. As a result the financial gain from moving into work for Housing Benefit recipients would be the same, regardless of their rent⁹.

Research¹⁰ has highlighted the important role of awareness and understanding of in-work Housing Benefit/Council Tax Benefit as financial work incentives. The Department for Work and Pensions has a strategy in place to address awareness and understanding issues. This includes providing desk aids and

⁶ http://www.hm-treasury.gov.uk/budget/budget_08/report/bud_bud08_repindex.cfm

⁷ The poverty trap describes the range of incomes where tax reduction and the withdrawal of benefits overlap and significantly restrict any increases in net disposable incomes. The severity of the poverty trap is given by the marginal deduction rate.

⁸ How much each additional pound of gross earnings is lost through increased taxes and withdrawn benefits or tax credits

⁹ Please see "Impacts of rents on Housing Benefit and work incentives", DWP, 2007, <http://www.dwp.gov.uk/asd/asd5/WP38.pdf>

¹⁰ DWP Research Report No 383: Housing Benefit and Council Tax Benefit as in-work benefits; claimants' and advisors' knowledge, attitudes and experiences. Caroline Turley and Andrew Thomas <http://www.dwp.gov.uk/asd/asd5/rrs2006.asp#hbctbinwork>

advisor training material to Jobcentre Plus staff, the development of an on-line benefit advisor service and devising a wider communications strategy.

Jobcentre Plus will pilot a new Better Off In Work Credit in October which will allow them to assure customers who have been on Employment Support Allowance, Income Support, Incapacity Benefit, Jobseeker's Allowance or Severe Disablement Allowance for 26 weeks or more that if they move into full-time work they will have an in work income, including any in work benefits such as Housing Benefit, of at least £25 per week more than they received from out of work benefits. The credit will be paid for up to 26 weeks.

The Department for Work and Pensions will be carrying out a thorough evaluation of the pilot scheme and, if successful, they will look to extend the scheme nationally in late 2009.

7. The single room rate effectively bars young people, many of whom have no hope of accessing social rented accommodation, from any real choice within the private sector either. We recognise that there would be a cost to removing the cap on housing benefit represented by the single room rate, but current policy is having a pernicious effect on many vulnerable young people. The Government must undertake further reform to the single room rate so that if the local housing market is such that a young person's needs cannot be met through shared accommodation, there is flexibility for increasing their housing allowance. (Paragraph 44)

The DWP recognises that the Single Room Rent (SRR) causes difficulties for some people for whom remaining in the family home is not an option. Claimants who are restricted by the SRR typically face higher than average shortfalls in rent.

It should, however, be noted that the SRR does not affect those who are most vulnerable, for example those who are severely disabled, and certain young people leaving care (under age 22) are exempt from the restriction. Those who are in supported accommodation or social housing are also not subject to this restriction.

We do not believe it would be appropriate to exempt further specific groups from the SRR. Around three-quarters of single under-25s not on benefit rent shared accommodation and a key aim of the Single Room Rent is to ensure that benefit claimants are in the same position as non-benefit claimants. Lifting the restrictions could create a situation where young people would not want to work as they would not be able to afford their accommodation if they were not in receipt of benefits.

However, the introduction of the LHA, and the move to the Shared Room Rate, has been designed to address some of the issues for SRR claimants. For national rollout of the LHA:

- We have widened the definition of what can be counted under the Shared Room Rate, making it more reflective of the range of accommodation available to tenants;

- We are using the median to calculate LHA rates, including the Shared Room Rate, which should mean that at least 50% of the properties on the Rent Officers database will be affordable at the appropriate rate.
- The Rent Service has changed the way it gathers the market evidence on which they set SRR rates

These should overcome the current evidence gaps, lead to an increase in Shared Room Rates and improve both the affordability and availability of shared accommodation.

In the pathfinder areas, the average shortfall for claimants in shared accommodation and subject to single room rent restrictions fell from £30 per week to £27 per week (compared to the average shortfall of £18 per week for all claimants under Local Housing Allowance). The proportion of SRR cases with a shortfall has remained roughly constant at around 70%.

The Department proposes to make an initial assessment of the impact of the rollout of the LHA on the SRR as part of the two year review of the LHA.

Overcrowding and family homes

8. We expect the Homes and Communities Agency, when it takes over from the Housing Corporation, to continue the Corporation's policy of placing a particular financial emphasis on building and acquiring family homes. As many new social rented homes will be built through planning agreements, the HCA must support local authorities at all stages of the planning process to ensure that adequate familysized homes are built. (Paragraph 47)

We agree with this recommendation. It is part of a Local Authority's role as 'place shaper' for their area to identify housing need and apply those policies against planning applications. The Homes and Communities Agency in their role as Local Authorities key delivery partner can support local authorities to do this.

The Homes and Communities Agency will inherit the Housing Corporation's existing target that 30% of all new social rent homes should be for families (3+ bedrooms) in 2008/09 rising to 33% by 2010/11.

9. Welcome as measures to address overcrowding are, they will not be successful unless the Government addresses the issues of supply considered elsewhere in this Report. (Paragraph 48)

In the 2007 Housing Green Paper we outlined our plans to deliver 3 million new homes (by 2020) that are desperately needed in England. The Homes and Communities Agency will support this and will secure the delivery of 70,000 new affordable homes per year by 2010-11 of which 45,000 will be for social homes.

As part of the package on 2 September, we are bringing forward £400m from our 2010-11 affordable housing budget to deliver up to 5,500 social rented

homes over the next 18 months on top of current assumptions. Our original profile has come under strong pressure from the credit crunch and a fall in S106 schemes and capital receipts from sales. We have brought forward funding to tackle these problems, which we anticipate will help sustain social housing delivery. We remain committed to a substantial increase in social housing and 50,000 units a year remains our long-term aspiration. 2010-11 is still some time away and it remains too early, given current uncertainty, to predict outputs in that year. In the meantime, we think it is right to bring forward money for use this year and next, given the current market pressures.

10. While we welcome the Government's commitment to reviewing the definition of overcrowding in 2009, amendments are long overdue. We recommend that when drawing up revisions to the overcrowding definition, Communities and Local Government and the Homes and Communities Agency adopt an approach similar to that taken by English Partnerships, by establishing minimum space standards and measures such as Lifetime Homes for all new homes, especially if built for, or used by, the social rented sector. (Paragraph 51)

We accept this recommendation. In reviewing the definition of overcrowding we will be considering the need to include a minimum space standard. In developing this standard we will draw upon existing approaches such as that adopted by English Partnerships and other housing practitioners and will consult on these proposals in due course.

Tenant involvement

11. Greater involvement of tenants in the management of their homes has significant potential to improve the experience of tenants and to contribute towards the wider aim of community empowerment. We recognise the progress which Communities and Local Government, the Housing Corporation and social housing providers have made in this area. We recommend that the Government continue to extend the aim of tenant empowerment, which is one of the goals of its policy of stock transfer, across the whole of the social rented sector. In particular, we recommend that Communities and Local Government undertake further investigation of the potential further to develop models where tenants jointly own the land and buildings around their home. Meanwhile, we encourage private landlords to continue their efforts to improve their relationship with tenants and to root out bad practice. (Paragraph 58)

We accept that greater tenant involvement in the management of their homes has potential to improve the experience of tenants, and to contribute to community empowerment. Current initiatives include us simplifying the right to manage regulations for council tenants, promoting voluntary tenant management for all social housing tenants, and reviewing the Tenant Empowerment Programme to ensure it provides the right support for tenants wanting to explore tenant management. We plan to review Tenant Participation Compacts to update our framework, and we are setting up a National Tenant Voice to ensure social housing tenants have influence at national and regional

levels. The new housing regulator, the Tenant Services Authority, will place tenants and their needs at the heart of regulation. It will ensure they have more choice and achieve better outcomes. It is our intention to include two current or former tenants on the Board of the regulator.

On the ownership of assets, the Community Empowerment White Paper announced the establishment of an Asset Transfer Unit to encourage and support asset ownership and management, though of course this programme is not targeted at any one form of tenure.

