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ABSTRACT
As a result of changes to the financial regime for housing associations, affordability has become a major issue of debate in social rented housing in Britain. This paper assesses the implications of trying to construct a finance system for housing associations based on a regime of 'affordable rents' and the 'safety net' of Housing Benefits but with the state declining to define the central concept of affordability. Using examples of a number of Western countries, and empirical evidence from the sector in Scotland, the present position is criticised, and a route out of the policy vacuum is suggested. This is founded on the premise that housing is a means rather than an end, within a broader social policy. Given the political constraints, one solution lies in studies of the expenditure patterns and standards of living of different groups of housing association tenants, and in the creation of a sector-specific *organisational subsidy* to be available in addition to the usual producer- and consumer-subsidies.

INTRODUCTION: AFFORDABILITY PLACED CENTRE STAGE

In the latter part of the 1980s, a number of factors have focused public attention on the difficulties of achieving homeownership in parts of the United Kingdom. Escalating house prices, widening regional disparities in house prices, and rising interest rates were phenomena which led to the commissioning of studies of housing affordability as a problem of accessibility to owner-occupation, given prevailing prices, incomes, interest rates and lending practices (Bramley, 1989; 1990). Evidence of households' difficulties in this regard was used to inform

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debates about land-use and land-release policies. These debates were not essentially about what would constitute an *affordable* housing payment, but rather were concerned with the mismatch between what could be borrowed by households on lender's terms, as against what would have to be borrowed in order to meet vendors' asking prices in the homeownership market. However, a new and more fundamental debate about housing affordability has arisen as a result of the British Government's radical changes to its social housing policy, rather than as a result of its homeownership revolution.

The biggest shake-up for many years in state policy for the provision of subsidised rented housing in Britain came with legislation passed in 1988, and was described in related consultation papers and expenditure plans. The main elements of the Government's new policies for social rented housing have at their centre both the voluntary housing sector (that is, housing associations), and rental affordability. The future provision of new, subsidised, rented housing units is to be primarily a matter for housing associations rather than local authorities, who are to become enablers rather than direct providers of new housing (Cmnd.214). To this end, the capital programme for housing associations is to be tripled in cash terms (Cmnd.1008). The shift in tenure structure within the social rented sector has been further facilitated by council tenants being given rights (and subsequently encouragement) to choose alternative landlords, and by restrictions placed on the revenue and capital funding of local authority housing which are proving an incentive or trigger for many councils to decide to voluntarily transfer their housing stock to other landlords. In both cases, the alternative landlords have been almost exclusively either existing or newly registered housing associations.

This expanded role and activity of housing associations is being accompanied by changes in the financial system under which such associations operate. In the past, housing association rents have been independently set by Rent Officers such that they have generally been above council rents but below market rents. On new housing schemes, the rent levels had determined the size of development loans which could be serviced, after taking account of management and maintenance costs. The remaining capital costs of a scheme, not met by the loan, were covered by a grant. In the majority of cases, both the grant and the loan were provided by a state agency, The Housing Corporation, and the grant typically met over 90 per cent of the scheme costs.

The Government wants associations' future expanded role to be coupled with greater efficiency and the production of more housing

units per pound of public expenditure. To this end, it was decided that in future, associations would make use of private rather than public loans in 'mixed-funded' schemes, and that the rate of capital grant would be reduced from over 90 per cent to 72–75 per cent. In Scotland, the aim has been expressed slightly differently, as an annual percentage increase of 15 per cent rising to 25 per cent in the number of units approved per pound of public expenditure. In order to achieve these objectives, housing association rents for new tenancies, on both new and re-lettings, were deregulated from January 1989, thus allegedly overcoming the anomalies and uncertainties of the Fair Rent system and allowing rents to be raised (see Kearns, 1988). However, it is in deciding what de-regulation should mean in practice within the housing association sector that government housing policy has been found wanting. For the Government has decided that the new system of housing association rents shall be known as 'affordable rents', without expounding on the means of assessment of their affordability, yet creating the clear expectation that the new rents will be substantially higher than their predecessors in order to achieve the capital-efficiency objectives. This has led to a protracted debate among and between housing policymakers, practitioners and researchers as to how to define rental affordability, and whose job it should be to do so.

