


Social housing in the East: Challenges for the region and implications for the UK

Cambridge Centre for Housing
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East 7 is the voice of housing in the East of England. Our members are Aldwyck Housing Group, bpha, Circle, Cross Keys Homes, Estuary Housing Association, Flagship Housing, Grand Union, Hightown Praetorian & Churches Housing Association, and North Hertfordshire Homes.

BACKGROUND

This report was undertaken by Cambridge Centre for Housing & Planning Research, and commissioned by East 7, a group of the most significant housing associations in the region committed to development. It is designed to inform the strategic thinking of national and local government and the social housing sector. It also aims to build public understanding of the key challenges and opportunities that the region will face in the future.

The region, with its spread of different types of local authority area, typical of England as whole (with the exception of Inner London), is a potential test of whether the new financial and welfare regimes can work, and produce the housing required. If the system struggles to deliver in the East, then it is also unlikely to produce the desired results elsewhere.

The study was undertaken in early 2013 and involved data analysis, interviews with East 7 members, and presentations to and discussions with the East 7 group.

Supporting evidence may be found at
www.cchpr.landecon.cam.ac.uk



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East 7's reflections on the report

The need for freedoms and flexibilities for housing associations

Introduction

East 7 is the voice of housing in the East of England. We are an informal alliance of nine of the largest developing housing associations based across the East of England's six counties.

We have long been conscious of the importance of the region: it is one of the most dynamic and fastest growing regions in the UK, home to over 430,000 businesses and 5.6 million people; it is the region with the highest level of investment in research and development; and the lowest public-sector employment.

More than that, the region is a mirror for the rest of England, with its spread of the different types of local authority area. To the extent that it differs it is in that there are fewer problems of poverty and deprivation than in much of England and therefore, if housing need is to be met in any region, it will be in the East.

We are keen to help government and other stakeholders understand how the housing picture will develop in the next five to ten years in England. The major aim is to move the current debate to a clearer focus on the longer term, what issues must be addressed and how we can move forward.

The key challenges and solutions

1. The current system will not provide housing across the board. Housing associations in the East of England have made a major contribution to the building of new homes but, unless alternative sources of subsidy are found, their development will be increasingly focused in expensive areas, and on larger dwellings.

If housing need across the region is to be met then housing associations will need:

- ▶ **Greater flexibility in the setting of rents**
Affordable Rent is currently confined to new tenants and some re-lets and therefore yields a limited stream of additional revenue. Greater flexibility in setting rents would help to balance a reduction in capital funding. Whilst there may be concerns that this could lead to across-the-board increases, the roll-out of the new Affordable Rents regime should offer reassurance – housing associations have varied the level at which rents are set, often well below the permitted 80%, based on their assessments of what their tenants can afford.
- ▶ **Greater freedom to use revenues generated from Affordable Rent, without geographical limit**
If development programmes are to be successful beyond the London fringe and into East Anglia, they are likely to require an increasing proportion of cross subsidy, generated mainly from the London fringe. Housing associations with reach across the region will have to balance the competing needs of different areas and the expectations of local authorities. Under the current situation Affordable Rent is only permitted as part of a development programme approved by the HCA, in collaboration with the local authority, and has geographic restrictions.

2. You can't build your way out of under-occupation. If all appropriate re-lets were reserved to allow under occupying tenants to move to smaller homes, it would still take nearly eight years to re-house all current tenants who require a downsize to 1 bedroom accommodation. Even if 75% or 80% of all new build completions were 1 bedroom homes, and all were used for downsizing transfers, it would take 11 years to re-

house all 30,000 tenants who require 1 bedroom homes.

To achieve greater efficiency and better use of social housing stock, housing associations will need greater freedom in the sale of their assets in order for them to rationalise their portfolios to best meet local housing and community needs.

Flexibility on use of assets

Housing associations are often able to dispose of stock in one location which then would allow them to build more units in another location. However, in the current system, under Section 133 of the Housing Act 1988, any housing association which is a Large-Scale Voluntary Transfer (LSVT) would need to get permission from the Secretary of State to dispose of its stock. This inhibits housing associations by creating a bureaucratic barrier to managing and rationalising their stock to provide the largest number of homes possible for the minimum public investment.

Flexibility on historic grants

Housing associations would be able to innovate to a much greater degree if historic restrictions were eased. A single home valued at £160,000 sold on a shared ownership lease, outright, or three similar homes let at market rent, could generate funding sufficient to provide:

- 2 new social homes for rent and another for sale through shared ownership; or
- make major adaptations to 24 homes, thereby enabling people with disabilities to live improved lives in their existing neighbourhood and community; or
- provide funding for 4 loft conversions to help tackle overcrowding problems of 4 families.

However, where the original property was funded by grant then the money must be returned to a separate pot called the Recycled Capital Grant Fund (RCGF). The rules are very restrictive, including being time and area limited, and limit the kinds of property that can be acquired.

3. Councils may end up housing more vulnerable people in the private rented sector instead of housing associations. Welfare reforms and changes to the rent regime will pressure housing associations to 'derisk' their income streams by allocating a higher proportion of lettings to households in work. This may result in divergence in the sector between housing associations who control their own allocations policies and those who are more dependent on local authority allocations (notably LSVTs).

Housing associations will need flexibility in allocations

Accepting the current funding regime, it is clear that housing associations will need flexibility in allocations and that this will require them to work more closely in partnership with local authorities to manage existing homes and bring forward sites to build houses on.

Sharing the risk through provision of land at 'less than best consideration'

If local authorities are able to reduce risk for the housing associations in other areas, such as with the provision of public land, this substantially changes the assessment of who housing associations can serve and what they can build. The Planning Policy Statement 3 (the framework for delivering the Government's housing objectives) allows for public bodies to dispose of their land at 'less than best consideration' (below full market price) if there is a community benefit. However, in practice, public bodies often do not utilise this rule as they are required to justify the decision to the Treasury, making the process burdensome and bureaucratic. As a result, public land is often sold for private development rather than being used for affordable housing or other community activities. We would like to see measures introduced to incentivise local authorities to use these rules more effectively.

Executive Summary

The challenges

This report explores the realities of the new financial and welfare reform regimes for housing associations in the East region. It provides a grounded assessment of the challenges to be faced and the choices to be made. It suggests that the likely outcomes are some distance from what is required in housing supply terms in the region and that further thought must be given to the practical realities of the Government's planned programmes.

The challenges are:

- ▶ The aftermath of the global financial crisis has significantly affected the wider housing market, giving further momentum to a decline in home ownership and the growth of private renting, together creating new pressures for social landlords to respond to.
- ▶ The most immediate outcome has been the reduction and ultimate removal of direct grant for new social housing investment. Instead, the new funding regime relies upon increased rent income from higher Affordable Rents.
- ▶ The need to reduce the financial deficit, as well as wider policy drivers, has also led to a series of welfare reform measures, including reductions in benefits that impact on the incomes of tenants and for the first time on social landlords. As a result they must juggle helping tenants adjust to reduced income while continuing to ensure rental income and minimise rent arrears.
- ▶ Social landlords must also respond to the withdrawal of the spare room subsidy by reworking their lettings and development policies to assist under-occupying tenants to downsize while at the same time retaining coherence in their overall operational and strategic plans.
- ▶ Most fundamentally, the new regime has generated a riskier environment which social landlords must take into account while maintaining their mission to help the vulnerable and poorly housed.



The conclusions

- ▶ **The current system will not provide housing across the board.** Housing associations in the East of England have made a major contribution to the building new homes but, unless alternative sources of subsidy are found, their development will be increasingly focused in expensive areas.
- ▶ **You can't build your way out of under-occupation.** If all appropriate re-lets were reserved to allow under occupying tenants to move to smaller homes, it would still take nearly eight years to re-house all current tenants who require to move to 1 bedroom accommodation. Even if 75% or 80% of all new build completions were 1 bedroom homes, and all were used for downsizing transfers, it would take 11 years to rehouse all 30,000 tenants who require 1 bedroom homes.

And weighing this evidence, there are three clear consequences:

- ▶ **Councils may end up housing more vulnerable people in the private rented sector instead of housing associations.** Welfare reforms and changes to the rent regime will pressure housing associations to 'derisk' their income streams by allocating a higher proportion of lettings to households in work. This may result in local authorities placing a higher proportion of vulnerable households in the private rented sector, and a divergence in the sector between housing associations who control their own allocations policies and those who are more dependent on local authority allocations (notably LSVTs).
- ▶ **Associations in the East, as elsewhere in the country, will be re-examining their priorities.** The new environment means they will have to face up to some complex reworking of what they do. The overall policy package will force a re-examination of who they can serve and what they can build. Sticking to the traditional paths will pose real risks to viability and sustainability.
- ▶ **The Government will need to consider the realities of how its policies work out on the ground very carefully.** The geography of the East is not untypical of much of England and this study shows that the uneven market potential of the East poses real limits to what can be achieved under these new regimes. If the Government wishes to ensure an adequate housing supply of affordable housing then it will have to allow more scope to adjust policy to local circumstances and provide the funding to achieve that aim.

SECTION 1: The East

Summary

This section uses 2011 Census data to set out a classification of local authorities in England and the East as a starting point for the analysis and assessment that follows in the rest of the report.

The classification focuses on key housing related variables and provides a grounded typology of the region and the potential for development that might exist within it.

Of the eight local authority (LA) cluster typologies identified in England, seven exist in the East. Each local authority in the East is assigned to a named cluster.

The analysis shows that:

- ▶ The East is in many ways similar to the rest of England except that it is more concentrated among affluent areas and less in major towns and cities.
- ▶ There are also fewer older households and more concentrations of younger households who live mainly in the private rented sector.
- ▶ Thus, overall there should be more resources available to households in this region and to some extent fewer problems of poverty and deprivation, than in much of England outside the South East.
- ▶ So if government housing policy is going to be successful it should work in the East.
- ▶ The capacity to support large scale development of affordable housing will vary considerably within the region.
- ▶ In general, there will be greater potential in higher cost and higher market demand areas, so the greatest opportunities to develop are in the authorities closer to London.

Introduction: the geography of housing

In exploring how government and the sector might respond to the changing policy environment, it is important to begin with a brief summary of the characteristics of the region in social and economic terms, how these are changing, and the wider relevance of these findings.

As a starting point a simple classification of local authorities in England was undertaken using the cluster analysis technique which puts together authorities on the basis of their similarity with each other across a range of selected variables. This is shown in [Map 1](#).

This research identified eight types or clusters of local authorities in England, based on key indicators from the 2011 census:

- ▶ Proportion of outright owner occupiers.
- ▶ Proportion of private and social housing tenants.
- ▶ Proportion of people in part-time work (as a proxy for low earnings).
- ▶ Proportion of people living in couple households.
- ▶ Proportion of single people.
- ▶ Proportion of cohabitees.
- ▶ Proportion of households experiencing deprivation.
- ▶ Proportion of people experiencing ill health or disability.
- ▶ Proportion of people who are not White British.

The clusters therefore represent different mixes of households who may be in need of affordable housing. The capacity to meet these needs will similarly vary between areas dependent upon both past investment and current market conditions.

Each local authority is assigned to a cluster and mapped below, according to their degree of similarity. [Map 1](#) shows the whole country and clarifies how the clusters concentrate particularly in segments moving out from London.

[Map 2](#) then focusses on the East region. The results show that seven of the eight clusters are represented in the 47 local authorities in the East. The only cluster that does not appear is Cluster 7, which only contains Inner London Boroughs.

A brief characterisation of each of the eight clusters is given below with more detail of each cluster given in Appendix 1.

Maps 1: England local authorities with similar characteristics grouped together



Cluster 1: Rural England

This is the most common cluster across England. It is characterised by low density development; lower house prices but larger houses and fewer flats and terraced houses; the highest proportion of outright owner occupiers; and the lowest proportion of renting. Fourteen local authorities in the East are in this cluster (12% of all such LAs) including for example Kings Lynn and West Norfolk and Fenland.

Cluster 2: Affluent England

This is the fourth largest cluster across the country – and almost a quarter of the total of 41 local authorities are in the East – including for instance Chelmsford and East Hertfordshire. It is characterised by low density and high house prices; low renting; a low incidence of deprivation; and a higher than average number of couples, but lower than average cohabiting.

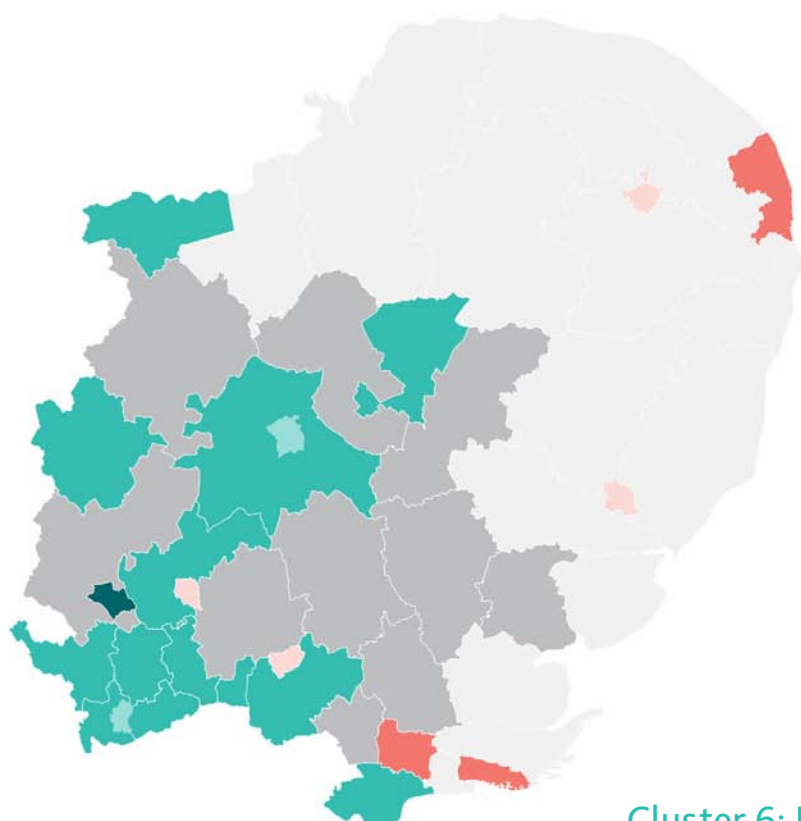
Cluster 3: Traditional towns

This cluster is close to the England average for most characteristics, except that they include only half the national proportion of people who are non-White British. It is the third largest group including a mix of older industrial towns, ports and traditional 'county towns' generally with lower house prices and lower demand. Only three (6%) are in the East – Great Yarmouth, Southend on Sea and Basildon.