Social renting

Declining stock and increasing backlog

12. The recent upturn in completions of social rented properties and increases in funding are welcome. However, the result is still below the level of 50,000 per year which is needed to reduce the backlog significantly. The Government must be more ambitious in its delivery of new social rented homes by giving sufficient encouragement, resources and flexibility to all providers of social homes to increase supply. This includes measures to get better use out of the existing stock. (Paragraph 63)

The Department has estimates of newly arising need based on the methodology used by Alan Holmans (of Cambridge University). Kate Barker used similar estimates in her Review of Housing Supply. These estimates of newly arising need for social rented housing that cannot be met in the market or by existing stock suggest that there is need for at least 40,000 new social rented properties per annum. The figure of 40,000 for annual need is composed partly of need arising due to newly forming households (demand-side factors) and partly due to loss of stock as a result of, e.g. Right-to-Buy (supply-side factors).

Communities and Local Government is commissioning new research to assess levels of housing need, which should report in Summer 2009.

We recognise the need for more social housing which is why we are planning to increase supply to 70,000 by 2010-11, of which 45,000 will be for new social rented homes. We have also expressed an ambition to go further in subsequent years to reach 50,000 new social rented homes per annum in the next spending review period. As part of the package on 2 September, we are bringing forward £400m from our 2010-11 affordable housing budget to deliver up to 5,500 social rented homes over the next 18 months on top of current assumptions.

With the prospect of reformed investment and regulatory frameworks, housing associations will have more freedom to innovate in pursuit of our shared objectives.

In return, the Government will expect housing associations to continue to up their game, in using their financial strength to deliver more homes of higher quality across the country.

In addition, the Housing Reform Green Paper will look at how we deliver greater fairness in social housing and make the best use of our resources, including getting better use out of the existing stock.

Funding social rented homes

13. We welcome the Government's financial commitment to build more social housing. The sums announced are close to some independent estimates of the sums needed to meet additional demand for social rented housing. However, those funds will be spent not only on social rented housing but also on other forms of non-market housing. Consequently the Government is unlikely to be able in this spending period to reduce the backlog in need for social rented housing, and may not even be able to meet new demand. We recommend that the Government monitor the effect of its planned expenditure on the supply of social rented housing and be prepared to raise investment still further if, as we expect, it proves necessary. (Paragraph 68)

The Government is providing £8.4bn over the next three years to invest in affordable housing – initially through the Housing Corporation and then through the new Homes and Communities Agency. This is a 50% increase in funding over the last three years. Of this total around £6.5bn is to be directed at social housing to achieve the target of 45,000 new social homes a year by 2010/11. This will meet our assessment of newly arising need and begin to address the backlog. The Government hopes to reach 50,000 a year in the next spending review period. These figures assume 6% per annum real efficiencies as offered by the National Housing Federation.

To improve the information for monitoring trends in affordable housing supply, Communities and Local Government published a new statistical release and tables in June 2008 that include information on social rented housing. The statistics will be updated in December with figures for 2007/08 and thereafter annually in December

14. The removal of the restrictions on the use of social housing grant is one example of how opening up the sector to new and innovative practices involving a range of housing developers and providers can increase the supply of badly needed affordable housing. We recommend that the Government seek more ways of encouraging “entrepreneurial organisations” from all sectors, including local authorities themselves, to strengthen this trend. (Paragraph 72)

Since 2005, the Housing Corporation has accepted bids for social housing grant to supply new affordable housing from unregistered bodies (such as developers or ALMOs) as well as registered housing associations. The aim of this measure is to encourage a greater range of providers and increased competition and innovation, leading to better value for money. Standards, tenants' rights and public money are secured through contractual conditions.

Last year's Housing Green Paper set out a range of models which local authorities could use to develop housing on surplus public land. The process

for securing grant was also changed to enable wholly-owned council vehicles to pre-qualify and compete for grant with other bodies. As part of our package of measures announced on 2 September to stimulate the housing market and delivery of new social housing we have announced that local authorities who directly manage their stock will be invited to bid for grant on the same terms as those with ALMOs and special purpose vehicles.

15. If the supply of new housing is to be maximised, it is vital that the public sector achieve the best possible value for money. The new Homes and Communities Agency will have a vital role to play in ensuring that this is the case. We recommend that the HCA monitor the construction costs for new social housing and take all possible action to minimise cost inflation, to avoid social housing providers competing for scarce labour, and to prevent the sector being held to ransom because of the extent of the need for social housing. (Paragraph 76)

We agree. With a total development programme (public and private) in excess of £10bn the Homes and Communities Agency can adopt a more strategic approach in its relationship with the private sector with greater buying and bargaining power. Additionally it will provide further benefits by bringing land, powers and funding together in a more integrated way. However it is vital that it monitors construction costs to ensure value for money.

16. The lack of a sufficient skilled labour force within the construction industry could restrict the construction of new homes for social and private rent. Urgent action is necessary to mitigate this risk. We support, in particular, the recommendation by the Callcutt Review that the HCA, central and local government and their agents should, when disposing of land for house building, stipulate training conditions on main and sub-contractors in the terms of sale.

We disagree. We do not feel that HCA should have to stipulate training conditions for main and sub contractors although the Agency will have a range of quality standards in its contract. The contracts will be individually agreed and while this may be appropriate for some agreements it would be overly burdensome and limit the Agencies flexibility to have such terms in all contracts.

17. We recommend that the Homes and Communities Agency, once established, make it an early priority to establish a monitoring programme to examine the elements behind regional differences between unit costs of social rented homes more closely. By separating out the broad costs of development and then examining regional differences, the HCA should be able more effectively to anticipate future costs and examine the financial benefit that s.106 agreements provide. (Paragraph 82)

Communities and Local Government will be co-funding a study with the Housing Corporation to explore whether a tool can be developed which will help local authorities and the Corporation identify areas where developer contributions should make provision of Affordable Housing without grant

possible. This will help the Corporation and then the Homes and Communities Agency focus grant to areas where it would bring additional benefits.

The Homes and Communities Agency will continue to monitor costs of social housing and examine regional differences.

18. The use of planning obligations for delivering affordable homes has resulted in more affordable homes built as one-or two-bed flats rather than accommodation suitable for families, even though family accommodation is the stock for which there is the most significant unmet need. New supply has thus not been meeting the greatest housing need. We welcome the Government's recognition of this trend and the steps which it has so far taken to counter it. We recommend that the Government continue to monitor trends in the construction of new social rented housing and be ready to take further action if the trend towards the construction of smaller flats rather than larger units continues. Efforts to secure more affordable housing will be wasted if they are not directed at the areas of greatest need. (Paragraph 90)

The bulk of new social rented housing is provided through the Housing Corporation. For their 2008-11 Affordable Housing Programme, the Housing Corporation has a new target to increase the national percentage of family size homes (3+ bedrooms) for social rent from 25% to 30% in 2008-09, rising to 33% in 2010-11. The Housing Corporation will monitor this and report progress to Communities and Local Government.

Subject to views from the new Homes and Communities Agency, we can undertake to monitor trends in the construction of new social rented housing, but cannot undertake unconditionally to take further action if the trend towards construction of smaller flats rather than larger flats continues – this will depend on local assessments of need.

Planning policy now makes it absolutely clear that councils' housing provisions should be plan-led and that plans for new homes must be based on detailed assessments of local housing need including, for the first time, the need for family homes to have access to gardens, play areas and parks.

*Planning Policy Statement 3 – Housing*¹¹ published in Nov 2006 allows Local Planning Authorities to identify the size and type of affordable housing required locally in their plan policies, based upon assessments of household need and on economic viability. In terms of market housing, it explains that plans should set out the range of household types who require market housing. It is then for housebuilders to bring forward proposals for market housing which reflect the profiles of these household types.

In considering the likely economic viability of land for housing within the area, Local Planning Authorities must take account of risks to delivery, drawing upon informed assessments of the likely level of finance available for affordable

¹¹<http://www.communities.gov.uk/publications/planningandbuilding/pps3housing>

housing including public subsidy and the level of developer contribution that can be reasonably secured.

19. The absence of public funds to support the purchase of homes delivered through planning agreements will tighten profits available to developers. Two consequences flow from this. First, there is a greater risk of protracted discussions between local authorities and developers, lengthening the time taken to approve applications and slowing the delivery of urgently-needed homes. Secondly, a continued squeeze on public subsidy for homes built through s.106 agreements will result in increased numbers of low-cost home ownership and other “affordable” homes which may not meet real housing needs. Communities and Local Government and the Homes and Communities Agency must not lower the amount of social housing grant to support developments on s.106 to such an extent that developments which include the right proportion of social housing for the area are made unviable. We recommend that the HCA undertake regular regional reviews of the level of support provided for social homes built on s.106 sites and be flexible in its approach towards the level of grant provided in respect of individual sites which are critical to addressing local housing needs. (Paragraph 93)

The Government has been considering how we can offer further support to local planning authorities in building their capacity to set clearer local policies and improve their negotiating position.