THE ABSENCE OF POLICY?

In order to set capital grant targets and output targets for the housing association sector to meet, the Government must, and indeed does, have a working method for, and definition of, the level of affordable rents that it expects to prevail in the coming period. However, the Government cannot admit this because it does not want to get involved in a difficult public debate about what level of housing cost payments are affordable to poor working households. Therefore, in Scotland the Government has said that it wants to 'encourage' associations to develop their own views on rent levels (*Interchange*, March 1989), and in England The Housing Corporation (the Government's funding and supervisory agency for associations in England) has issued a circular which places the responsibility for defining affordability firmly on associations themselves (Housing Corporation, 1989).

Despite not wishing to tie its hands with a definition of affordability, the Government nonetheless has a vested interest in how associations tackle the issue. This interest has manifest itself in a number of ways. First, key individuals representing the state have expressed views as to the definition of affordability, whilst almost at the same time denying

the existence of a specific policy. These statements serve to let the general direction of the state's expectation be known. For example, the Housing Corporation's Chief Executive was widely reported in July 1989 as stating at a conference that affordable rents should represent an expenditure of up to 33 per cent of disposable income, but he then quickly denied the statement a week later (*Housing Associations Weekly*, 14 and 21 July 1989). A few months after this, one of the Housing Corporation's board members told another conference that to expect to keep rents at under 20 per cent of incomes was unrealistic (*Housing Associations Weekly*, 10 November 1989).

The other main way in which the state has sought to narrow associations' scope for manoeuvre in defining affordable rents is in the verbal and written guidance it has given associations on the subject. Written guidance in Scotland has suggested that the Government's interpretation of affordable rents is that they be the maximum extractable rents (Scottish Development Department, 1988a; Scottish Homes, 1989; and Kearns, 1989). In most cases, rents are to be set 'at the full level of affordability', suggesting quite rightly, that there are a number of meanings to be placed on the term 'affordable'. Similarly, in early meetings of a tripartite group set up to define the parameters of the new financial regime for housing associations, Scottish Development Department officials referred to 'achievable' rents rather than affordable rents, until objections from the other participants halted the use of this terminology. The official guidance has also stipulated that associations should compare their rent levels with the local costs of owner-occupation. Neither the purpose of this comparison, nor the desired degree of convergence or divergence between rent levels and purchase costs have been clearly spelt out, though there have been references to the examination of 'willingness to pay' rather than 'ability to pay' (Scottish Development Department, 1988a and 1988b). Apart from the dangers of defining affordable rents in terms of the costs house purchasers are willing to try to meet, it can also be said that house purchase costs are as much a reflection of willingness to lend as willingness to pay.

A combination of official requirements has created a vicious circle for associations to square. They must ensure that rents are affordable to working households (that is, those households with no guarantee that Housing Benefit will meet all their housing costs), but they must also ensure that rents are cost covering and 'set in a market context', and maximise their rental income (Scottish Homes, 1990). At the same time, the definition of costs to be covered out of rental income

has been broadened to include the provision of funds to meet all future costs of major repairs to properties, an expenditure previously met by state capital grants. Thus not only has a crucial responsibility been passed over to housing associations, namely the definition of affordability, but this task has been made more difficult by the addition of other objectives, resulting in a confusing array of conflicting priorities.

Yet the central contention that the definition of housing affordability is not a government function, even where a heavily subsidised social housing sector is concerned, is not corroborated by the experience of other Western nations. A few examples should suffice to establish this point. In Finland, the main measure of state housing policy is the provision of low cost 'ARAVA' loans to individuals and housing providers. Eligibility for these loans depends on an income limit, varied by household size so that housing costs will constitute 15–20 per cent of gross income for the occupants (see Ahren, 1987; Doling, 1989; and Turner, 1990). In the United States, an extensive debate has taken place among policymakers and academics about affordability in relation to housing allowances (see Marks, 1984; and Bradbury and Downs, 1981). In the Netherlands, the post-1975 housing allowance system was set up to reduce the housing expenditures of households to affordable levels, with these levels explicitly defined as a standard rent ratio, or fixed percentage of income, varied by income level (Boelhouwer, 1990). In Australia there are established conventions for the measurement of affordability by both government and private lending institutions, and explicit definitions of affordable payments to be made by purchasers and tenants are used in public housing programmes and in state-sponsored home purchase assistance schemes (see Edwards, 1990; Neutze and Kendig, 1991; and Yates, 1990).