Cluster 4: Major towns and cities

This cluster of 18 nationally, of which four are in the East, is small in number but includes a significant proportion of the overall population. It is characterised by relatively lower house prices; above average numbers of mortgagors and renters; a younger population with above average cohabiting; but still only three quarters of the England proportion of people who are non-White British. Examples in the East include Ipswich and Harlow.

Maps 2: Eastern local authorities with similar characteristics grouped together



Cluster 5: Middle England

This is the second largest group nationally and in the East where over 20% are located. This cluster is fairly typical of the national average in every household characteristic, including ethnicity, although there are slightly fewer tenants and less ill health. Examples in the East include Three Rivers, Epping Forest and Peterborough. The description 'Middle England' is used because the authorities in this cluster are closest to national averages on these measures. Of course, within local authorities there will be significant pockets of deprivation. In some authorities immigration has been a significant factor; areas with a high proportion of non-White British ethnic groups including Asian populations are Peterborough (12%) and Bedford (11%).

Cluster 6: Renting and mobile

This is a small cluster with 14 local authority areas overall two of which – Cambridge and Watford – are in the East. It is characterised by below average numbers of outright owners but above average numbers of tenants. There are more singles and cohabitees and less ill health than average: a younger and more affluent population.

Cluster 7: Inner London

This is the smallest cluster but the highest density of population with very high proportions of renting and cohabiting, and an exceptionally high proportion of people who are non-White British. There are no similar examples outside inner London.

Cluster 8: Settled diversity

Finally, Cluster 8 includes 18 local authorities nationally but only Luton in the East. The cluster of authorities includes a high proportion of people who are non-White British, but more buying with a mortgage and fewer renting. There are more couples, but fewer cohabitees.

Implications

This cluster analysis makes clear that the East in many ways reflects most of the rest of England. To the extent that the East differs it is in being more concentrated among affluent areas and less in major towns and cities. Overall it has fewer older households and more concentrations of younger households who live mainly in the private rented sector.

One important implication is that overall there should be more resources and opportunities available in the region, as well as fewer problems of poverty and deprivation, than in much of England outside the South East. Thus, if the new policies to provide social and affordable housing are going to be successful it must be able to work in the East.

This should not be taken to imply that there are few problems in the East especially in rural, coastal traditional towns and middle England areas. There are many areas of deprivation and rapid change in the East generating major housing problems. Of particular concern are areas with large and growing immigrant populations which include rural areas as well as population centres such as Peterborough and Bedford.

A second important implication is that the capacity to support large scale development of affordable housing will differ considerably between the different localities within the region. As a generalisation there will be greater potential in higher market demand areas, notably in authorities in Clusters 2, 5 and 6 and far fewer opportunities in authorities in Clusters 1, 3 and 4. The strong spatial patterns suggest that potential will be concentrated nearer London and there will be fewer opportunities in the coastal areas of the region.

Finally, we know that across the region, and indeed across almost the whole country, there will be increases in population and households over the coming decades. The latest figures suggest that over 220,000 additional households will form in England each year over the next decade and growth will be disproportionately in the East, South East and London. Yet the East and South East are among the regions with the least social housing stock. At the same time, housing waiting lists are rising across England and the East region. Most of these housing needs cannot be met from existing housing. New development both market and affordable is necessary in every authority.

SECTION 2: Development in the East: choices and opportunities

Summary

The objective of this section is to clarify the possible strategies available to housing associations in the East with respect to development and funding. It starts from the assumption that there is a need for development in all areas but that the differentials in resources and capacity between the identified clusters of local authorities and their residents will make this difficult to achieve.

The analysis shows that:

- ▶ The headroom available to raise rents to achieve a larger revenue stream under the Affordable Rents programme varies greatly between areas and property sizes.
- ▶ Other investment scenarios with potential include using cross subsidy from reserves, more market oriented development, and the use of public land and S106 agreements.
- ▶ Given the reduction in mainstream government funding, future development will depend not only on how much revenue can be obtained from increasing rents and the other sources of funding that can be found to support new development, but also on the appetite registered providers have to take on the additional risks involved and their stance on who should be housed.
- ▶ The mix of investment chosen will depend on local opportunities as well as on local authority planning and allocations policies.
- ▶ And there is always the option not to develop.



Introduction: the choices to be made

The Government has introduced a radically new approach to the funding of social housing new build programmes. Capital grants now play a much smaller role and are essentially seen as a top-up of other sources of funding, including additional borrowing capacity funded by higher Affordable Rents, cross subsidy from other activities, and the provision of free or discounted land or local authority contributions. A brief summary of the new financial regime is in Appendix 3.

Although the new funding regime opens up a wide range of possible responses and new opportunities for developing housing associations, they will necessarily have regard to a number of key issues and tensions:

- ▶ How far rents can prudently be increased under the Affordable Rent regime.
- ▶ What this implies for choices of both location and mix in development.
- ▶ The extent to which other forms of cross subsidy are available to reduce the need to increase rents (for example, to avoid rents rising above the LHA limit).
- ▶ The extent to which other sources of income, for example from developing for market rent, can contribute to cross subsidy.
- ▶ The impact of the above decisions, particularly on dwelling mix, which will affect other policies in areas such as under occupation and allocations.

The funding choices and opportunities that exist for housing associations in this new financial regime in different areas can be grouped into five possible scenarios. Each of the various types of local authority areas represented in the different clusters will exhibit a different set of choices and opportunities. The five generalised scenarios are:

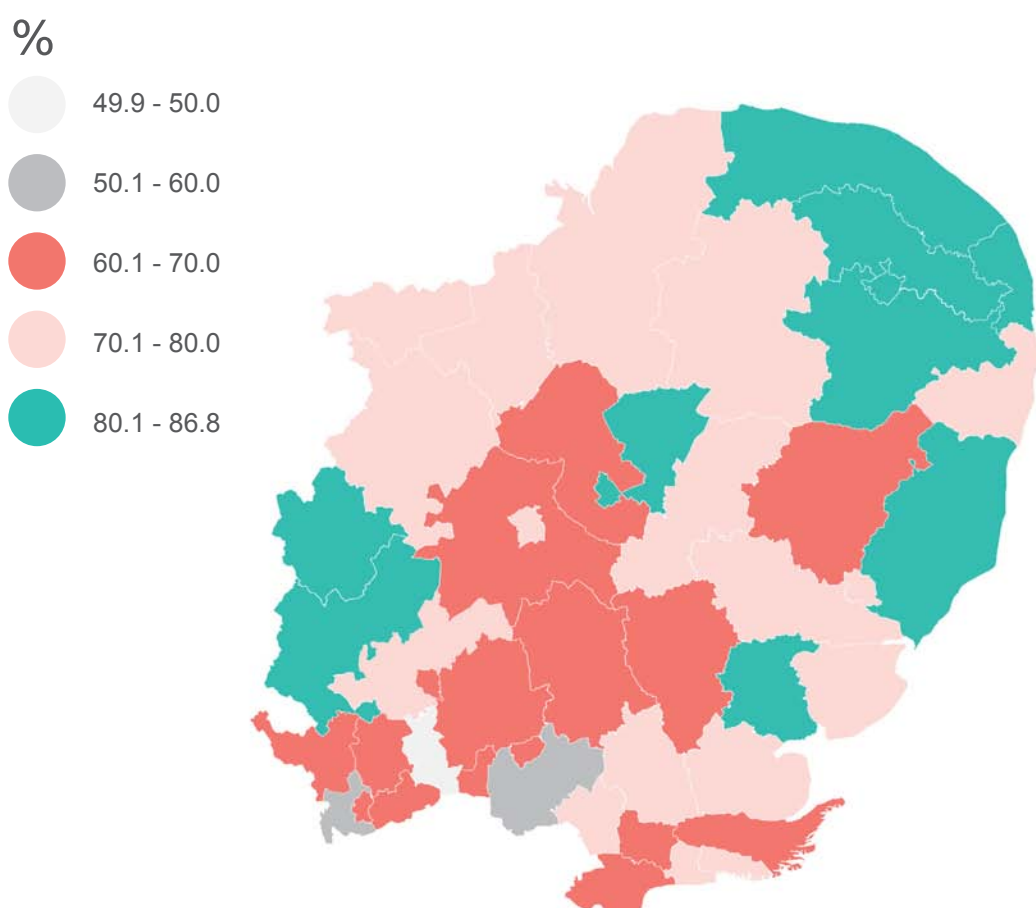
1. Areas and dwelling types where development will be difficult because rents are already high

The new financial regime assumes that reductions in capital grants will be offset by increased borrowing supported by higher Affordable Rents.

But, in many areas in the East, target rents are already very close to, or in excess of, 80% of the Local Housing Allowance (LHA) and there is thus little scope for higher Affordable Rents to support new developments.

This is particularly true for 1 bedroom dwellings, where current social housing rents, based on the existing target rent regime, are already at or above 80% of the LHA in a large proportion of East's local authorities, as shown on [Map 3](#) below:

Map 3: Rents of 1 bedroom properties, as % of the LHA in each local authority area



Note: The map shows the average rents of 1 bedroom homes owned by non LSVT housing associations as a % of the main LHA in each area.

In the East, the average rents of 1 bedroom homes are already in excess of 80% of the LHA in 10 local authority areas:

- ▶ Bedford
- ▶ Broadland
- ▶ Central Bedfordshire
- ▶ Colchester
- ▶ Forest Heath
- ▶ Great Yarmouth
- ▶ North Norfolk
- ▶ Norwich
- ▶ South Norfolk
- ▶ Suffolk Coastal

In nine more local authority areas average 1 bedroom rents are between 75% and 80% of the LHA:

- ▶ Breckland
- ▶ Brentwood
- ▶ Cambridge
- ▶ Fenland
- ▶ Ipswich
- ▶ King's Lynn and West Norfolk
- ▶ Maldon
- ▶ Peterborough
- ▶ Southend
- ▶ Tendring
- ▶ Waveney

Only in Welwyn Hatfield are average 1 bedroom rents less than 50% of LHA.

Nearly three quarters of the local authority areas in Cluster 1 and two thirds of those in Cluster 3, already have average rents of 1 bedroom properties above 75% of the LHA. On the other hand only two of the 10 areas in Cluster 2, Central Bedfordshire and

Colchester, and only one of the 13 areas in Cluster 5, Peterborough, have average rents already above 80% of the LHA. So headroom in relation to rents exists mainly in the more affluent and middle income areas.

There are a number of implications for areas where average rents are already at, or near, Affordable Rent levels:

- ▶ As rents approach market levels, Associations will be exposed to additional competitive pressures from private sector landlords who will have quite a wide spread of rent levels around the market average. At present, housing association rents are not subject to the limits on Housing Benefit entitlement imposed by the LHA.
- ▶ But, where the Affordable Rent is above the LHA, Housing Associations may consider it too risky to charge rents above that level.

These perceived risks are, in turn, likely to inhibit possible policy options in other areas, such as possible responses to the withdrawal of the spare room subsidy.

The limited opportunities to offer under occupying tenants the choice of transferring to existing smaller accommodation (as discussed in Section 3) might call for an increase in the proportion of 1 bedroom dwellings in development programmes beyond the current 19% in order to increase the opportunity for transfer.

However, this would clearly be difficult to achieve across most of the East even at current levels of grant let alone without grant altogether. Any new development of 1 bedroom homes especially in the eastern part of the region is likely to require the diversion of other resources from the remainder of the programme in order to provide the cross subsidy needed to keep rents within the LHA limits.