The Affordable Housing Development Control toolkit contains a spreadsheet for use by Local Planning Authorities and the Housing Corporation to predict and manage the cost and number of affordable housing units that can be supported through planning obligations (‘section 106 agreements’) on any particular site. It enables the Housing Corporation to establish grant to be paid to deliver additional affordable housing units over and above those funded by developer contributions on a site specific basis.

In addition we are working with the Housing Corporation to develop an area-based economic toolkit. This would aim to produce a spreadsheet for use by Local Planning Authorities, Regional Planning Bodies and the Housing Corporation to help establish the number of affordable housing units that can be supported through planning obligations in any local authority or market housing area, by reference to the underlying economics (such as land values) of that area. Potentially, the model could be used by Local Planning Authorities to improve their understanding of the economics of their area to inform general negotiations and set clearer policies at the local level.

The Homes and Communities Agency will continue to monitor costs of social housing and examine regional differences.

20. We recommend that Communities and Local Government issue guidance on when commuted payments are appropriate and in what circumstances the funds so raised may be used to support projects that do not fund the construction of affordable homes. (Paragraph 96)

Planning Policy Statement 3 already sets out when local authorities may accept commuted sums in lieu of in-kind contributions. The presumption is that affordable housing will be provided on the application site so that it contributes towards creating a mix of housing. However, where it can be robustly justified, off-site provision or a financial contribution in lieu of on-site provision (of broadly equivalent value) may be accepted as long as the agreed approach contributes to the creation of mixed communities in the local authority area.

The Secretary of State's policy on the use of planning obligations is set out in *Circular 5/05 – Planning Obligations*¹². It is unlikely that developer contributions collected for the *only* purpose of providing affordable housing could be used for other purposes and be consistent with the Secretary of State's policy in the Circular.

21. Local authorities must ensure that commuted payments are not used simply as an excuse to avoid mixed tenure in new developments. (Paragraph 97)

See response to recommendation 20 above.

22. There is no excuse for authorities taking commuted payments and then not spending the money on affordable housing. We recommend that Communities and Local Government undertake further analysis to investigate the reasons for failures on the part of local authorities to spend commuted payments. We also recommend that local authorities not spending such payments and without an adequate expenditure strategy for the funds that they hold be obliged to pass on the funds to support other projects within their region. (Paragraph 99)

The Government set out in *Communities in control: real people, real power*¹³ its wish to explore whether local communities can be given a stronger role in ensuring that developer contributions through planning obligations, including for affordable housing, are received by local authorities and then put to the use intended. We will take this work forward with stakeholders over the autumn. Government already recommends that authorities keep accurate records of developer contributions which can be used to provide information to the public and some local authorities already provide detailed reports on a quarterly basis (e.g. London Borough of Lambeth¹⁴).

23. We are concerned that the Housing Strategy Statistical Appendix might be inaccurately recording the level of commuted payments. We recommend that the Government undertake, as a matter of urgency, a more accurate investigation into the amount of money held by local authorities from commuted payments. (Paragraph 101)

¹² <http://www.communities.gov.uk/publications/planningandbuilding/circularplanningobligations>

¹³ <http://www.communities.gov.uk/publications/communities/communitiesincontrol>

¹⁴ <http://www.lambeth.gov.uk/services/housingplanning/planningobligationsmonitoring.htm>

The Government does not accept the need to undertake, as a matter of urgency, a more accurate investigation into the amount of money held by local authorities from commuted payments.

Commuted payments data are collected annually from local authorities via the Housing Strategy Statistical Appendix (HSSA). We agree improvements could be made to the quality and accuracy of the data and we will integrate these into the 2008/9 annual collection and publication cycle rather than by means of a one-off urgent data collection. Examples of improvements include changes to the data validation process to ensure that the commuted payments balance recorded at the end of one year is also reported as the balance at the beginning of the following year and clearer guidance notes for local authorities.

Data items collected on the HSSA form are currently subject to scrutiny as part of the Communities and Local Government Housing Forms Review. One element of the review already completed is a series of local authority consultation events. At these events, local authorities, the HSSA data suppliers, did not raise any concerns over the accuracy or quality of the HSSA commuted payments figures and as such these data items have been classified as fit for purpose.

Any ad hoc investigation into the amount of money held from commuted payments would collect data from local authorities, just as the HSSA data is collected from local authorities. Therefore there would be no guarantee that the figures provided through an ad hoc investigation would be any different from the local authorities' best estimates reported on the annual HSSA enquiry.

Regional pattern

24. The Government has prioritised the areas which it perceives to be in greatest need; but thus far the investment it has allocated to these areas is not achieving a commensurate increase in supply. Meanwhile, significant “hotspots” of need remain in areas from which funding has been redirected: areas where it may be possible to deliver more, more quickly, with the money. We recommend that the Government, assisted by the Homes and Communities Agency, place more emphasis on deliverability when setting funding and completion targets. This can only be carried out through closer engagement with the local agents involved in delivery. (Paragraph 110)

Under the new Performance Framework, 102 Local Areas have prioritised National Indicator 155 – the number of Affordable Homes (gross) – as one of the suite of indicators against which they will be assessed. Local areas will therefore focus on identifying land and opportunities to deliver further affordable housing. To ensure delivery they will be working closely with the Housing Corporation, and subsequently the Homes and Communities Agency will work with communities and their representatives to deliver solutions appropriate to that locality and the needs of its people. The Homes and Communities Agency will work where markets have failed or need help to deliver, it will also support the wider distributional and social equity objectives. By using its tool box of powers the Agency will tackle some of the very difficult

problems that are inevitably associated with difficult-to-redevelop sites such as Middlehaven, in Middlesbrough, where a redundant industrial site is being transformed into one of the largest zero-carbon developments in the UK.

Effects of Right to Buy

25. The Government has acknowledged that receipts from right-to-buy sales need to be reinvested into new homes. Although those receipts are returned to housing through the national housing revenue account system, there does not appear to be a willingness from Government to allow receiving councils themselves to use those receipts to fund the construction or acquisition of new social rented homes. We urge the Government to make reforms to allow right-to-buy receipts, and any borrowing taken against this income, to be easily and rapidly used by councils to build much needed homes. (Paragraph 114)

The July 2007 housing green paper, *Homes for the future, more affordable, more sustainable*, said that local authorities that choose to invest their own money in new social housing should keep the revenue and capital returns from those new homes.

The 2008 Housing & Regeneration Act has now brought in changes which would allow councils to keep the full rental income from new properties they build or acquire – that is, the operating surpluses from those homes would not be redistributed through the Housing Revenue Account (HRA) subsidy system. We also propose to let councils keep the full capital receipt of any subsequent sale of a new property they build or acquire. These measures will help remove some of the perceived disincentives to providing new local authority social housing. We expect to introduce both changes next spring

In addition, a wide-ranging review of the council housing finance system was announced by the housing minister in December 2007. The purpose of the review is to ensure that we have a sustainable, long term system for financing council housing. The Review is exploring all relevant issues and options, including taking a fresh look at our wider policy on capital receipts, for instance whether the percentages of pooled receipts should be changed and whether conditions should be attached to how these receipts can be used. Work is being taken forward in discussion with a wide range of stakeholders, including local authority and tenant representatives. The Review will report to Ministers in Spring 2009 and will be considered as part of the next spending review. This will be followed by a period of consultation.

Although the Housing Revenue Account (HRA) subsidy calculations take some account of capital receipts put by local authorities towards debt repayment, the HRA is a revenue account and capital receipts themselves are not recycled through the system.

Capital receipts from local authority asset disposals may be used for any capital expenditure. But, not all of an authority's receipts from housing sales are available to them to spend. Under the Government's pooling arrangements, authorities must pay to central government a proportion of the capital receipt

from disposal of a housing asset. The proportion varies between 75% for Right To Buy receipts, 50% for sales of other housing assets. Authorities can, however, keep all the proceeds from certain sales where the receipt will be used for affordable housing and regeneration. The receipts that go to central government may either be used by CLG for the Department's programmes, or go to the Treasury. Those that go to the Treasury are taken into account in spending review settlements.