From Table 1 we can see that many other countries either explicitly state the proportion of households' incomes which should be spent on net housing costs (for rent and purchase, and in the private and public sectors) or are clearly aware of the affordability consequences of their charging and rebate systems. The majority of countries use rent to income ratios of between 15 and 25 per cent. They differ, however, in whether and how such ratios vary by income and household type and in whether other spending items, for example heating costs, are included in the definition of housing expenditure. The British government, in contrast, neither defines nor advises on affordability, nor does it apply clear assumptions or known consequences about affordability to its Housing Benefit rebate system, as we

TABLE 1. *Affordability assumptions and consequences in national housing finance systems*

Country	*Rent as % of income*	*Gross or net income*	*Predetermined or outcome*	*Varied by household type*	*Other items included*
Ireland	5 public				
	12 private	Gross	Outcome	Yes	No
Greece	15	–	–	No	–
W. Germany	15–25	Net	Outcome	Yes	No
France	16–20	Net	Outcome	–	–
Finland	15–20	Gross	Predetermined	–	Yes
Australia[a]	20–25 renters	Gross	Predetermined in assistance schemes	Yes	–
	25 owners	Gross			
Denmark	15 pensioners				
	25 non-pensioners	–	–	Yes	–
Canada	25–30	Gross	–	No	–
USA[b]	30	Net	–	–	–

[a] On average, for all households, Australians spend 10% of their gross incomes on housing (Yates 1990).
[b] In the USA, a third of households receiving housing assistance pay a higher proportion of their income on rent.
Source: Joseph Rowntree Memorial Trust International Housing Finance Colloquium, York, June 1989.

shall see. This position is untenable in principle; it is even more lamentable since the 'way ahead' for social rented housing policy in Britain has been constructed around the concept of 'affordable rents'.

THE CONTEXT: FAIR RENTS AND HOUSING BENEFIT

The context in which the changes to housing association finances have been introduced is crucial to the success of Government policy. The initial working assumptions of policymakers and ministers were first, that Fair Rents were not high enough and could not be relied upon to rise sufficiently to enable associations to expand their use of private loan finance and second, that the Housing Benefit system would prevent households suffering hardship as a result of higher rents. Serious doubts about these assumptions and intentions can be raised by an examination of evidence from Scotland on the experience under the Fair Rent system in the decade preceding the legislation to deregulate the sector.

Housing association Fair Rents rose in real terms in Scotland throughout the 1980s. Whereas the index of retail prices rose by 130 per cent over the period 1977 to 1988, the average re-registered Fair Rent for housing association secure-tenancies rose by 280 per cent. Figure 1 shows Fair Rents in relation to gross male earnings in