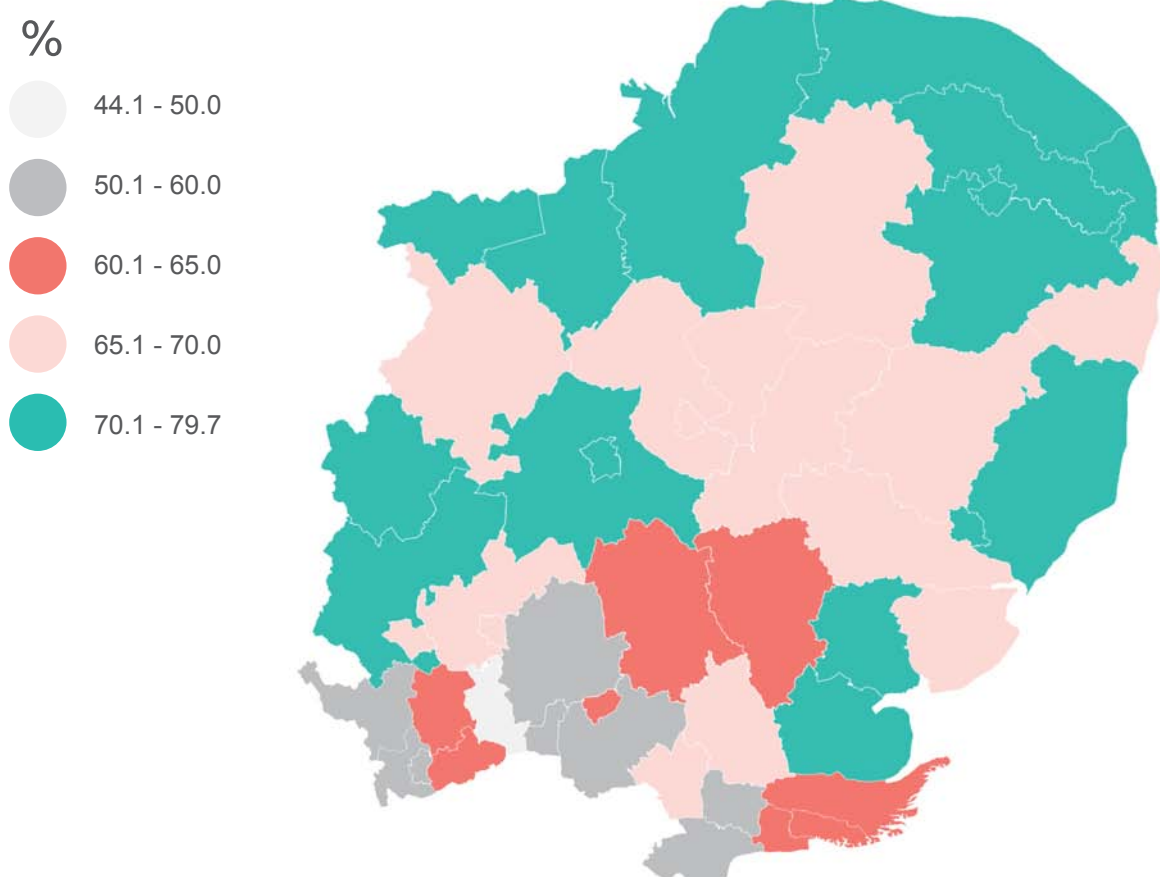
2. Development within the current funding Framework

The HCA Framework assumes that the primary funding for new development programmes will be the additional borrowing capacity created by a move from social rents to Affordable Rents, but the pattern of rents varies significantly both geographically across the East, and across different bedroom sizes.

The difficulties of developing 1 bedroom dwellings without increased (rather than reduced) levels of grant have been discussed above, but similar pressures affect the potential for viable developments in many local authority areas. The current rents of family dwellings have more scope for uplift to Affordable Rents, although in a third (16) of local authority areas in the East, the current average social rent is more than 70% of the LHA.

Map 4 below shows the pattern of current average rents for 2 bedroom properties, compared to the LHA in each local authority area. The map shows that development is most likely to be concentrated around the London fringe, and therefore in more affluent and 'middle England' type areas where the gap between social rents and the LHA is the greatest.

Map 4: Current average 2 bedroom rents compared to LHA



Only two of the 10 areas in Cluster 2, Colchester and Central Bedfordshire, and three of the 13 areas in Cluster 5, Peterborough, Bedford and South Cambridgeshire, have average rents above 70% of the LHA, whereas eight of the 14 areas in Cluster 1 have rents above 70% of the LHA.

If development programmes are to be successful beyond the London fringe and into East Anglia, they are likely to require either an increasing proportion of cross subsidy, generated mainly from the London fringe or from public land, or through concentrating any remaining grant in the Cluster 1 and 3 local authority areas.

3. Development without grant, but relying on Affordable Rents

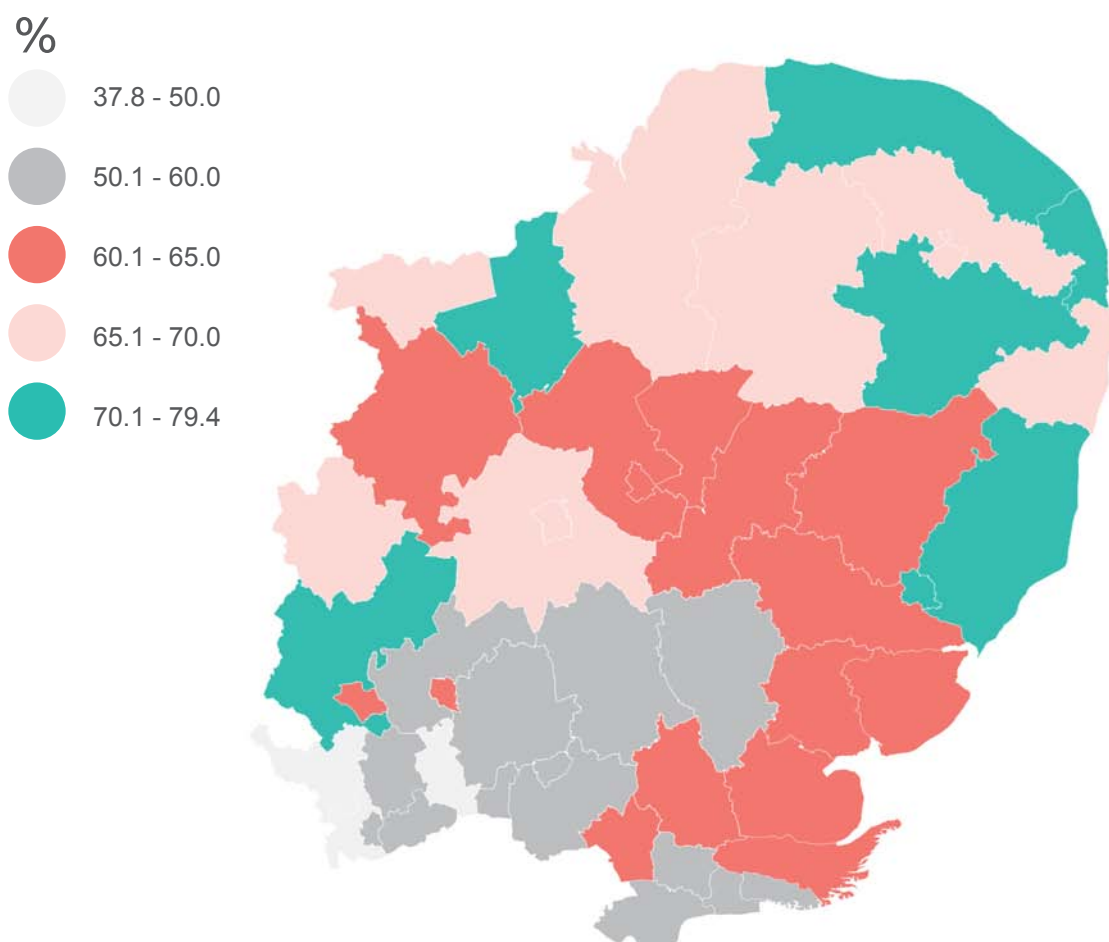
This option is likely to be viable primarily in areas which can combine both a significant uplift in rent income, from target rents to Affordable Rents, with additional cross subsidy from building for market sale and from free or discounted land for social housing development.

Again the need for a significant uplift in rent income is likely to concentrate development programmes towards larger houses, reflecting the larger gap between target rents and the LHA, and therefore to concentrate development into the London fringe.

The possibility of further reductions in grant in future years, possibly to zero, increases the tendency for viable development prospects to become increasingly concentrated in areas of high potential rent uplift to Affordable Rents, combined with the continuing availability of free or discounted land.

Map 5 on page 18 shows the pattern of current average rents for 3 bedroom properties, compared to the LHA in each local authority area:

Map 5: Current average 3 bedroom rents compared to LHA



Again, only one local authority of the 10 in Cluster 2, Central Bedfordshire, has average rents above 70% of the LHA (and then only just, at 70.2%), and only three of the 13 areas in Cluster 5, Peterborough, Bedford and South Cambridgeshire, have average rents above 65% of the LHA.

The most significant opportunity for Affordable Rents to support development with little or no grant are in the London fringe local authorities, all in Cluster 5 apart from Watford and Brentwood.

4. Development without grant, but retaining social 'target' rents

This option would require a further substantial increase in cross subsidy from other resources in order to be financially viable anywhere in the region. While housing associations have increased reserves in recent years, these would rapidly become exhausted if the Affordable Rent model is not utilised.

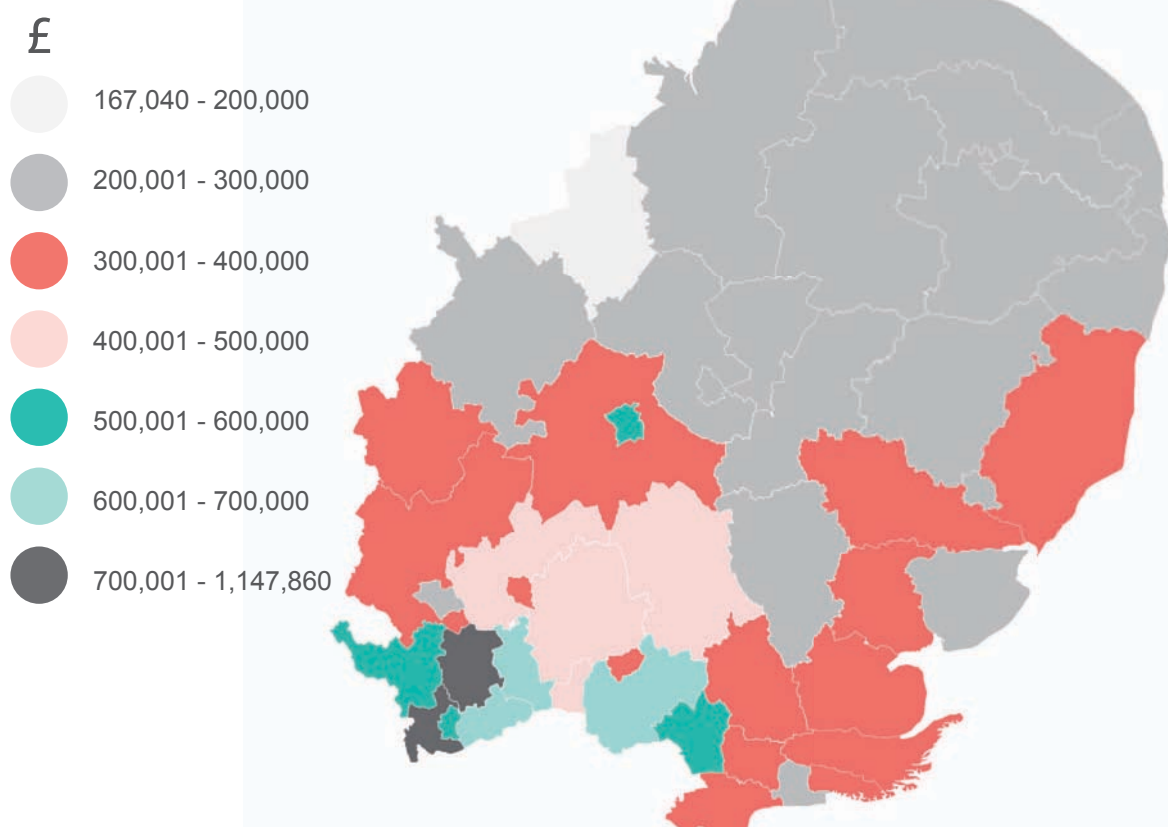
Social rents, or target rents, are only likely to be achievable in areas where building for market sale can generate sufficient surpluses, which can then also be combined with free or discounted land in order to achieve target rents.

As a result, this option is only likely to be viable in areas which combine high house prices with local authorities who are prepared to release 'free' land in return for target rents.

The experience of private sector developers has been that moves upmarket to higher selling prices have generated larger margins, and **Map 6** below shows the pattern of average achieved prices for detached houses across the East.

Again, **Map 6** shows that the highest house prices for detached properties are in the London fringe, with prices declining rapidly with distance from London. The price range is much steeper than the variation in market rents or LHA limits, ranging from an average of £1,147,000 in Three Rivers to an average of only £167,000 in Fenland.

Map 6: Average price of detached houses in 2011



Source: Land Registry

All the areas with the highest prices are in Clusters 5 and 2, with the exception of Cambridge and Watford in Cluster 6. Other clusters in the south western part of the region have lower prices, which can clearly be seen in Luton in Cluster 8, and in Stevenage and Harlow in Cluster 4.

5. Development independent of the social housing regime

The final scenario is one in which a housing association might decide to continue to develop, but to do so primarily for market sale or rent, in order to generate surpluses for future use.

This scenario may be more likely in areas where there is little uplift between social rents and Affordable Rents, and where there is little availability of free or discounted land. Under these circumstances, local housing associations with limited surpluses may be unable to fund social housing development.

This scenario might prove attractive for housing associations that at present have limited resources for cross subsidising social housing development, but who wish to retain development expertise and increase their managed stock, through market rent, in order to achieve economies of scale and possible surpluses for use elsewhere.

In the absence of significant levels of grant funding, developing primarily for market sale or rent may be a viable option for housing associations with activity is mainly concentrated in Clusters 1 and 3.

Associations' responses

The evidence from East 7 members so far is that they, like other housing associations, are doing all they can to maintain development. All members of East 7 are continuing to develop new homes, but only five now have mainstream funding, while three have funding from specific priority programmes, including the Empty Homes and Homelessness Change programmes.

All but one member is developing within the Affordable Rent regime but these are not all set at 80% of market value: three of the eight East 7 members were setting rents in a range below 80%.