As regards borrowing, under the prudential capital finance system local authorities may borrow for any capital expenditure without the approval of central government as long as they can afford the costs of servicing the loans. Only revenue income can be used for this, so authorities could not use their capital receipts for this purpose.

26. We support the aims of the right-to-buy policy, which has enabled many families to get on the housing ladder who would not otherwise have been able to do so. We are deeply concerned, however, about the impact on community cohesion in some areas of the country of the number of former council-owned homes which are now being rented privately, and about the effect of such sales on the availability of social rented housing in those areas. We also note that, in areas where rents are high, many former council homes are being rented at very high rates back to councils to house the homeless. We recommend that the Government review the effect of right to buy on neighbourhoods and on the councils which have sold their houses under the policy, with a view to bringing forward further measures which will mitigate the adverse consequences of an otherwise successful policy. The review should also consider the extent to which the right to buy, if it is more prevalent on the more popular estates, can reduce rather than increase community and tenure diversity. (Paragraph 120)

By enabling social tenants to realise their aspirations to own their homes, the Right to Buy scheme has helped to develop stable mixed tenure communities. The Housing Act 2004 introduced measures to combat exploitation of the Right to Buy rules by property companies, including extending the discount repayment period to encourage Right to Buy purchasers to remain within their communities, and tackling deferred resale agreements between tenants and companies by requiring buyers who agree to sell on to such companies at discounted prices to repay some or all of their Right to Buy discount. It also introduced a right of first refusal under which owners must offer their homes back to their former landlords or other social landlords if they wish to resell within 10 years of buying under Right to Buy.

Preventing Right to Buy purchasers from sub-letting if they wish to do so would create a two-tier home-ownership system. Private buyers would be able to do what they wish with their homes whereas Right to Buy purchasers would be subject to restrictions and to state interference. We do not think it would be right or fair to single out aspirational ex-social tenants in this way.

27. With the sector facing such acute shortages, particularly for houses for families, the right to buy (or acquire) should be tempered further. We recommend that the Government examine the adoption of an approach similar to that which we saw in the Netherlands, where social housing providers and the local authorities agree housing strategies including the volume of social rented homes to be sold within neighbourhoods. Such an approach should include an investment strategy for making the best use of capital receipts gained by building new properties and buying back those previously sold. Any restriction on sales must be clearly backed up by evidence that it will contribute to the aims envisaged and that it is supported by the communities concerned, and should be specifically targeted at the relevant property type or area under significant pressure. (Paragraph 124)

This is an interesting suggestion and we have approached officials in the Netherlands about how their social housing providers sell their housing stock. Subject to the outcome of these enquiries, the Government will consider whether it would be helpful to carry out a more detailed exploration of the issues.

'Pepper-potting'

28. Pepper-potting within existing areas should be promoted more widely, but must be seen as a long-term plan and carried out in an open, planned and transparent way. We recommend that the Homes and Communities Agency take the lead in promoting this approach to pepper-potting. The Agency should assist the development of pepper-potting projects by local authorities and housing associations by devising ways of countering the potential adverse effects of buy-to-let and by monitoring the expeditious replacement of 'pepper-potted' social rented stock. We also recommend that guidance be issued to local authorities ensuring that new social and affordable housing built under s.106 agreements is mixed within developments and built to the same standards, not pushed away to discrete areas of larger sites. (Paragraph 131)

See response to recommendation number 3.

Role of social renting within an ageing society

29. Downsizing is an important component of the policy of using the stock more effectively, but any programme must treat each individual with the utmost care. While progress towards reducing under-occupation should be monitored, no local or national targets should be set. We recommend that the Government provide local authorities with more resources to offer a package of measures to support tenants who would consider downsizing, including adapting homes to suit tenants' needs. We also recommend that all local authorities include provision for downsizing amongst the preferences which may be expressed in their allocation schemes for social housing; and that the Government press on urgently with the work which it is undertaking on national, regional and sub-regional mobility schemes, ensuring that those schemes include provision for downsizing. (Paragraph 135)

The Government is currently piloting a number of housing options approaches which are testing the effectiveness of locally determined approaches including providing older people with financial incentives and practical support to aid downsizing where they choose to move. We will be looking at the results of the evaluation to determine the cost-effectiveness of these approaches.

Local authorities can already give priority to existing social tenants who wish to downsize so that they can re-allocate large family homes to overcrowded or families owed the main homelessness duty. Sub-regional CBL schemes can also take this into account.

The Seaside and Country Homes mobility scheme for older tenants in London was relaunched in July 2007. This scheme gives priority to those who are downsizing and has already given over 220 tenants the opportunity to move out of London.

The Government recognizes that we need to make the best use of existing social housing stock, and will be considering how we might better do this as part of the Housing Reform Green Paper.

30. The publication of the Government's strategy for housing in an ageing society demonstrates that the Government is taking account of the need for the social rented sector to provide different forms of care for more people as demographic patterns change. The social rented sector will have an important role in implementing the strategy. In developing the strategy further, and in particular when allocating resources, including from non-housing sources, for its implementation, we recommend that the Government take particular account of the distribution of the ageing population, for example in coastal and rural areas: demographic pressures are not uniform across the country. (Paragraph 138)

The Government requires planning authorities to take account of the current needs of older people, as well as projected future needs, through *Planning Policy Statement 3*.

Conclusion: the role of social renting

31. The Government therefore faces a stark choice: does it retrench, leaving social housing as the sector of last resort; or is it prepared to make the investment and policy commitment necessary for social rented housing to play a full role in the creation of truly sustainable communities? (Paragraph 143)

The Government is clear that there is a need to provide social housing for those unable to rent or buy a home of their own: for families on low incomes, people with severe disabilities, the elderly and for others for whom home ownership is unlikely to be the right option. Social housing will continue to play an important role in ensuring a decent home for all at a price within their means. That is why we are investing £8.4 billion in affordable housing with a goal of delivering at least 45,000 new social homes a year by 2010-11. Our aim is to reach 50,000 new social rented homes per annum in the next

spending review period. As part of the package announced on 2 September, we are bringing forward £400m from our 2010-11 affordable housing budget to deliver up to 5,500 social rented homes over the next 18 months on top of current assumptions.

However, we need to ensure that social housing meets the needs and aspirations of tenants, as well as providing a fair service that makes the best use of our resources. We are exploring the issues identified by the Select Committee and by John Hills on the role of social housing as part of the Housing Reform Green Paper.

32. The Government and the wider social rented sector must reach a conclusion on whether social renting is to provide accommodation only for those who need it the most or whether the sector should be available to a wider range of people. For our part, we consider that social housing has a vital role to play in the creation of mixed and sustainable communities. Current Government policies and spending plans are insufficient to allow it to do so. There is no short-term fix to the current situation: sustained and substantial increases in spending, together with a firm policy commitment to the creation of mixed communities, will be needed over the medium to long term if social rented housing is to fulfil the aims envisaged for it. (Paragraph 144)

See responses to recommendations 3 and 31.

Private renting

Role of the private sector

33. The state of the housing market is such that we consider that there is a need to develop incentives for private sector landlords to offer longer tenancies to their customers. (Paragraph 150)

This is a key theme of the independent Review of the Private Rented Sector.

We would agree with the Committee's assessment that the current range of tenancy length available within the sector is a strength. For many, the flexibility of a short tenancy is the main attraction offered by the sector. However, for others, a longer tenancy may be appropriate. We will consider the issue of incentives further in the light of the findings of the Review of the Private Rented Sector currently being carried out by Julie Rugg and David Rhodes at the University of York's Centre for Housing Policy.

34. The Government needs to recognise the benefits to both individuals and communities of offering more variety in the length of tenancies, and address the need for households in the private as well as the social rented sector to have stable homes provided through secure tenures. We recommend that the Government urgently undertake further work on developing secure tenures for the private sector. It should base this work on that already done by the Law Commission (Paragraph 151)

See response to recommendation 33 above.