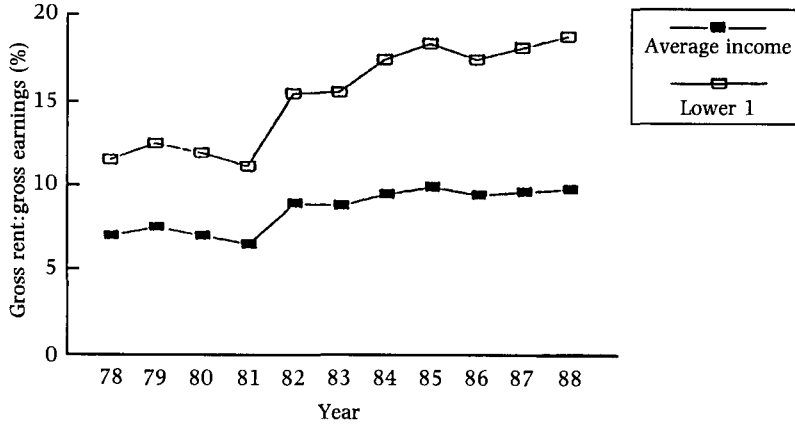

Figure 1. *Fair Rents in relation to earnings in Scotland*

Scotland over the period 1978–88. The incomes of those tenants in employment are a crucial determinant of the affordability of rents. This is because the British Housing Benefit system is designed to give 100 per cent rebates on rent up to a certain income level (defined by household), and then to rapidly withdraw that benefit as earned income rises above the specified level. Therefore, it is in relation to those households who receive Housing Benefit for part of their rent, and those who just miss out on Housing Benefit (that is, households with below average earnings) that rent levels will have most significance. Compared to average male earnings in Scotland, Fair Rents have risen from 7.7 per cent of gross earnings in 1978 to 9.7 per cent in 1988. We know from the Family Expenditure Survey that half of all housing association tenants in Britain come from the bottom two deciles of the household income distribution and a third come from the bottom decile. Thus, Figure 1 also shows Fair Rents in relation to bottom decile male earnings, against which rents have risen from 12.8 per cent of earnings in 1978 to 19.6 per cent in 1988. On the available official evidence, therefore, gross Fair Rents could have represented around a quarter of net earnings for a substantial proportion of housing association tenants at the lower end of the income scale, at the time the rental system for associations was changed.

The pre-existing relationship between rents and incomes within the sector in Scotland can be investigated further using the results of the last survey of housing association tenants' incomes, carried out in 1987 (see SFHA, 1987), together with Rent Registration Service statistics which give average registered rents by dwelling size. Table 2

TABLE 2. *Affordability consequences of Fair Rents in Scotland 1989*[a]

	Single adult aged 25	*Couple*	*Couple plus one child*	*Couple plus two children*	*Lone parent plus one child*
Number of rooms	2	2	3	4	3
Gross weekly rent	29.49	29.49	31.13	25.53	31.13
Median income[b]	83.00	117.00	139.00	139.00	65.00
Housing benefit	1.47	0.00	0.00	0.00	31.13
Net rent paid	28.02	29.49	31.13	25.53	0.00
Net rent % net income	33.75	25.21	22.40	18.37	0.00
Mean income[b]	100.00	132.00	170.00	170.00	82.00
Housing benefit	0.00	0.00	0.00	0.00	20.44
Net rent paid	29.49	29.49	31.13	25.53	10.69
Net rent % net income	29.49	22.34	18.31	15.02	13.04

[a] Average new-build registered rents for Scotland, 1988.
Source: Rent Registration Service Statistics, SDD.

[b] Based on a survey of housing association tenants' incomes in Scotland carried out in 1987 (see SFHA, 1987). Household income distributions for working households supplied on request by the University of Stirling. The data has been updated to 1989 levels in line with increases in average earnings in Scotland (+ 8.7% pa).

shows the relationship between net rent and net income for five different household types, each with at least one adult member in employment, on average incomes (both median and mean), and paying average registered Fair Rents for 1988 for dwellings of appropriate sizes. In each case, the rent and income details have been processed through a Housing Benefit model to calculate benefit entitlement, net rent paid, and net rent as a proportion of net income.

We can see that only in the case of a lone parent with one child, and a couple with two children on the mean income for families is the net rent to net income ratio substantially below 20 per cent. Single adults over 25 on average incomes are in the least favourable position, paying around one third of their net income on the Fair Rent after Housing Benefit. Significantly, this is the most prevalent household type among housing association tenants in employment, representing 45 per cent of new tenant households with an adult in employment. This analysis suggests that, on average, a working assumption that affordable rents should, after Housing Benefit, represent about 20 per cent of net incomes (the norm which most practitioners involved in the affordability debate are adopting), would not in the main result in rent levels different from those previously being registered for new dwellings under the Fair Rent system.