Importantly the sources of funding used by East 7 members show a wide variation in

the cross subsidy used. One association has no mainstream grant funding, but has a development programme funded primarily from surpluses from market sale projects. Others sources of funds include:

- ▶ The association's own borrowing facility.
- ▶ Grants / free land from local authorities.
- ▶ Cross subsidy from market housing both for sale and rent.
- ▶ Focussed land purchase of sites 'below the radar' for larger developers.
- ▶ Rural exception sites providing cheaper land.
- ▶ Redevelopment of outdated sheltered housing schemes, to include new general needs as well as replacing older people's housing with Extra Care housing.
- ▶ New Homes Bonus - although only two associations have received any so far from local authorities.

Finally, although Affordable Rents are higher than social rents, this does not appear to have shifted the balance of lettings either towards tenants who are out of work and currently protected from the effects of higher rents by Housing Benefit or towards those in work who could be expected to be able to pay their own rents.

East 7 members account for a significant cross section of providers across the region. The picture from other associations in the East is likely to be similar – with the emphasis on affordable rents (although not necessarily at 80% of market) and an increasing diversity of ways of supporting affordable housing provision. What is very clear is that longer term responses still have to be determined especially with respect to changes in whom they will aim to house.

Implications

This section on development activity suggests that as capital grants reduce, and possibly disappear, future patterns of development will become more complex, more selective and require more diverse sources of funding.

In practice, housing associations are likely to find themselves exploring a range of possible scenarios, depending upon the mix of opportunities and risks that exist across their areas of operation.

All actual building programmes in the scenario areas would in reality contain a mix of funding sources, but in very different proportions. Scenario 4 areas, for instance, would require larger surpluses from other sources (primarily from building for market sale) in order to offset lower target rents, while in Scenario 5 areas affordable housing development would effectively merge into private sector investment, possibly resulting in a developing housing association itself becoming a provider of social housing to other housing associations, through S106 agreements on appropriate sites.

The geography of house prices and market rents and the varied financial capacity of households across the East suggests that development will be very hard to achieve in the east of the region, in Clusters 1 and 3, with lower house prices but also with social rents that are high relative to market rents. Development prospects in the south and west of the region, in Clusters 2 and 5, are much better. This is because high house prices and social rents that are low relative to market rents offer better prospects for additional rent income from Affordable Rents, and for cross subsidy from development for market sale and rent.

Mechanisms for redistributing cross subsidy, from stronger housing markets to weaker ones, are limited – yet there is need in all areas. Housing associations with activities spread across the East are perhaps best placed to achieve an internal redistribution of resources. However, this may prove contentious with local authorities, who feel that increased rents in their area should be reinvested in that area, and not used to support development elsewhere.

The scale of social house building is also constrained by the scale of market house building, because housing associations will become increasingly reliant on market sales or rents as well as S106 to cross subsidise social developments.

There are, of course, other possible scenarios. One implication is that individual housing associations may, after assessing the potential risks associated with future development under the new funding regime, take a strategic decision to withdraw from further development entirely. If that were to happen in the East where opportunities are relatively good, prospects of maintaining affordable housing across the country would look dangerously poor.

SECTION 3: Tackling under-occupancy

Summary

The Government has introduced very significant changes to the Housing Benefit system which will affect how tenants occupy their homes and how Housing Associations choose to operate.

The Government's reforms are in part driven by its deficit reduction strategy and the need to bring the £24 billion housing benefit bill under control.

But it is also seeking to drive greater efficiency and not least better use of the social housing stock. The reform most likely to affect the greatest number of social housing tenants is the reduction of Housing Benefit to social housing tenants of working age who under-occupy their homes, popularly known as the 'bedroom tax'.

The analysis shows that:

- ▶ There is a very significant mismatch between the number of social tenants who require 1 bedroom homes by the Bedroom Standard in the East (nearly 30,000) and the number of such homes available each year (under 4,000).
- ▶ Assuming all suitable vacancies were let to downsizing transfers, it would take over eight years to rehouse all the downsizing transfers.
- ▶ This approach would release more 3 bedroom homes for re-letting allowing the current waiting list for such homes to be eliminated. There would be a surplus of 3 bedroom homes by the end of year three if no new applicants requiring 3 bedroom homes joined the waiting list.
- ▶ It would be very difficult to build enough 1 bedroom homes to meet demand. It would also be undesirable.
- ▶ One bedroom homes are more expensive to build per square metre of floorspace and rents are far closer to market than for other dwelling sizes so Affordable Rents will not cover the costs. Given that, any expansion of the 1 bed build programme would require significant cross-subsidy.
- ▶ Letting homes at the Bedroom Standard will mean that child densities are likely to increase. This will almost certainly result in more intensive housing management and increased repairs, not least to external landscaping and play areas.

Introduction: the evidence

2 *Housing Benefit: Under occupation of social housing Impact Assessment, Department of Work and Pensions, 2012*

The Government has estimated² that some 660,000 social housing tenants in Great Britain will be affected by the removal of the spare room subsidy. Some 50,000 of these tenants live in the East and are estimated to lose an average of £15 per week.

East 7 members estimate that 10% of all tenants are of working age and under occupying by one room, 2.8% by two rooms, and only 0.2% by three rooms. Extrapolating these estimates across all social tenants in the East suggests that 44,000 tenants would be affected, a somewhat lower figure than the DWP estimate. This difference is probably due to a different profile of tenants among East 7 members compared to the East as a whole.

Affected tenants have essentially three main choices in response to the withdrawal of benefit:

- ▶ To 'stay and pay', making up for the loss of benefit by reducing other household expenditure by working longer hours, or finding another source of income such as by taking in a lodger.
- ▶ To request a transfer from their landlord (or apply to another social landlord for a transfer) to a smaller property.
- ▶ To move to the private rented sector, if a better balance of accommodation and cost can be found, or to move in with other family members.

The proportions of tenants making one of these choices is not yet known, but previous research by CCHPR into likely tenant responses (quoted in the Department for Work and Pensions' Impact Assessment) suggested that 25% would be likely to downsize to a smaller property, while 29% would be likely to try to earn more to cover the rent, although 35% thought that they were likely to run into arrears if benefits were cut.

Social housing landlords also have essentially three choices in assisting tenants who are affected:

- ▶ Enable under occupying tenants to transfer to smaller homes.
- ▶ Build more smaller homes in order to increase the opportunity for downsizing.
- ▶ Provide advice and support to tenants who either choose to stay in their current home, or who are unable to downsize, in order to prevent rent arrears increasing.

Is it practicable to transfer under occupying tenants to smaller homes?

There is a very significant mismatch between the number of tenants who are judged to require 1 bedroom homes by the Bedroom Standard (nearly 30,000) and the number of 1 bedroom lettings available each year (less than 4,000).

Even if virtually every vacancy were to be let to downsizing transfers, at the expense of the 82,000 households on the waiting list for 1 bedroom homes, it would take over eight years to rehouse all the downsizing transfers.

The box below explains why attempting to rehouse all tenants who need to downsize is impracticable within even a medium term time frame.

Downsizing transfers

Even making some extreme assumptions about lettings policies, it would take many years to rehouse all under occupying tenants into the right size of home.

The table below shows the estimated result of adopting an extreme policy of reserving almost all 1 and 2 bedroom vacancies for re-letting to downsizing transfers, rather than to the waiting list.

The assumptions are:

1. That no new applicants join the waiting list in future years.
2. That the turnover of homes, and therefore the number of lettings, remains the same in future years.
3. That the current numbers of priority homeless households continue to be rehoused each year, and that they are counted in current waiting lists.
4. That only 10% of the remaining lettings for 1 and 2 bedroom homes are let to the waiting list until all under occupiers have been moved to the right size of home.

Table 1 shows the results of these extreme assumptions. It would take over eight years to move all the tenants currently under occupying and requiring 1 bedroom homes, and over three years to move all those requiring 2 bedroom homes.

Table 1: The minimum time required to transfer all under occupying tenants

	1 bedroom	2 bedroom	3 bedroom	4+bedroom	
Number on waiting lists	81779	38902	20344	4834	145859
Total number of lettings available	5499	6421	2684	127	14731
Less: current numbers of homeless households rehoused	1425	2072	807	47	4351
Less: 10% of remaining lettings allocated to waiting list applicants	407	435	188	8	1038
Remaining net lettings available	3667	3914	1689	72	9342
Numbers of current under occupiers	0	20276	21508	2296	44080
Number of lettings available for downsizing moves	3667	3914	n/a	n/a	7581
Number of under occupiers requiring 1, 2 or 3 bedrooms	29783	13343	954	n/a	44080
Homes released by downsizers in year 1	0	0	6239	2296	8535
Homes let to downsizers	3667	3914	954	0	8535
Years required to rehouse all under occupiers	8.1	3.4	1.0	n/a	
Net lettings available for waiting list in year 1	0	0	6974	2368	9342
Years to clear waiting lists	22.9	8.1	2.3	19.4	

The resultant draconian squeeze on letting to the waiting list until all under occupiers have been rehoused would mean that it would take 23 years to clear the existing 1 bedroom waiting list, and eight years to clear the existing 2 bedroom waiting list. It is also obviously unrealistic to assume that no new applicant would ever join the list in future years.

The table also show that an extreme policy of this type would also free up many more 3 bedroom homes to relet to larger households. All under occupying tenants of 3 bedroom homes would be downsized in less than four years, creating 21,508 vacancies. As a result, the current waiting list of 20,344 would be eliminated, and there would be a surplus of 5,616 3 bedroom homes by the end of year three, rising to a surplus of 12,585 by the end of year five, assuming, of course, that no new

applicant requiring 3 bedroom accommodation joins the existing waiting list.

Such a policy is, of course, entirely impracticable. In reality, the pace of achieving downsizing transfers would be far slower. If a third of the 3,667 net 1 bedroom lettings available each year were used for downsizing transfers, it would then take over 24 years to transfer all the current under occupiers requiring 1 bedroom homes.

In practice, it is thought that many tenants will 'pay to stay', preferring to make up the loss of benefit from elsewhere in order to remain in their homes. Possible approaches include making up for the loss of benefit by reducing other household expenditure, by working longer hours, or by taking in a lodger, as noted above.

Would building more 1 bedroom homes help?

In recent years, social landlords have built (or acquired through S106 agreements) around 3,550 homes for rent in the East each year, and about one fifth of these have been 1 bedroom homes.

In principle, it would clearly be possible to expand the proportion of 1 bedroom homes in the mix of new build dwellings: if 75% or 80% of new build completions were to be of 1 bedroom homes, then this would produce around 2,750 new lettings each year, and a newly built 1 bedroom home, with lower running costs, might offer an additional incentive to under occupying tenants to consider downsizing by transfer.

Even if all 2,750 new 1 bedroom homes were used for downsizing transfers, it would take 11 years to rehouse all the 30,000 under occupying tenants who require 1 bedroom homes. To rehouse all 30,000 tenants within eight years would require at least 1,000 relets to be used for transfers rather than for the waiting list.

However, 1 bedroom dwellings are more expensive to build per square metre of floorspace, and this is reflected in average social rents that are closer to the Local Housing Allowance (LHA) than the rents of family dwellings.

Consequently, the lower levels of grant now available are unlikely to be sufficiently offset by higher Affordable Rents, inhibiting landlords from expanding the 1 bedroom build programme. Moreover, any such move is likely to run counter to many local authority housing strategies and planning policies.

The impact of downsizing on rehousing from the waiting list

In the East, nearly three out of every five (56%) households on local authority waiting lists needs a 1 bedroom home, but less than two out of every five (37%) lettings are of 1 bedroom homes, and 1 bedroom homes are less than one out of every five (19%) new homes built.

This imbalance would be worsened if any significant proportion of future 1 bedroom lettings were to be used to rehouse downsizing transfers. The extreme position illustrated in the box above would result in virtually no rehousing from the 1 bedroom waiting list for many years, a result unlikely to be acceptable to local authorities, or to the households concerned.

The impact on estates and housing management

Current allocations and lettings policies are often designed to achieve lower child densities on estates than would result from letting every dwelling at the Bedroom Standard, and are also designed to avoid the need to transfer families on the birth of a subsequent child.

As a result, many family homes may currently be under occupied at letting. A newly completed estate of 100 homes, 80 of which are family homes (the current average in the East) would now have about 120 children on first letting. If every home were to be let at the Bedroom Standard, the number of children would rise to 150, a 25% increase, as shown in [Table 2](#) below.

Table 2: Child density if letting to the Bedroom Standard

	Number of Bedrooms						Total
	1	2	3	4	5	6	
Current average newbuild mix in units	19	50	24	6	1	0	100
Current number of children at letting	0	50	49	17	3	0	119
Number of children if letting at Bedroom Standard	0	65	62	19	3	0	150

Letting homes at the Bedroom Standard will rehouse a higher proportion of families with children, and fewer single people and childless couples. To the extent that they are in greatest need this is obviously desirable. However increasing child densities generally also creates the need for more intensive housing management and increased repairs, particularly to external landscaping and play areas – so there are additional costs to take into account.

Implications

The policy of reducing benefit to under occupying households appears likely to achieve its short term financial aim of reducing the immediate costs of Housing Benefit from April 2013. Whether this saving will be on-going depends significantly on the proportion of under occupying tenants who choose to downsize into the private rented sector, where the rents of smaller properties are likely to be as high as the social rents of the tenants' former larger properties.

However, the policy is unlikely to achieve the housing aim of a significant transfer of under occupying tenants to smaller homes, thereby releasing larger family homes to relet to the waiting list within the short to medium term. And even if such a change were to be achieved, it would cause unanticipated problems across the region and the country in general.