35. We are disappointed by the length of time it has Communities and Local Government to address the findings of the Law Commission, particularly with regard to changes to the private rented sector. While the review of the private rented sector will be useful, it should not be used as an excuse for stalling further work on tenancy reform. (Paragraph 155)

The Law Commission's report (Renting Homes) was 5 years in the preparation – 3 years longer than originally envisaged. This gestation period reflects the complexity of the issues that it explored and the ambition of the legislative programme it puts forward. It would not be appropriate for us to rush through the legislation it contains without properly considering the implications of the fundamental changes that they encompass. We also wanted to take account of the extensive work underpinning the Review of the Private Rented Sector – of which rights and obligations for both tenants and landlords is a key element. It also seemed sensible to take account of the other two linked reports issued by the Law Commission on the private rented sector which have only emerged this year. We are actively engaged with the Law Commission in discussions about Renting Homes and will formally respond in detail to the report in accordance with guidelines set down by the Ministerial Committee on the Law Commission.

36. We are attracted to the Law Commission's proposal for tenancies based on mutual rights and obligations, which would offer scope for longer-term tenancies in the private sector. We recommend that the Government undertake further work on tenancy reform, building on the Law Commission's proposals, without further delay. (Paragraph 158)

See response to recommendation 35 above.

Growth of private renting and buy-to-let

37. The increase in the stock of private rented accommodation through buy-to-let investment has benefited the sector. However, this investment has had a small but nonetheless significant upward effect on house prices; and appears to be concentrated within markets in which first time buyers tend to compete. A better understanding of its effects will greatly assist the development of housing strategy and policy in the private rented sector. We recommend that Communities and Local Government commission further research into the impact of buy-to-let on local housing markets, particularly where there has been a concentration of activity. (Paragraph 164)

We agree that it is important to properly assess the impact of buy-to-let on house prices more generally. We were pleased to see the National Planning and Housing Advice Unit's report on this subject earlier this year which was supported by extensive analysis. As the Committee has noted, the report underlined the very small effect that buy-to-let has had on house prices.

38. We recognise that the investment made through buy-to-let mortgages has helped to increase supply, but Government policy must reflect the fact that buy-to-let and other investment activity does not always benefit the aims of mixed communities. Following on from the experience of English Partnerships, we recommend that the Homes and Communities Agency consider how the use of its own resources, and those of other public sector bodies, can be used to encourage private investment to accord more closely with the aims of mixed communities. (Paragraph 166)

The Homes and Communities Agency will build on English Partnership's experience to encourage private sector investment to support the aims of mixed communities.

39. We recommend that the Government investigate what fiscal measures would provide an incentive to property owners not to leave their properties empty for long periods. In the meantime, Communities and Local Government must support local authorities in their efforts to prevent and reduce the incidence of buy-to-leave through investigating how they can better use their existing powers to bring empty dwellings into use, by providing additional funds to local authorities to target the worst-affected areas, and by ensuring that the information necessary to take action-on ownership, for example – is readily available. (Paragraph 173)

We are determined to tackle the effects of empty homes. Empty homes blight communities and are a magnet for vandals intent on anti-social behaviour. They also tie up the resources of local authorities and the emergency services. Bringing them back into use provides much-needed housing and reduces the need to develop new homes on urban fringes and in the countryside.

Local authorities have a key role to play in identifying empty properties in their areas and in developing strategies to bring them back into effective use. We encourage local authorities to work with owners to persuade them of the benefits of bringing their property back into use.

Many local authorities are doing excellent work to find the right solutions for owners. The total number of empty homes in England is now 672,924 dwellings or 3% of the housing stock – a reduction of 12% on levels of empty homes in 1997. However, where it is clear that owners are not prepared to co-operate with efforts to get their property occupied through agreement, we have provided local authorities with extensive enforcement powers to deal with them.

Prior to the Housing Act 2004, there were only two principal powers that could be used to achieve re-occupation. These are compulsory purchase and enforced sale. They work by forcing owners to sell their property either to the authority itself or to someone else who is in a position to bring it back into occupation.

As part of the Housing Act 2004 a new power was introduced to allow local authorities to make Empty Dwelling Management Orders (EDMOs) in respect

of long-term empty homes. An EDMO allows a local authority to take over the management of an unoccupied dwelling in certain circumstances.

All the powers set out above generate funding to allow local authorities to tackle empty homes in their areas without incurring additional financial burdens.

In terms of fiscal measures, we have already done a lot to discourage owners from leaving properties empty by reducing VAT to 5% on the renovation of homes empty for 2 or more years and by giving local authorities discretion to charge full council tax.

We will consider whether there are any further measures to address this issue that can be included in our Housing Green Paper, due to be published towards the end of this year.

Growth of private renting and buy-to-let

40. The Government needs to be alive to trends in buy-to-let investment and to their implications for housing policy. (Paragraph 177)

Government keeps trends across the housing market under review. The document published on 16 July – *Facing the housing challenge: Action today, innovation for tomorrow*¹⁵ made clear that the Government is committed to offering a wide range of housing choices, recognising that homeownership is not right for everyone at every stage in their lives and that social and private rented sectors are therefore important. The document also recognised the current challenges resulting from international economic instability and set out action Government is taking to assist first-time buyers, those needing high-quality rented accommodation, those with mortgages and the housebuilding industry. At the same time, the independent review of the private rented sector is considering the impact of buy to let as part of its wider consideration of the private rented sector.

41. We recommend that the Government undertake further research on the trends, patterns and needs of students and of migrants to better inform regional and local housing strategies. We welcome the recently-announced Government review “aimed at improving the management and conditions of people living in Houses in Multiple Occupation”, which will have a particular focus on areas with a high concentration of HMOs housing students, but note that the focus of the review is narrow and will be insufficient of itself to meet the need for information which we identify. (Paragraph 182)

*Managing the Impacts of Migration: A Cross-Government Approach*¹⁶ set out Communities and Local Government’s commitment to leading a programme of new research to identify the drivers of migration from different countries, the patterns of where migrants settle and for how long. This will involve an analysis

¹⁵<http://www.communities.gov.uk/publications/housing/facinghousingchallenge>

¹⁶<http://www.communities.gov.uk/publications/communities/migrationimpact>

of trends and patterns as well as the determinants of international migration for different groups of migrants.

The research referred to by the Committee is the *Houses in Multiple Occupation and possible planning responses* report by ECOTEC Research and Consulting Ltd to be published in September 2008. It will look at the problems caused by high concentrations of Houses in Multiple Occupation (HMOs) and whether the planning system has a role to play in limiting new concentrations of HMOs where local authorities consider this appropriate. This will feed into the Review of the Private Rented Sector which will report in the October 2008. We will carefully consider the findings in respect of HMOs.

We will consider whether proposals for changes to the current HMO licensing framework should be included in our Housing Green Paper, due to be published towards the end of this year.

Licensing of houses in multiple occupation

42. The Government failed to ensure consistent approaches from local authorities when it introduced measures to control HMOs. It also failed to ensure that local authorities were in a position to use the system effectively. Local authorities appear to have ended up concentrating their efforts on simply administering the licensing system, rather than using it effectively to tackle the most problematic landlords. We recommend that Communities and Local Government assist local authorities in developing a more targeted approach which ensures that resources are focused on tackling the worst cases. (Paragraph 186)

The Housing Act 2004 introduced a range of licensing powers for local authorities which were directed at tackling properties which were likely to be in the worst condition and subject to the worst management.

Mandatory licensing requires **all** local authorities to license **all** Houses in Multiple Occupation (HMOs) which are 3 or more stories and house 5 or more people forming 2 or more households. This requirement is consistent across all local authorities. However, given the variety of incidence and type of HMOs across the country, it did not seem appropriate to impose a one-size fits all process on all local authorities – what might be appropriate with a local authority whose area contained several hundred licensable HMOs might be completely over-burdensome for an authority with very few licensable HMOs. Since the legislation came into effect, just over 27,000 licenses have been granted under the mandatory scheme. This is equivalent to over two thirds' of all licensable HMOs and represents a tremendous effort by local authorities that should be applauded.