It is clear, despite Ministers statements to the contrary, that the Housing Benefit system cannot guarantee the affordability of rents to

TABLE 3. *Implications of Housing Benefit at average tenant income levels in Scotland 1989*

	Gross rent at 20% of net income		*Maximum net rent payable*		*Maximum net rent as % net income*
	£	*% Average registered rent*[a]	£	*% Average registered rent*[a]	
Single adult aged 25					
Median income = £83	16.60	0.56	28.02	0.95	33.75
Mean income = £100	20.00	0.68	39.07	1.32	39.07
Couple					
Median income = £117	23.40	0.79	33.93	1.15	29.00
Mean income = £132	26.40	0.90	43.68	1.48	33.09
Couple + one child					
Median income = £139	27.80	0.89	36.37	1.17	26.16
Mean income = £170	34.00	1.09	56.52	1.82	33.25
Couple + two children					
Median income = £139	27.80	1.09	28.73	1.13	20.67
Mean income = £170	34.00	1.33	48.86	1.91	28.75
Lone parent + one child					
Median income = £65	13.00	0.42	0.00	0.00	0.00
Mean income = £52	16.40	0.64	10.69	0.34	13.04

[a] The gross rent which represents 20% of net household income, and the maximum net rent payable by the household after receipt of housing benefit have been expressed as proportions of the average Fair Rent registered in 1988 for a new-build dwelling of the appropriate size (see Table 1).

those tenant households on average incomes. This point is brought home even more starkly in Table 3. Using the same household types and incomes as in Table 2, the rent required to maintain a net rent to net income ratio of 20 per cent has been calculated; this is the norm recommended by associations' representative bodies. In seven of the 10 circumstances assessed in this way, the rent required is lower than the appropriate Fair Rent registered in 1988. There is every likelihood then, that such a working definition of affordability would lead to a levelling-off, or slight fall in rents.

Table 3 also shows, for each household type at both the median and mean income levels, the maximum net rent permissible under the Housing Benefit system before rebate assistance would be given. In seven out of the 10 circumstances analysed, this rent would be higher than the corresponding gross Fair Rent registered in 1988. Indeed, in the case of couples with children on mean incomes, the maximum

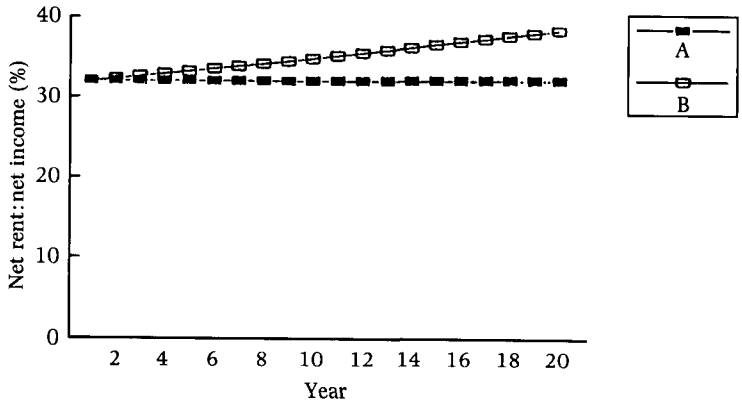

Figure 2. *Hypothetical affordability scenarios for a single person*

net-rent permissible is almost twice the current Fair Rent. For all households on average incomes, other than lone parents with one child, the maximum net rent to income ratio permissible under the Housing Benefit system exceeds the adopted norm of 20 per cent. The ratio is highest for single adults, at between 34 and 39 per cent. The Government cannot, therefore, rely upon the Housing Benefit system to ensure that rents are affordable to households on average tenant incomes, unless it implicitly agrees that rents are still affordable where households spend over a quarter and often a third of their disposable incomes on their net rents after receipt of Housing Benefit.