Increasing the supply of 1 bedroom homes through new build does not appear practicable at current grant levels, and would be contrary to many local authority housing strategies and planning policies.

The policy will have the benefit of new lettings being at the Bedroom Standard, which will enable more families to be rehoused. But this also entails increases in child densities with associated increases in housing management and maintenance costs.



SECTION 4: Conclusions

Summary

- ▶ The East region has experienced rapid household growth over the past ten years, and the region remains one of the most economically active in the country.
- ▶ There is unmet housing demand and need across the region as indeed there is across the country.
- ▶ If government programmes cannot work effectively in the East they are likely to be even more problematic across much of the rest of England.
- ▶ Given the current geography of the housing market in the East, development of both market and affordable housing is likely to be concentrated in the south west of the region.
- ▶ In coastal and rural areas there is little headroom to increase rents and it will be difficult to develop without significant cross subsidy.
- ▶ New development will anyway require cross subsidy from reserves, the sale or rent of market housing, the use of public land, S106 or other sources.
- ▶ There are few available mechanisms to re-distribute resources to those areas.

We conclude that:

- ▶ The current system will not support new housing provision across the entire East without significant cross subsidy from the housing associations themselves.
- ▶ Current under-occupation levels cannot be solved by even a draconian stance on reletting or new build programmes. Such a policy would anyway be undesirable.

And from the broader evidence:

- ▶ Councils may end up housing more vulnerable people themselves or in the private rented sector instead of through housing associations.
- ▶ Associations will be re-examining their priorities and reworking what they do to reduce risks and increase viability.
- ▶ The Government will need to consider the realities of how its policies work out on the ground very carefully.

Introduction: the East region

The East region has experienced rapid household growth over the past ten years, and the region remains one of the most economically active in the country. This has brought increased housing pressures, especially given the low proportion of affordable housing in the region.

While house prices, and therefore the cost of land, are highest in Clusters 2 and 5, in the south west of the region, current social rents are significantly below market rents – so market and affordable rent development should be possible. Equally market development, whether for sale or rent, is likely to provide larger surpluses for cross subsidy.

In the coastal and rural areas, in Clusters 1 and 3, the reverse is the case, with lower house and land prices, but with social rents already near market levels. With house building now at historically low levels, there is a need for new housing across the whole of the region. One problem is that the resources of higher rents and development surpluses are concentrated in the south and west of the region, in Clusters 2 and 5, and there is currently no mechanism for redistributing resources to meet needs in the north and east of the region, in Clusters 1 and 3.

Another more fundamental problem is that all these approaches to development present greater risk than in the past – because of lack of grant, higher rents and increased competition, and cutbacks in welfare. From a given asset base the outcome is almost w sure to be lower levels of investment in housing that is mainly more expensive for the tenants. Other subsidies from land, section 106 and internal reserves will all need to be maximised.

The East region provides a test bed as to whether the new financial regime can work, and can produce the housing that is required more generally across England. While the evidence suggests it will be difficult to achieve the desired outcome, it equally suggests that associations are prepared to make the best of the opportunities available. Despite these difficulties there remain real opportunities for innovation and new approaches, as demonstrated by East 7.



The challenges

The challenges social landlords face in responding to the changed external environment and government policy, is better to understand and enunciate their core purpose, and how that understanding should influence their discussions with key stakeholders on the allocation of scarce resource. This will be felt most acutely by those associations with charitable status.

Looking at the impact of policy change the first challenge, presented by the reduction of capital grants and the introduction of Affordable Rents, is how to shape their new house building programmes onto the very uneven social and economic geography of the East.

The second challenge is how to respond to the withdrawal of the spare room subsidy, popularly known as the 'bedroom tax', given the existing mismatch between tenants' entitlement, as measured by the Bedroom Standard, and the actual size of their homes.

Landlords will be seeking both to keep housing affordable for those without recourse to welfare and to help those in receipt of benefit to improve their situation. The third challenge, which flows from these different objectives, is therefore how rents should be set – and who should be housed.

Options for future development

The report sets out six distinct options – the five development scenarios and the do nothing option with respect to development. The three options within the Affordable Rents regime are based on different areas and types of development; a fourth is developing traditional social rented property; a fifth is developing independently; and a sixth is to withdraw from development altogether.

Clearly only ceasing developing (option 6) ensures direct risks are not increased, except for the possibility of regulatory changes to enforce greater efficiency/involvement. The social rents option (4) on the other hand meets the traditional social mission but with real costs in terms of development and an increased need for cross subsidy from other sources of activity.

All the other options would move developments further up the rental scale for both new tenants and relets from the existing stock, and probably also mean mainly larger units (in line with current planning requirements), with some housing demands being satisfied in part by downsizing policies.



This in turn is likely to mean providing for a clientele that is mainly in work. Moves in this direction will require marketing as well as financial management skills as well as reworked housing management and development skills.

Moves in this direction may also be seen as taking housing associations away from their traditional mission of the last 30 years or more.

Any of the options for development are likely to result in a greater concentration of development in higher demand areas and away from the coastal and heavily rural areas of the East. It will therefore almost certainly raise costs of provision, unless land can be provided at a discounted cost. This may be best provided in the form of public land with an equity interest and thus lower initial costs.

It is also unlikely that any of these options can ensure output levels at or above those currently achieved. Any expansion of output would depend on greater reliance on market provision; the availability of cheap land; or the introduction of additional equity.

Any individual landlord would expect to be involved in more than one and maybe the majority of options set out. Diversity is a means of continuing to develop and realising opportunities in the face of regulatory uncertainties. However it also puts management skills and resources under strain and could result in an organisation becoming overstretched, especially if the economic environment changes or there are further limitations on welfare or rents.

Under occupation and lettings policies

It is clear that the problem of under occupation cannot be solved within any realistic timescale by transferring under occupying tenants to smaller properties. There are not enough relets becoming available, even if virtually no lettings went to households in need from waiting lists.

In practical terms, housing associations will need to strike a balance between increasing the proportion of smaller units allocated to under occupying tenants downsizing, and still rehousing households in pressing need from the waiting list.

Some under occupying tenants will make a positive choice to downsize rather than lose benefit, but others may need to be rehoused, if they start to struggle with their reduced household budgets, before rent arrears begin to build up.

Housing associations, and local authority housing strategies, may need to reassess the balance of housing types in new housing developments, although the scope for increasing the proportion of 1 bedroom units may be limited by financial constraints.

Rents policies

Within the three Affordable Rents options the assumption must be that the provision of social housing at genuinely affordable rents for those on the lowest incomes will continue to decline, with a greater dependence on benefits and consequential higher risks.

In areas of low and medium demand, it is almost certainly the case that housing associations will find themselves moving towards provision of homes under the new Affordable Rent regime and thus housing a rather different clientele. The extent to which this may be possible will depend significantly upon local partnerships including allocation arrangements with local authorities and the housing associations' own priorities.

There are also continuing regulatory risks associated with the existing RPI+0.5% regime, which might be modified in order to reduce rents for existing tenants and thereby reduce the welfare bill. If a more restrictive regime were introduced it would add a further major challenge to investment and development activity.

In terms of need the case for attempting to continue to provide a proportion of new homes at social rent levels is overwhelming. However this will almost certainly require further policy initiatives.

Implications for the future

All the available investment options for the future will move housing associations into a different environment. Other than the option of abandoning development, all other options increase risk at the same time as opening up opportunities.

The options for future development also change the way in which housing associations respond to their core responsibility to house those in need, and there are clear trade-offs that will have to be agreed.

If traditional social housing is to remain generally available, there will need to be some incentive to expand its provision using a mixture of cross subsidy and free or discounted public land, or accepting low proportions of social housing being developed within a portfolio approach which concentrates on market delivery and cross subsidy.

Housing associations have a responsibility to use their past subsidies effectively to provide for the future. They will not step back from this challenge. However, they need a stable and transparent regulatory and financing regime against which they can plan. With this in place, they can use the varied opportunities that will become available to achieve additional new and affordable homes.



Final conclusions

Taking all the different elements together the final conclusions are therefore:

- ▶ **The current system will not provide housing across the board.** Housing associations in the East of England have made a disproportionate contribution to building new housing but unless alternative sources of subsidy are found, development will be increasingly focused on high demand areas in the region.
- ▶ **You can't build your way out of under-occupation.** If all appropriate re-lets were reserved to allow under occupying tenants to move to smaller homes, it would still take nearly eight years to re-house all current tenants who require to move to 1 bedroom accommodation. Even if 75% or 80% of all new build completions were 1 bedroom homes, and all were used for downsizing transfers, it would take 11 years to rehouse all 30,000 tenants who require 1 bedroom homes.

And weighing this evidence, there are three clear consequences

- ▶ **Councils may end up housing more vulnerable people themselves or in the private rented sector instead of housing associations.** Welfare reforms and changes to the rent regime will pressure housing associations to 'derisk' their income streams by allocating a higher proportion of lettings to households in work. This may result in local authorities placing a higher proportion of vulnerable households in the private rented sector, and a divergence in the sector between housing associations who control their own allocations policies and those who are more dependent on local authority allocations (notably LSVTs).
- ▶ **Associations in the East, as elsewhere in the country, will be re-examining their priorities.** The new environment means they will have to face up to some complex reworking of what they do. The overall policy package will force a re-examination of who they can serve and what they can build. Sticking to the traditional paths will pose real risks to viability and sustainability.
- ▶ **The Government will need to consider the realities of how its policies work out on the ground very carefully.** The geography of the East is not untypical of much of England and this study shows that the uneven market potential of the East poses real limits to what can be achieved under these new regimes. If the Government wishes to ensure an adequate housing supply of affordable housing then it will have to allow more scope to adjust policy to local circumstances and provide the funding to achieve that aim.

Cluster 1: Rural England

This is the largest cluster, containing 117 local authority areas, 14 of which are in the East:

Breckland
King's Lynn and West Norfolk
Babergh
Mid Suffolk
South Norfolk
Fenland
North Norfolk
Tendring
Broadland
Castle Point
Maldon
Rochford
Suffolk Coastal
Waveney

The cluster also contains areas like Cornwall, the Isle of Wight, Herefordshire, Rother and the East Riding of Yorkshire.

This cluster is characterised by above average proportions of outright owner occupiers and low proportions of tenants, slightly above average proportions of people experiencing ill health or disability, in part time work, or living as couples, and slightly below average proportions of single people or cohabitees. The cluster has almost exactly the national average proportion of people experiencing deprivation. The cluster has only a quarter of the national average proportion of people who are non-White British.



Interpreting the chart: the measure is a ratio of the area as compared to England. A value above 1 indicates proportionately more of the characteristic than the national average, and a value less than 1 indicates proportionately less of the characteristic than the national average.

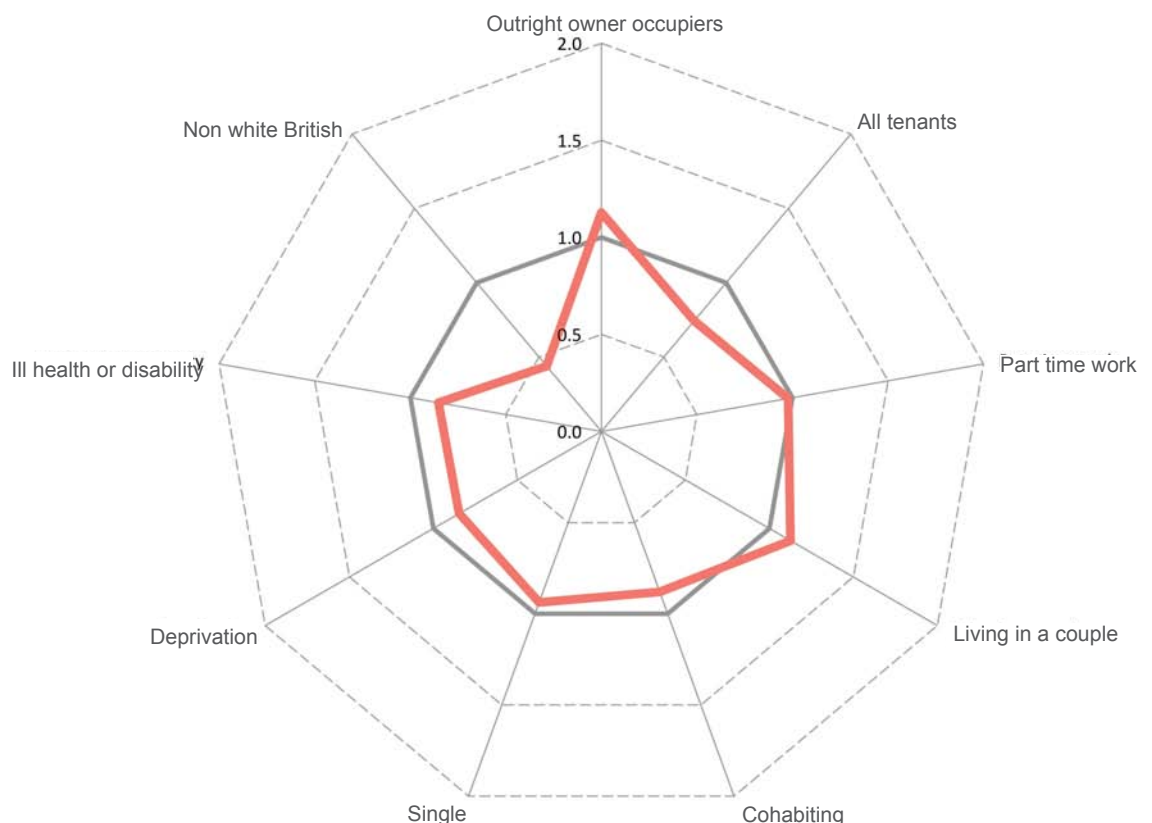
Cluster 2: Affluent England

This is the fourth largest cluster, containing 41 local authority areas, 10 of which are in the East:

Brentwood
Chelmsford
East Hertfordshire
Uttlesford
Braintree
Central Bedfordshire
Colchester
East Cambridgeshire
Huntingdonshire
St Edmundsbury

The cluster also contains areas like Vale of White Horse, Winchester, Tunbridge Wells and Harrogate.