43. We favour extending the requirements of the HMO regulations to cover a wider variety of houses in multiple occupation. Meanwhile, the Government must give local authorities the easiest possible access to the tools they need to do the job of regulating the worst examples of HMO abuse, particularly by streamlining the process of applying for extension of their discretionary HMO licensing powers. (Paragraph 188)

Alongside mandatory licensing, the Housing Act 2004 provided for local authorities to introduce discretionary licensing schemes for a wider range of Houses in Multiple Occupation (HMOs) where circumstances in their local areas suggested that this would be appropriate. The introduction of such schemes has significant implications for local residents and landlords. So it is right that local authorities have to make a case for such a scheme to the Secretary of State before it can be introduced. The Department aims to turn round applications for discretionary licensing regimes within 30 days. But to do so, it is dependent on the local authority providing sufficient evidence of its case.

We will consider whether proposals for changes to the current HMO licensing framework should be included in our Housing Green Paper, due to be published towards the end of this year.

Regulation

44. There is a yawning gap between the rights of consumers who are purchasing a property through estate agents, and tenants of private landlords. Prospective and actual tenants in the private rented sector can face discrimination, retaliatory action, and general poor management of their home. A good basis exists in existing regulation, local authority accreditation schemes and the activity of trade bodies to introduce a system of accreditation similar to that which exists for estate agents, devised by trade bodies but reinforced by the involvement of local authorities, with the ultimate oversight of OfTENANT. We recommend that the Government work with organisations in the private rented sector to develop a robust scheme which will enable tenants to gain redress against poor landlords. (Paragraph 195)

These are all issues which go to the heart of issues around the balance between the rights and obligations of tenants, landlords and agents. The need to look afresh at this balance was one of the key drivers for the independent Review of the Private Sector. It will be important to take the Review's findings into account before coming to a view on these issues.

45. We recommend that the Government's review of the private rented sector consider and report on the merits of establishing an accreditation system under which letting agents, private landlords and housing associations would register the extent of their private property portfolio with the relevant local authority. Such a system would assist local authorities' strategic housing and regulatory functions. The enforcement function would also rest with the local authority but only insofar as it was necessary to oversee how registered bodies process complaints, or how individual unregistered and unaccredited landlords manage their stock. (Paragraph 197)

See response to recommendation 44 above.

46. The review of the sector should also consider the establishment of a new regulatory system based on a carrot-and-stick approach which

rewards responsible landlords with fewer repetitive regulatory hurdles and greater financial incentives such as rewards for investment in maintenance and energy efficiency. Landlords should have the choice whether they wish to use letting agents, which under our previous recommendation would be accredited and under the ultimate oversight of Oftenant, or similar management companies including housing associations; or undertake their own marketing and management and then be directly regulated by the local authority. Whichever route the landlord took, new properties would be required to be registered with the relevant local authority when a tenant was found. (Paragraph 198)

See response to recommendations 44 and 45 above.

47. Efficiencies have been introduced into the social rented sector; but these efficiencies have thus far been concentrated in the construction and refurbishment of homes, rather than in their use. The Government cannot build enough homes to meet the demand in the short term. We therefore endorse the conclusions of the Hills and Cave reviews that better management which uses the existing stock more efficiently is needed. (Paragraph 202)

The Government recognizes that we need to make the best use of existing social housing stock and will be considering how we might better do this as part of the Housing Reform Green Paper.

Housing providers

Social renting

48. The quality of the social rented stock cannot be detached from the question of overall supply. If no one wants to live in a home because of its poor physical or environmental quality, then it is not contributing to the overall supply. The Government is to be commended for introducing the Decent Homes programme and for the substantial progress which has been made on the programme, but an ongoing programme of maintenance and improvement of the social rented stock is still needed. Long-term funding for maintenance must be secure if the good work of the Decent Homes programme is not to be undone. We will be monitoring carefully the successor to the Decent Homes programme, both to ensure that the original objective of the programme is met and to see how the Government proposes to ensure the long-term high quality of the social rented stock. (Paragraph 207)

The Government has not taken any decisions about work following on from the Decent Homes programme. One of the work streams in the review of the Housing Revenue Account Subsidy System is considering the issue of costs and standards for council housing and this work will help to inform any decision about a capital investment programme that will follow the decent homes programme.

The purpose of the Review is to ensure that we have a sustainable, long term system for financing council housing and that this system is consistent with

wider housing policy, including the establishment of a regulator of social housing.

The Review is due to report to Ministers in the Spring of 2009, setting out options for the subsidy system. The outcome of the review will be considered as part of the Government's next spending review. Any proposals emerging from the review will be followed by a period of consultation.

49. Arms length management organisations have performed well in contributing to the implementation of the decent homes programme. There is now potential for them not only to build on these improvements by investing long-term in maintenance, but also to contribute to the addition of badly-needed new supply. We recommend that Communities and Local Government retain and enhance this management model and confirm the future of ALMOs as soon as possible. (Paragraph 209)

Twenty three ALMOs have now pre-qualified as development partners with the Housing Corporation and several have now submitted bids and been awarded social housing grant. We expect more ALMOs to bid for grant to develop new social housing in their own right or with partners.

ALMOs are proving to be high performing organisations. We would expect councils to continue to enable ALMOs to maintain their high levels of service long after the decent homes programme has been delivered.

Should a local authority consider changing their housing management ALMO delegation arrangements they should consult tenants at least as thoroughly as they did in establishing the ALMO.

Regulation of social housing

50. Significant amounts of public and private money are channelled into social housing, and effective regulation is essential both for proper democratic accountability and to retain the confidence of investors. All housing providers must recognise and account for the steps they take individually towards shared policy objectives. Nevertheless, there is scope for reducing the burden of regulation and freeing up housing providers' resources for the vital task of improving supply. For this reason, we welcome the introduction of Oftenant, particularly the potential for domain-wide regulation and the explicit objective which it has been given to regulate in a manner which minimises interference. When forming the new regulatory framework, we expect Oftenant clearly to state and to consult on how its regulatory approach will achieve this objective. (Paragraph 217)

We fully agree that proper regulation is necessary for the social housing sector for a number of reasons, including the poor level of consumer choice available to social tenants. Professor Martin Cave's *Review of Social Housing Regulation – Every Tenant Matters (June 2007)*¹⁷ made clear that there should be a clearer regulation system under an independent regulator, with more

¹⁷<http://www.communities.gov.uk/publications/housing/everytenantmatters>

focus on improved outcomes for tenants and regulating on the basis of risk. We are setting up the Tenant Services Authority (previously known as Oftenant) from September 2008, and have taken an enabling power to extend its remit to local authority landlords. It will have an objective to regulate in a way which minimises interference, and requirements to consider the desirability of providers running their own businesses when setting standards and enforcing them, and it must issue guidance on how it will use its powers.

51. If Oftenant becomes the domain-wide regulator, there should be the same single agency dealing with complaints from tenants of housing associations, currently subject to Housing Ombudsman oversight, and local authorities, which are currently under the oversight of the Local Government Ombudsman. With greater interaction between local authorities and housing associations, an efficient dispute resolution system will be required. (Paragraph 218)

We agree there may be potential benefits in having a similar ombudsman system across the social housing domain. The issue of a single ombudsman service for social housing is contingent on having a single regulatory system for social housing, and we will consider the case for the former once the latter is in place. The Tenant Services Authority will certainly have to work closely with all relevant ombudsmen.

Role of local authorities

52. We do not expect local authorities now suddenly to become major developers of housing, but given that many remain as landlords, will continue to do so into the foreseeable future, and may want to build on land that they own, there should not be any impediment to them to doing so. (Paragraph 227)

We agree that local authorities have an important role in securing the supply of new affordable housing. This includes opportunities for councils to develop housing directly, where this offers value for money. The Housing and Regeneration Act 2008 which gained Royal Assent in July 2008 includes provisions which will remove financial disincentives to council house building. Provisions in the Act will enable councils to keep the full rental income from new council homes they build. We also intend to consult shortly on changes to the capital regulations which would enable councils to keep 100% of the capital receipts from right to buy sales of homes they build in future.

These changes should help local authorities to deliver their strategic housing role by giving them another option for delivering the right mix of affordable housing to meet the needs of local people, alongside provision through Registered Social Landlords and other developers.

Last year's Housing Supply Green Paper set out a range of models which local authorities could use to develop housing on surplus public land. The process for securing grant was also changed to enable wholly-owned council vehicles to pre-qualify and compete for grant with other bodies. As part of our package of measures announced on 2 September to stimulate the housing market and delivery of new social housing we have announced that local authorities who

directly manage their stock will be invited to bid for grant on the same terms as those with ALMOs and special purpose vehicles.