This cluster is characterised by slightly above average proportions of outright owner occupiers, slightly above average proportions of people in part time work, or living as couples, average proportions of single people, lower proportions of tenants, cohabitees, people experiencing ill health or disability, experiencing deprivation, and only half the national average of people who are non-White British.



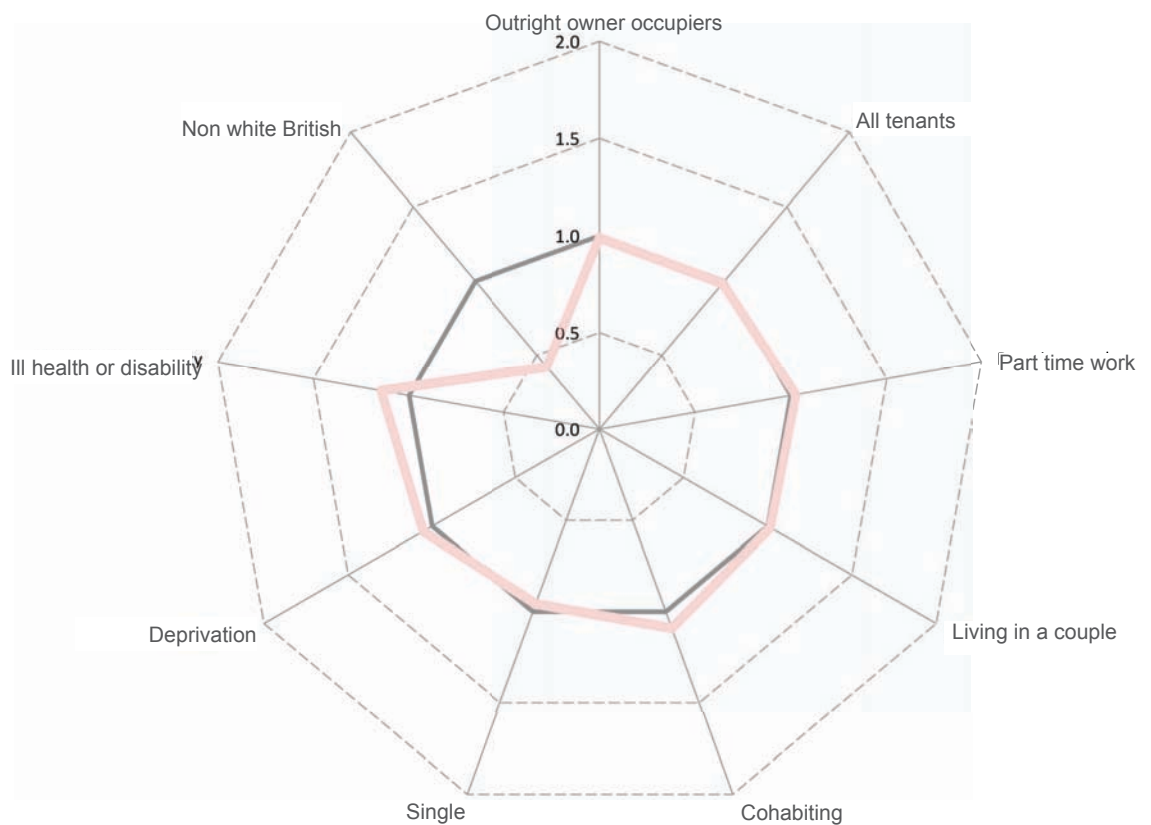
Cluster 3: Traditional towns

This is the third largest cluster, containing 50 local authority areas, only 3 of which are in the East:

Great Yarmouth
Southend on Sea
Basildon

The cluster includes North Tyneside, Sunderland, Wigan, Blackpool, and Stoke on Trent, but also Exeter, Cheltenham, York and Canterbury.

This cluster is characterised by only half the average proportion of people of non-White British ethnicity, average proportions of outright owner occupiers, tenants, part time workers, couples and single people, with slightly above average proportions of cohabiters and people experiencing deprivation, and above average proportions of people experiencing ill health or disability.



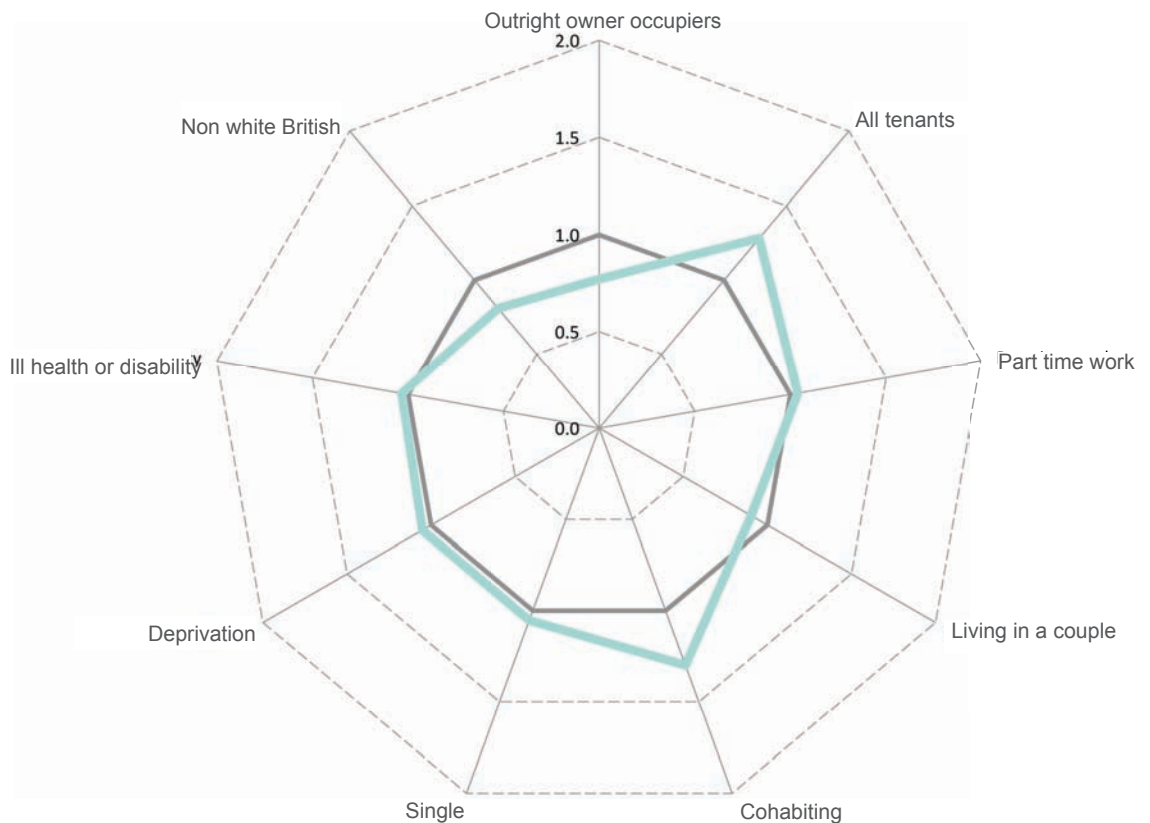
Cluster 4: Major towns and cities

This is the equal fifth largest cluster, containing 18 local authority areas, 4 of which are in the East:

Harlow
Stevenage
Ipswich
Norwich

The cluster also includes areas such as Sheffield, Newcastle upon Tyne, Liverpool, Leeds, Portsmouth and Southampton.

This cluster is characterised by a below average proportion of people of non-White British ethnicity and outright owner occupiers, average proportions of part time workers, single people, people experiencing deprivation, and people experiencing ill health or disability, and above average proportions of tenants and cohabiters.



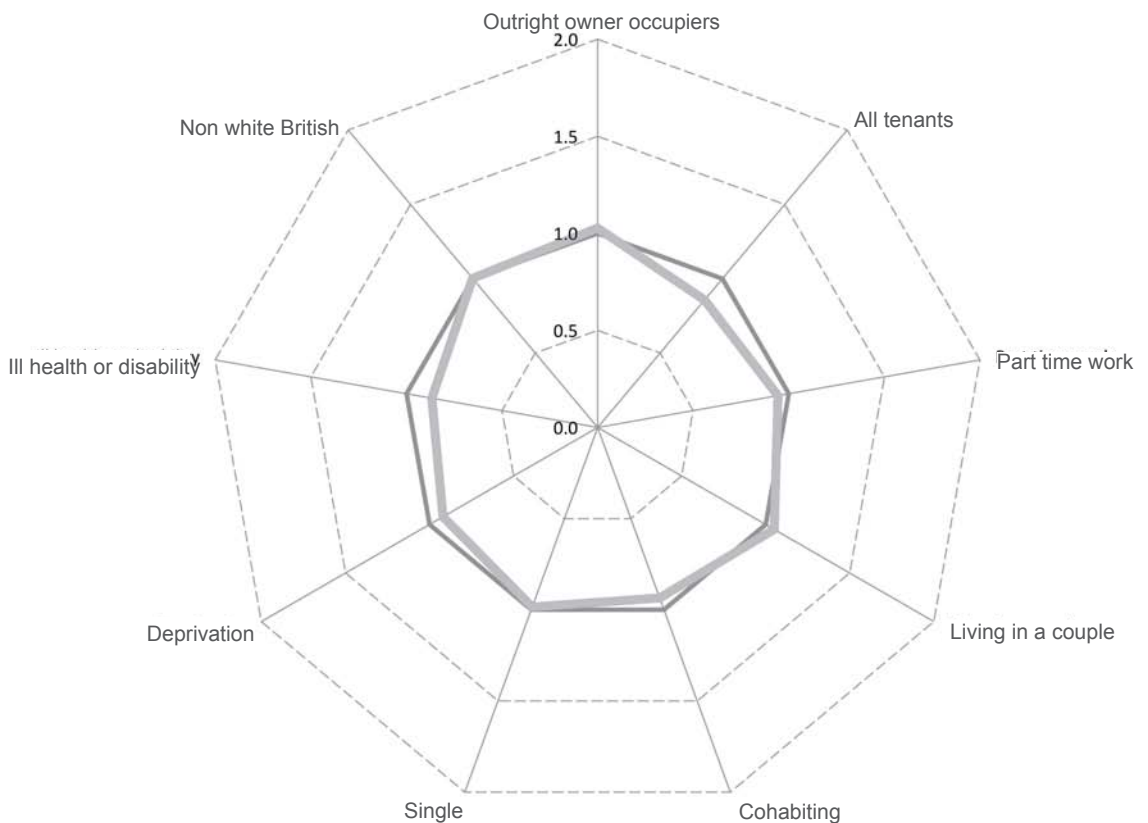
Cluster 5: Middle England

This is the second largest cluster, containing 57 local authority areas, 13 of which are in the East:

South Cambridgeshire
St Albans
Three Rivers
Bedford
Broxbourne
Dacorum
Epping Forest
Hertsmere
North Hertfordshire
Forest Heath
Peterborough
Thurrock
Welwyn Hatfield

The cluster includes Chiltern, Windsor & Maidenhead, Bexley, Rugby, Warwick, Derby and Northampton.

This cluster is characterised by average proportions of people of non-White British ethnicity, outright owner occupiers, couples and single people, and slightly less than average proportions of cohabitees, part time workers and people experiencing deprivation, and lower than average proportions of tenants and people experiencing ill health or disability. This cluster includes some areas with relatively large White Other (i.e. neither British nor Irish) proportions such as Forest Heath (14%) and Peterborough (11%) as well as areas with a high proportions of non-White British ethnic groups such as Peterborough(12%) and Bedford (11%).