This does not mean a return to the large council estates of the past. New affordable housing should support the creation of mixed communities. In most cases this will be best delivered by local authorities working with partners to deliver the right mix of homes.

53. We recognise that the Government has taken some steps towards breaking down the barriers which prevent local authorities from building new homes. However, the “strategic” housing role which it chiefly envisages for local authorities, though important, does not address the desire within local authorities to enlarge the supply of council-owned stock and thereby give tenants a real choice of landlord. We recommend that Communities and Local Government and its agencies take further steps to support and enable local authorities, in their place-shaping role, to add to the supply of social rented homes. In addition to the reform of the HRA for which we call elsewhere in this Report, such steps might include allowing councils to bid directly for social housing grant, the establishment of local housing companies, and ensuring the long-term future of ALMOs. In particular, the HCA will have an important role in promoting best practice and the development of these and other mechanisms to support and enable local authorities to add to their own housing stock. (Paragraph 230)

See response to recommendation 52 above.

54. The national Housing Revenue Account system creates uncertainty and resentment and does not reward best practice. There is widespread consensus that the system is not working. We welcome the Government’s attempts to investigate reform and look forward to seeing the results. We recommend that reforms to the system focus not only on removing from it the perverse incentives resulting from the subsidy system, but also on enabling councils to use the system either to build directly or to fund the construction of more social rented homes. (Paragraph 239)

See response to recommendation 25 above.

55. We recommend that guidance on the appropriate development of infilling schemes be made widely available to local authority planners. (Paragraph 245)

This is a matter to be decided locally according to local circumstances. *Planning Policy Statement 3* strengthens the tools that local authorities already had under previous policy to turn down inappropriate development on infill sites. It requires local authorities to clearly identify land for development. Local Planning Authorities can also set individual brownfield targets that apply only to infill sites, separating out from other sorts of brownfield such as derelict land. The new policy also places a much stronger emphasis on the quality of residential design and layout. *Planning Policy Statement 3* makes it clear that design which is inappropriate in its context, or which fails to take the

opportunities available for improving the character and quality of an area and the way it functions, should not be accepted

Local authorities can set strong and specific local policies that indicate the appropriate level of infilling in particular areas. This is, to some extent, already happening. We are already aware of local authorities that have set out particular criteria-based policies, advising on the circumstances by which proposed development on infilling might be permitted, such as the new development would need to maintain the form and pattern of existing surroundings, and that it should not affect the amenity of existing residential properties through obtrusiveness or loss of privacy. It may also be possible, as some have done, to formulate policies which are for specific locations within a local plan area, provided it was justified through the plan process. Whilst not a block as such, they could offer an additional form of ‘protection’ of inappropriate infilling development, over and above general design quality policies they might have.

Coordinating management of homes

56. A consistent approach to the management of homes and surrounding facilities is needed. All local authorities should review the management of homes in their areas to draw upon efficiencies and improved processes that could be derived from better coordination. We recommend that Communities and Local Government provide clear and appropriate guidance to authorities on reviewing management, and provide support to local authorities throughout this process. In addition, we recommend that a review of the principle of charging VAT for management services be undertaken, with a view to lowering the rate. (Paragraph 248)

Professor Martin Cave’s *Review of Social Housing Regulation – Every Tenant Matters (June 2007)* noted that “diversity of provision could be particularly vibrant and beneficial for tenants in relation to the management of social housing” and that “tenants living in relative isolation from their provider’s main holdings could benefit from having their housing managed by a body with a larger local presence”.

The Select Committee’s findings affirm the case for rationalisation of housing management services where this stands to bring benefits to tenants through delivery of better and more efficient services.

The Government recognises that there may be benefits to be gained from authorities reviewing local arrangements where there is evidence that they are creating problems in delivering effective housing management services. Any review should reflect the views of those tenants affected.

The Government has made clear its intention to legislate as quickly as is practicable to enable the Tenant Services Authority to regulate local authority providers (extending its role to cover all social housing providers). Once the Tenant Services Authority has been established across the domain this would better support a review of the type the recommendation proposes (should the regulator consider this appropriate).

Cross-domain regulation stands to bring benefits in terms of greater flexibility regarding management arrangements as all providers will be subject to a common regulatory framework.

Role of housing associations

57. We recommend that Communities and Local Government ensure that, through the rent restructuring process in particular, rents allow housing associations to devise and, more importantly, to implement viable new housing schemes. Oftenant and the Homes and Communities Agency must work very closely together to ensure that the rents are affordable to tenants but also economic to social housing providers. To this end, we recommend that they jointly publish an annual report on how they have coordinated rents and the level of subsidy for building new social rented homes. (Paragraph 252)

It is very important that Tenant Services Authority and Homes and Communities Agency work closely together to ensure that rent levels are set in such a way as to balance the needs of tenants and new supply. The Tenant Services Authority's fundamental objectives require it to balance these priorities. It is also required to consult the Homes and Communities Agency on a number of issues, including on setting standards on rent levels, and the two bodies have a duty to co-operate. This is also one reason why the Secretary of State has a right to direct the Tenant Services Authority on rent levels, so that the balance reflects national policy. Given that the two bodies will have a memorandum of understanding on issues such as this, we do not think a separate joint annual report is necessary.

58. The Housing Corporation has been right to expect housing associations to use their built-up surpluses as effectively as possible to build more homes and increase the supply of social rented housing. Following passage of the Housing and Regeneration Bill, Oftenant and the Homes and Communities Agency will need to work very closely together to undertake effective monitoring of the financial capacity within housing associations. We recommend that these agencies seek not only to ensure that surpluses are used effectively, but to persuade housing associations which are not using their assets in the most efficient manner to work towards a position where they, too, can help to meet the urgent need for more housing stock. (Paragraph 255)

We agree that Housing Associations should use their assets as effectively as possible and the Tenant Services Authority will be working closely with the Homes and Communities Agency to encourage Housing Associations to find innovative solutions to ensure their surpluses are used effectively.

59. The Government is right to encourage housing associations to diversify into other private and social enterprises. Additional income can support the construction of new homes, and housing associations can make a vital contribution towards making communities more sustainable. There is plenty of room for further and wider development of this activity, building on the strengths of each housing association. We

recommend that Oftenant, the Homes and Communities Agency and the Government all take further steps to encourage housing associations to diversify from their core programmes. At the same time, the risks involved must be closely monitored. We therefore further recommend that the Government examine the viability and benefit to social housing providers of the introduction of financial guarantees such as are offered in the Netherlands, to mitigate the risks involved in investment in non-core and income-earning activities. The provision of such backing should be dependent upon a satisfactory assessment of the quality of management of the housing association concerned. (Paragraph 266)

We agree that diversification by Housing Associations can have positive impacts on housing numbers. This is an interesting suggestion and we will examine the system in the Netherlands. Subject to the outcome of these enquiries, the Government will consider whether it would be helpful to carry out a more detailed exploration of the issues and if necessary examine with the Homes and Communities Agency and Tenant Services Authority how these risks can be mitigated to ensure maximum positive impact.

Housing associations are independent organisations and we encourage them to develop private and social enterprises outside of their main purpose of delivering and managing social housing and within the constraints of their constitutions (which require them to be non-profit distributing and focused on housing issues). The Tenant Services Authority has objectives to encourage new supply, which is in part provided by cross-subsidy from market sales, and landlords' contribution to the environmental, economic and social well-being of the areas in which they own stock – though its core interest is rightly in the basic housing service tenants receive.

Worklessness, benefits and the role of social landlords

60. Worklessness is a complex issue and it will need intervention from a wide variety of different bodies if it is to be tackled successfully. Social housing providers can and should play their role in this, but it is crucial that they be able to focus on their core tasks of making better use of the existing stock and constructing badly needed new homes. (Paragraph 271)

The Tenant Services Authority (TSA) will need to ensure tenants' priority concerns are met on the quality of the basic management service offered by landlords, such as on maintenance or dealing with anti social behaviour. However it is also clearly important that the high levels of worklessness in social housing are addressed, and we agree that social housing providers can and should play an important role in doing so. The Government or the TSA may support providers' initiatives in tackling worklessness. The TSA also has the power to set outcome-based standards for social housing providers on issues connected to social housing, which might include appropriate standards on tackling worklessness.