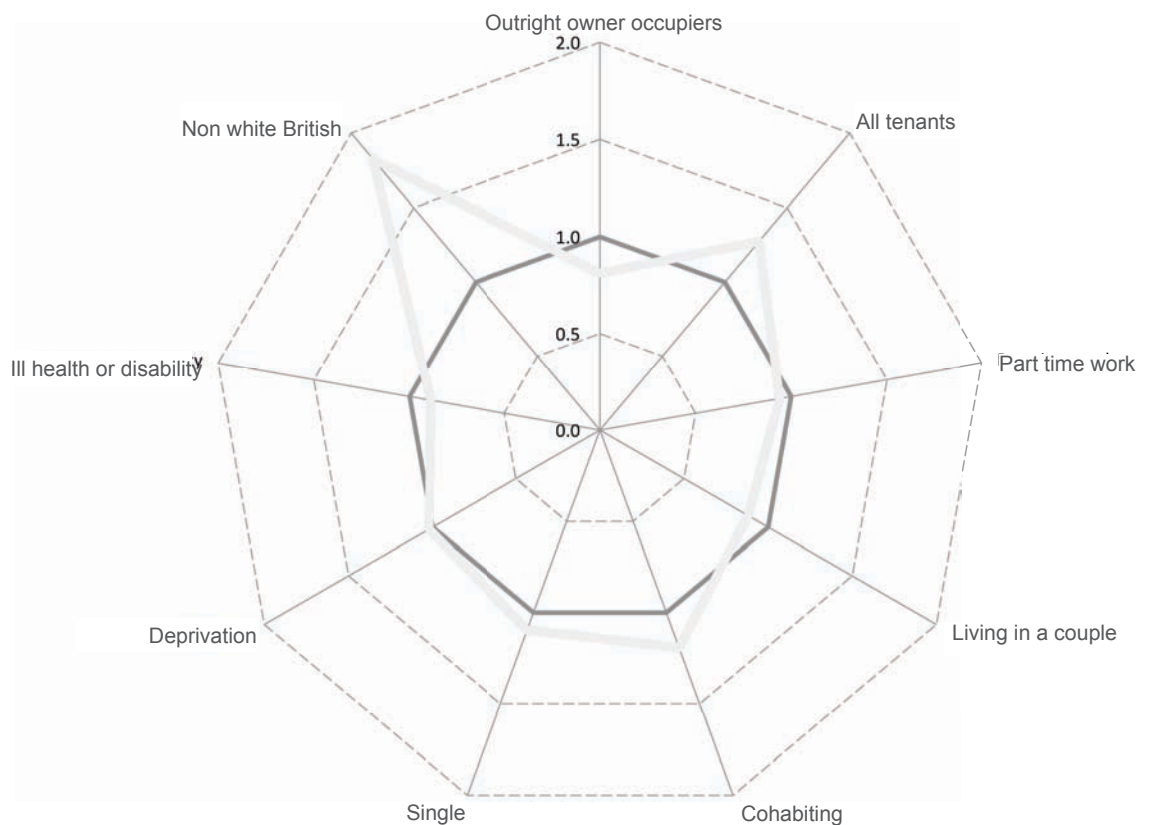
Cluster 6: Renting and mobile

This is the seventh largest cluster, containing 14 local authority areas, 2 of which are in the East:

Cambridge
Watford

The cluster also contains Oxford, the City of London, Wandsworth, Kingston upon Thames, Reading, Sandwell, Coventry, Nottingham, Bradford, Blackburn and Manchester.

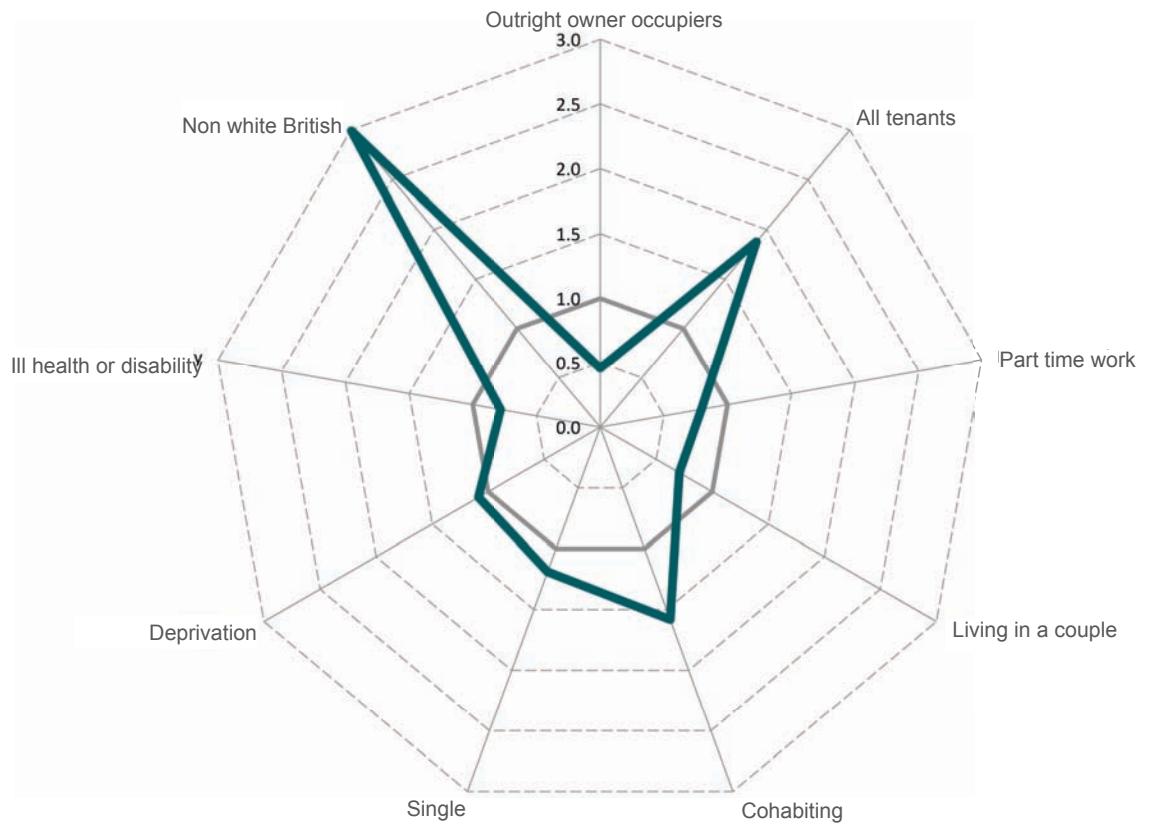
This cluster is characterised by nearly twice the average proportion of people of non-White British ethnicity, higher than average proportions of tenants and cohabiters, average proportions of part time workers, couples and people experiencing deprivation,



Cluster 7: Inner London

This is the smallest cluster, containing 11 local authority areas, all of which are in Inner London.

This cluster is characterised by nearly three times the average proportion of people of non-White British ethnicity, twice average proportion of tenants, a 50% higher than average proportion of cohabiters, an above average proportion of single people, slightly above average proportion of deprivation, but below average proportions of people experiencing ill health or disability, and only half the national average of outright owner occupiers.

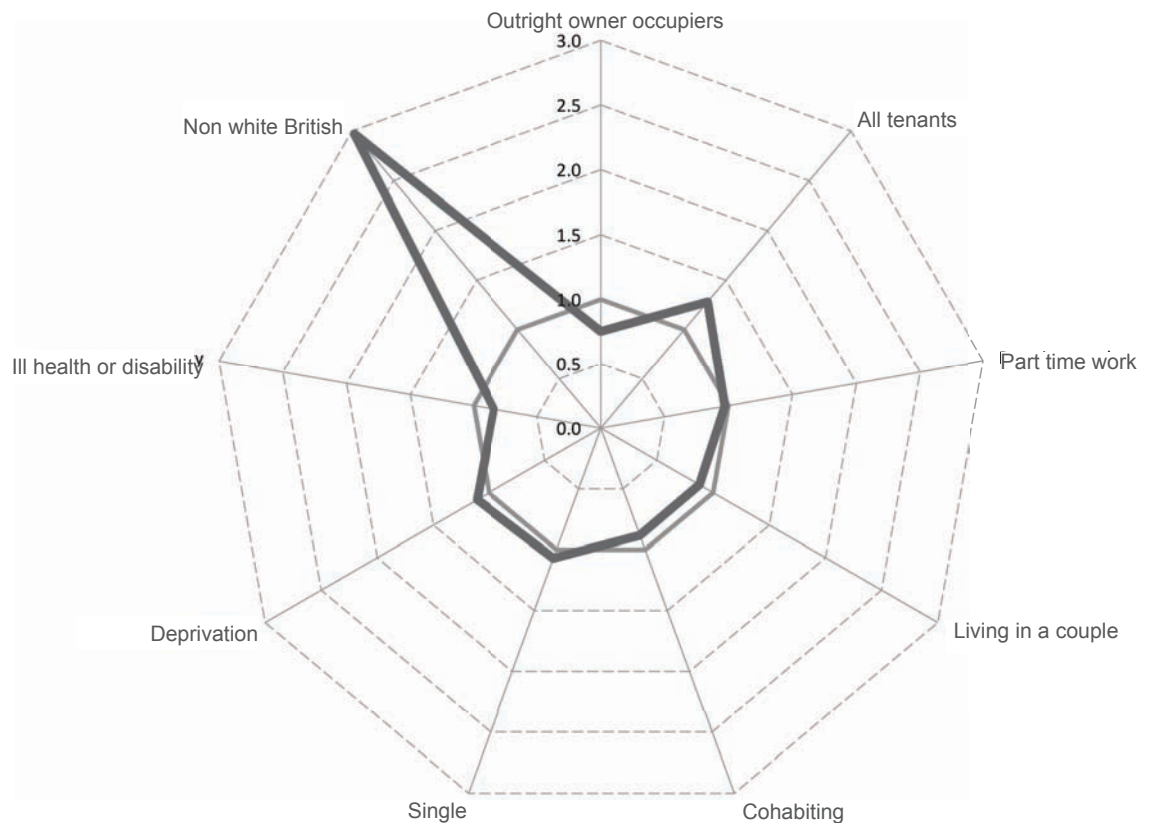


Cluster 8: Settled Diversity

This is the equal fifth largest cluster, containing 18 local authority areas, only one of which, Luton, is in the East.

The cluster mainly contains Outer London Boroughs, plus Leicester and Birmingham.

This cluster is characterised by nearly three times the average proportion of people of non-White British ethnicity, an above average proportion of tenants, slightly above average proportions of singles and people experiencing deprivation, average proportion of part time workers and cohabiters, and below average proportions of outright owner occupiers, couples, cohabiters and people experiencing ill health or disability.



The population in the East

The East has a population of 5.8m, or 11% of the 53m population of England, living in 2.4m households. This is an average household size of 2.4 people, almost exactly the national average.

Household composition

The region has a slightly above average percentage of households aged 65 or over, with high concentrations in North Norfolk, Tendring and Waveney and low proportions in Watford, Thurrock, Luton and Cambridge.

The East has slightly above average proportions of married and cohabiting couples, and slightly below average proportion of single parents.

The student population in the East is highly concentrated, with Welwyn Hatfield, Norwich and Cambridge each having four times the national average and Colchester and Luton with twice the national average, but all other areas having much lower numbers of full time students. 26 local authority areas have less than 5% of households with full time students, and in the 2011 Census, North Norfolk did not have a single full time student household.

Economic activity

Across the region, slightly above the national average proportion of people of working age are economically active, both part time and full time. Among the economically inactive, a somewhat higher than average proportion are retired or looking after the home or family, and a lower than average proportion are unemployed (including long term unemployed) and a much lower than average proportion are unemployed and have never worked.

Only 14 out of the 47 local authority areas have an above average proportion of households in which no one of working age is in employment. The highest proportions occur in Tendring, North Norfolk, Waveney and Great Yarmouth. These four areas also have above average proportions of households in which at least one person has a long term health problem or disability.

Conversely, Watford, East Hertfordshire, South Cambridgeshire and St Albans have the lowest proportions of workless households compared to the national average, while East Hertfordshire and St Albans have the lowest proportions of households in which at least one person has a long term health problem or disability compared to the national average.

Occupational status

The highest concentrations of higher managerial, administrative and professional occupations are in St Albans, Cambridge, South Cambridgeshire, Three Rivers East and North Hertfordshire and Brentwood, while the highest concentrations of 'routine and manual occupations' are in Great Yarmouth, Fenland, Waveney, Forest Heath, Breckland, Kings Lynn, Ipswich, Tendring and Forest Heath.

Cambridge is distinctive in possessing twice the national average of higher professional occupations, but only Ipswich, Luton and Norwich have smaller proportions of managers, directors and senior officials. Cambridge also has exceptionally low proportions of lower managerial, administrative and professional occupations and intermediate and routine occupations.

Qualifications

As would be expected, Cambridge has the highest concentration of people with degree level qualifications, closely followed by St Albans and South Cambridgeshire. Conversely, these three areas have the lowest proportions of people without any qualifications, with the highest proportions of these found in Tendring, Great Yarmouth, Fenland, Castle Point, King's Lynn and West Norfolk and Waveney.

Ethnicity

The East has a higher proportion of White British people, at 85%, more than the average for England, at 80%.

Only nine local authority areas have a larger proportion of non-White British people than the national average of 20%, and in 10 areas more than 95% of the population is White British. The smallest White British population is in Luton, at 45%, with Watford (62%) and Cambridge (66%) the only other two areas with less than 70%.

The area with the largest White Other (i.e. neither British nor Irish) proportion is Cambridge (15%), followed by Forest Heath (14%) and Peterborough (11%). Forest Heath also has twice the national proportion of Black Other, presumably reflecting the presence of US military forces.

Other areas with high proportions of non-White British ethnic groups include Asian populations in Luton (30%), Watford (18%), Peterborough (12%), Bedford (11%) and Cambridge (11%), and Black populations in Luton (10%) and Thurrock (8%). No other area has a Black population greater than 5%.

Housing in the East

Central to the interests of East 7 members is what has been happening to housing in general in the region. The combination of a housing boom and bust in conjunction with continued demographic and economic change has had significant impacts.

Owner occupation

Over the ten years between 2001 and 2011, owner occupation in the East, as a percentage of households, has shrunk from 72.2% of all households to 67.6%, a fall of nearly 5% in ten years.

In common with the national pattern, the East has also seen a divergence in owner occupation between those who own their home outright, and those who are buying with a mortgage.

All local authority areas with the exception of East Cambridgeshire and Uttlesford, have seen a decline in the proportion of households buying their home with a mortgage. The largest declines have occurred in Luton (to 80%), Castle Point (to 85%), Tendring (to 86%), Babergh (to 87%), Stevenage (to 87%) and Harlow (to 88%).

By contrast, Southend-on-Sea is the only area in which the proportion of outright home owners has declined.

Private renting

In the same ten year period, the proportion of households in the East renting their homes from private landlords has almost doubled, from 7.6% to 13.3% of all households, an increase of 191%.

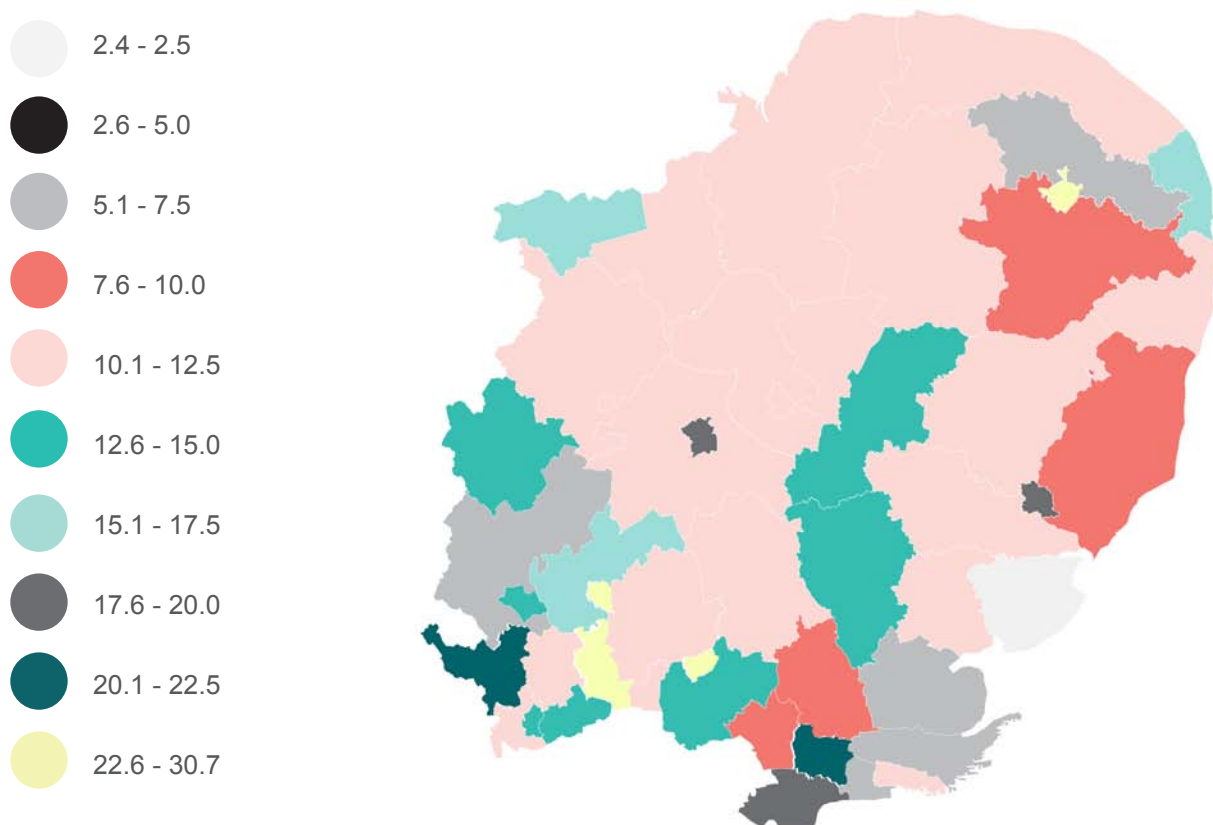
Private renting has grown by the greatest proportion in Stevenage (222%), Watford (220%), Harlow (215%), Thurrock (207%), Castle Point (206%) and Broxbourne (203%). The lowest proportionate growth has been in North Norfolk (118%), Suffolk Coastal (125%), Mid Suffolk (131%), Forest Heath (131%) and Cambridge (133%).

Social renting

In the ten years from 2001 to 2011, social renting has increased slightly in total numbers, from 368,630 in 2001 to 380,331 in 2011, but has declined as a proportion of all households from 16.5% to 15.7%.

Map A1 below shows the distribution of social housing in the East, as a percentage of the total housing stock.

Map A1: General needs social housing as % of total housing stock



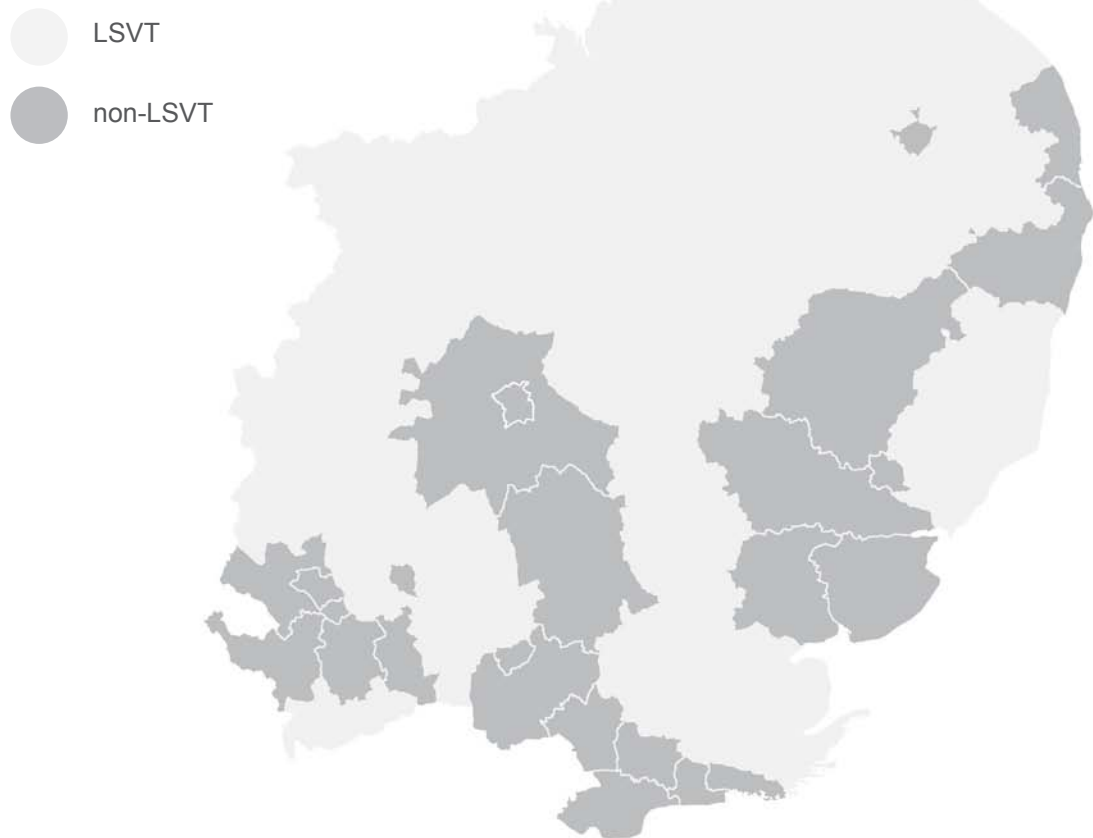
Higher proportions of social housing are confined to Cambridge, Norwich and Ipswich; the New Towns (Basildon, Harlow, Stevenage and Welwyn Hatfield); and the London fringe in Thurrock and Dacorum.

Half (24 out of 47) of the local authorities in the East have transferred their former council housing stocks to housing associations through Large Scale Voluntary Transfer, as shown in Map A2 overleaf.

In these areas, the local authority is wholly reliant on the housing association sector, and in particular upon the transfer association as the majority landlord, for the discharge of its housing responsibilities. In areas where the local authority has retained the council housing stock, the local authority itself can act as the 'landlord of last resort'.

Map A2: Social housing ownership by local authorities with retained stock or stock transferred by Large Scale Voluntary Transfer (LSVT)

LSVT LAs



New social house building

In the five years between 2007/08 and 2011/12, the social housing sector in the East completed and let 17,670 new homes, an average of over 3,500 each year.

These completions increased the social housing stock in the East by just over 5%, although this proportion varied widely between areas.

The largest increases in stock were in Tendring (24%), Forest Heath (20%) and South Norfolk (19%), while Central Bedfordshire, Huntingdonshire and South Cambridgeshire all increased by more than 10%.

The lowest increases in stock in this period were in six areas which increased their stock by less than 2%. These were: Castle Point (1.4%, with 26 completions adding to a stock of 1,871), Thurrock, Harlow, Three Rivers, Rochford (1.9% with 36 completions adding to a stock of 1,862) and Epping Forest.

The size of new homes

Across the region, nearly three quarters (71%) of these were 1 or 2 bedroom homes. Exceptionally high proportions of 1 or 2 bedroom completions occurred in Rochford (100% of 36 completions in 5 years), Castle Point (96% of 26 completions in 5 years), and in Cambridge (92% of 267 completions in 5 years).

Larger family homes were relatively rare, with only Epping Forest having more than half (56%) of 3 bedroom and larger homes, with nearly one in five (17%) having 4 or 5 bedrooms. Other areas with relatively high proportions of larger family homes were Peterborough (12%), Breckland (9%) and Colchester (9%).

The tenants of new homes

The letting of new homes across the region showed that only 655 of the 17,670 completions went to households aged 65 or over, reflecting the diminishing number of older people looking for social housing. By contrast, a quarter of all lettings went to single people under 65, and nearly one in ten (9%) to childless couples. In total, nearly two out of every five (37%) of lettings were to single people or childless couples of all ages.

Since 1 bedroom homes were only 21% of completions, this resulted in a degree of under occupation at first letting, with 28% of lettings being one bedroom above the Bedroom Standard, and a further 2% being 2 or 3 bedrooms above.

Under occupation on first letting was most evident in Mid Suffolk (51%), Cambridge (43%), North Norfolk (41%), Ipswich (41%), Norwich (40%), and with Babergh, South Cambridgeshire, South Norfolk, Suffolk Coastal, Breckland and Great Yarmouth all above 33% of lettings at one bedroom above the Bedroom Standard.

Lower levels of under occupation were more likely to occur in the London fringe, with twelve areas having less than 15% of lettings under occupying by one bedroom, ranging from Castle Point (4%), through Three Rivers, Harlow, Southend on Sea, St Albans, Watford, Luton, Broxbourne, Hertsmere, Rochford and Brentwood, to Chelmsford (15%).

All social housing lettings in the East

Across the East region, the overall pattern of lettings, including existing stock, to the different household types has remained very stable over the past five years. Overall, lettings to the elderly are low, at 8.5%, but highest in Rochford, at 24.4%. Lettings to single person adult (non-elderly) households are the largest single group, at 30%, but highest in Ipswich at 42%. Lettings to all family types with children are 43% of the total, but highest in Watford at 68%.

However, the employment status of households has changed significantly over the period. Lettings to households in work have fallen, from 35% to 31% on average, with the highest percentage in work in South Cambridgeshire, at 51%, while lettings to the unemployed have risen, from 12% to 17%, with the highest percentage in Chelmsford, at 31%. Lettings to the retired, and to those at home not seeking work, have fallen from 35% to 29%.

The Government has introduced a radically new approach to the funding of social housing new build programmes, in the Affordable Homes Programme 2011-2015, and the subsequent Affordable Homes Guarantees Programme 2013-2015.

The Homes and Communities Agency (HCA) Framework essentially treats grant as a residual, whose purpose, if grant is required at all, is to top up other sources of funding in order to achieve scheme viability. The HCA Framework envisages a funding cascade, or hierarchy, in which other resources rank ahead of any element of grant funding:

1. The primary source of funding is sought from additional borrowing capacity, created by letting new properties and any necessary proportion of relets, at Affordable Rents.
2. Additional resources are sought from cross subsidy from other activities such as provider surpluses, surpluses from new build market sales, Recycled Capital Grant Funding (RCGF), Disposal Proceeds Fund (DPF) and Section 106 funds.
3. Further support may be provided from free or discounted land or local authority contributions, for example from the New Homes Bonus.

HCA funding is then available if this remains essential to ensure development viability.

The HCA Framework expects that new build housing acquired as a result of S106 agreements will not require any element of grant funding.

The new Affordable Rent regime remains a form of social housing, in which a property is let at a rent of up to 80% of the market rent for that property. As a result of this individual property based rent, rents may be above the Local Housing Allowance (LHA). Registered providers (whether housing associations or private providers) are excluded from mainstream LHA rules.

The HCA accepts that providers may wish to set rents below 80% of the market rent if the rent would otherwise exceed the LHA, but Affordable Rents cannot be set lower than target rents.

Affordable Rents should be reset at 80% of the market rent on any reletting, or renewal of the tenancy (for example, at the end of a fixed term tenancy) and in between are subject to a maximum annual rent increase of RPI + 0.5%.

As a Framework, the programme is no longer based upon scheme by scheme approvals, but rather upon a four year delivery programme, with an overall funding envelope consisting of different proportions of the four basic funding streams outlined above.

Housing associations (and other registered providers including local authorities and private companies) bid for a place on the Framework, offering to deliver a programme with an overall funding mix and grant requirement, and contract with the HCA to deliver that programme over the four year life of the framework to 2015.

EAST⁷

THE VOICE OF
HOUSING IN THE
EAST OF ENGLAND

About East 7

Our members are Aldwyck Housing Group, bpha, Circle, Cross Keys Homes, Estuary Housing Association, Flagship Housing, Grand Union, Hightown Praetorian & Churches Housing Association, and North Hertfordshire Homes.

Collectively we:

- ▶ Directly employ more than 5,000 people;
- ▶ Manage approximately 150,000 properties; and
- ▶ House 250,000 people.

Working together, our aims are:

- ▶ To maintain existing housing provision in the region in a way that meets the needs and ambitions of our divergent communities
- ▶ To develop new affordable housing
- ▶ To make the East of England an attractive place in which to invest through work with the voluntary, public and private sectors