61. Social housing providers should be mindful of the negative consequences of polarising worklessness and deprivation within their housing, and should take whatever steps they can to address or avoid them. In particular, their allocation schemes should be designed so as to enable the movement of tenants who are making a genuine attempt to become more engaged in employment, including self employment. We recommend that Communities and Local Government enable housing associations and local authorities to trial alternative weightings within allocations and choice-based letting schemes designed to increase mobility in employment. We also recommend that Communities and Local Government ensure that other relevant government departments, notably the Department for Work and Pensions, support that process. We would not, however, support any change which made security of tenure conditional on seeking employment. (Paragraph 273)

We agree that we cannot ignore the fact that over half of social tenants of working age are without work. Many of these people would like to work, but may face real challenges and barriers.

The security and low rents of social housing should provide a platform for people to get on with their lives, improve their skills and prospects. That isn't happening, so we are asking how things need to change.

We've announced a £1.5bn Communities and Local Government and the Department for Work and Pensions fund to tackle worklessness in the most deprived areas and will be piloting integrated housing and job advice this year. We have also asked the Chartered Institute of Housing and Housing Corporation to develop a 'tool-kit' of good practice based on the work already being undertaken by landlords to support their tenants into work.

Looking forward, we want an open discussion over the next few months about how we create greater opportunity and support people into work to inform and develop proposals for the forthcoming Housing Reform Green Paper.

As set out in the response to recommendation 62 below, we are committed to ensuring that social housing tenants have more choice and control over where they live. We believe this is the best way to build communities which are stable, viable and inclusive.

Choice-based lettings

62. We recommend that Communities and Local Government take steps to demonstrate that it is treating the improvement and development of choice-based letting schemes to a national level as a high priority. (Paragraph 281)

We want all local authorities to operate choice-based systems by 2010 and will support them in achieving this aim. To increase choice and opportunity further we want to make it as easy as possible for tenants to move between local authority, housing association and privately owned accommodation. We are therefore keen to encourage the extension of choice-based lettings to

cover low cost home ownership options and properties for rent from private landlords, as well as social housing. On 27 August 2008, we issued revised statutory guidance¹⁸ to local authorities on choice based lettings following a consultation exercise.

We have already granted local authorities £5 million in the first three rounds of the Regional Challenge Fund to implement sub-regional Choice Based Lettings (CBL).

We are currently running a fourth round of the Regional Choice Fund – applications need to be submitted on 10 October 2008 – to enable local authorities to implement sub-regional CBL schemes.

Social housing applicants and existing social tenants already have the right to apply directly to any housing waiting list across the country through direct applications or applications to a Choice Based Lettings Scheme.

Our research show that over 75% of social tenants seeking a move want to move within 5 miles of their current home – local and sub-regional CBL schemes will help these social tenants to move to their preferred location.

We are supporting the Housing Corporation to carry out research with key Registered Social Landlords and local authorities into the demand for national mobility. This research includes looking at the option of landlords contributing a percentage of lets for mobility. This of course would need to happen without undermining the statutory preference categories. We expect the final report from this research to be available in October 2008.

We re-launched the Seaside and Country Homes (for older tenants) and LAWN mobility schemes in July 2007. This has already given over 220 London-based tenants the opportunity to move into more appropriate accommodation of their choice and in so doing released much needed properties in London.

We are working with social landlords to identify hard to let sheltered accommodation with a view to expanding the Seaside and Country Homes Scheme to include these additional properties in our portfolio.

Temporary-to-settled schemes

63. Necessary though they may be, reforms of the housing benefit system must not result in, as one of our witnesses put it, “throwing the baby out with the bathwater” when it comes to temporary-to-settled schemes. We recommend that, in implementing those reforms, the Government ensure the continued viability of temporary-to-settled schemes and the opportunity which they represent to use public funds which would otherwise only benefit a private landlord to increase the supply of social rented homes improved to a decent standard. We recognise that it is a costly approach, but so is paying for private accommodation for homeless households. (Paragraph 300)

¹⁸<http://www.communities.gov.uk/publications/housing/lettingscodeguidance>

The Government is fully supportive of the current and future development of temporary to settled initiatives. In 2007, £30 million was provided for a pilot scheme to enable six schemes in London to purchase around 900 empty homes and convert them over time into quality settled social housing. A further £50 million has been allocated to support the development of new schemes between 2009 and 2011. The Communities and Local Government economic analysis of existing temporary to settled housing schemes shows that they are good value for money compared with temporary accommodation and comparable to favourable value for money when compared with traditional capital investment in social housing. Schemes rely on the revenue stream provided through subsidy on Housing Benefit payments to cover in part the revenue costs supported by grant funding. The Government will fully consider the implications for temporary to settled schemes of any proposals to reform the Housing Benefit system and recognises that there are additional costs associated with providing temporary housing including providing temporary to settled schemes.

64. Meanwhile, we emphasise once again the importance of increasing the supply of social rented housing. Only by increasing that supply can the huge long-term costs of housing benefit, not to mention the misery of households forced to live in poor quality temporary accommodation, be reduced. (Paragraph 301)

As stated previously in this report, the Government recognises the need for more social housing which is why they are increasing supply by 50% by 2010/11. The target is to increase provision of new affordable housing to 70,000 by 2010-11, of which 45,000 will be for new social rented homes and 25,000 for new low cost home ownership. The Government has also committed to go further in subsequent years to reach 50,000 new social rented homes per annum in the next spending review period. As part of the package announced on 2 September, we are bringing forward £400m from our 2010-11 affordable housing budget to deliver up to 5,500 social rented homes over the next 18 months on top of current assumptions.

The Government has worked closely with local Government, and invested significant resources, to end the use of bed and breakfast accommodation for families with children (for more than 6 weeks) and improve the quality of temporary accommodation provided under the homelessness legislation. The Government has set a target of halving the number of households in temporary accommodation by 2010 (from a peak of 100,030 at 31 December 2004). Local authorities are making good progress in meeting this target and the number of households in temporary accommodation had reduced to 77,510 at 31 March 2008. Of these, 87% were living in self-contained, accommodation.

Recent research¹⁹, the first nationally representative survey of statutory homelessness among families and children and 16-17 year olds, shows that while there was a greater incidence of problems with physical conditions reported in self-contained temporary accommodation compared to similar

¹⁹Statutory Homelessness in England: The experience of families and 16 -17 year olds, COMMUNITIES AND LOCAL GOVERNMENT, March 2008

problems reported in settled housing, there was no substantial difference between self-contained temporary accommodation and settled housing in respect of state of repair or dirty when the families first arrived. Moreover, satisfaction was generally higher in self-contained temporary accommodation than in settled accommodation in respect of facilities such as cooking and bathroom facilities, and sleeping arrangements.

Private rented sector

65. Complaints about the burden of regulation on investment in the private rented sector are understandable, but we are not convinced that the effect of regulation is to disadvantage larger institutions, either by comparison with other investors or by comparison with alternative investment possibilities. Nonetheless we recommend that, when reviewing the future of regulation of the private rented sector, the Government investigate the potential for improvements to the regulatory process to encourage further investment from larger institutions to improve supply. (Paragraph 304)

The independent Review of the Private Rented Sector will be looking at issues of regulation of the sector more generally alongside consideration of how best to encourage growth in the sector, including, where appropriate more investment by larger institutions.

66. The tax system should not impede or deter any housing provider from taking the steps necessary to improve the supply of rented housing. We recommend that Communities and Local Government investigate, in cooperation with the Department for Business, Enterprise and Regulatory Reform and the Treasury, reforming the taxation system and introducing other measures:

- **to promote greater institutional investment in the private rented sector;**
- **to encourage higher standards of maintenance and responsible management of homes;**
- **to promote greater investment in energy efficiency; and**
- **to enable the greatest possible amount of money to be available for improvement of the supply of rented housing, including abolishing corporation tax on cross-subsidy deals by housing associations where it can be demonstrated that the proceeds are being used for the provision of affordable housing. (Paragraph 308)**

The taxation of rented housing is kept under review as part of the Budget process.

In particular, HM Treasury continues to keep the Real Estate Investment Trusts (REIT) regime under review and have been in discussion with key stakeholders on potential reforms that may encourage the formation of a residential REIT. However, it is not currently clear that changes to the REITs regime would have the desired effect and offer value for money to the taxpayer.



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