The other danger of relying upon the Housing Benefit system comes into effect if one considers the potential meaning of affordability over time. Most of the consideration of 'affordable rents' to date, by both policymakers and practitioners, has been in terms of the first year's payments under an assured tenancy. The aim has been to arrange the finances for new housing schemes in such a way that the first-year ratio of rent to income appears acceptable, and then to assume that if associations raise the rent subsequently in line with either the Retail Prices Index or average earnings, that the ratio will continue to be acceptable over the life of the tenancy. This approach is unrealistic, since the ratio of net rent to net income may vary over time owing to the relationship between three sets of factors: first, the changing costs of management, maintenance, and loan interest, all of which feed into the rent charged; second, movements in earnings and incomes; and third, the rate at which key elements of the Housing Benefit system

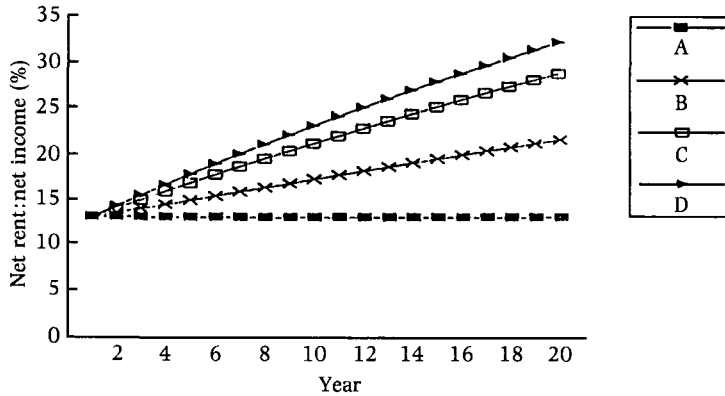

Figure 3. *Hypothetical affordability scenarios for a lone parent*

are uprated vis-a-vis inflation (that is, the Income Support level or eligibility rate, and the earnings disregard). A static view of affordability disregards these realities, yet their importance can be easily demonstrated.

Figure 2 shows the potential effects of these factors over a 20 year period in the case of a single adult aged over 25. At the start of the period she or he has a mean income of £100 and a gross rent of £32 per week for a one-room flat (the average registered rent for a one-room flat in 1988 in Scotland). The tenant therefore commences the period with a net rent to net income ratio of 32 per cent. This is less than the maximum net rent permissible under the Housing Benefit system, and so the crucial factor for such a household is the rate of increase in rent. Line A in Figure 2 shows that if the Housing Benefit elements, income and rent all rise at the rate of inflation (assumed for the purposes of illustration to be 5 per cent over the period), then the net rent to net income ratio will remain static at 32 per cent. However, line B shows what would happen if the rent were to rise at 1 per cent above inflation over the period—the household faces a net rent to net income ratio of 38 per cent in year 20.

Figure 3 models the potential experience for a lone parent with one child commencing the period with a net rent to net income ratio of 13 per cent (as at the mean income in Table 2). Again, if all elements increase with inflation, the situation remains unchanged (line A). For this household, the relationship between rates of increase in the Housing Benefit elements and the other factors is of utmost impor-

tance. If the Housing Benefit elements rise with inflation (5 per cent) but income and rent rise by 1 per cent more than inflation, the net rent to net income ratio rises to 21.6 per cent in year 20 (line B). If in the same case, the Housing Benefit elements rise by 1 per cent below inflation, the ratio would rise to 29 per cent (line C). Finally, if the Government chose to uprate Housing Benefit over the period by half the rate of inflation, with rents and incomes rising with inflation, the ratio of net rent to net income would rise to 32 per cent over the period (line D). Furthermore, the higher the inflation rate, the greater the effect.

These examples show that even if one makes the correct arrangements at the start of a tenancy, there is no certainty of continuing affordability for existing tenants over time; it is a persistent issue that needs continual attention in respect of all tenants. The hypothetical scenarios also show why it is dangerous for the government to encourage housing associations to maximise their rental income and set rents at their 'maximum levels of affordability' at the start of a tenancy (see, for example, Scottish Homes, 1989), for this leaves too little room for subsequent manoeuvre if the various factors move in adverse directions.

THE RESPONSE OF ASSOCIATIONS

Housing associations face a number of difficult dilemmas now that they have been given the responsibility for operating a system of affordable rents. The Government has made it clear that it wants rents for new, assured tenancies to be higher than Fair Rents, and to act as a lever to raise rents generally, including levering the levels of Fair Rents which come up for re-registration. There are also a variety of other pressures on associations to raise rents. The funding of new schemes depends upon higher rents, either in order to achieve fixed, lower capital grant rates, or because an association's prospects of receiving funding are better, the higher the rents and the lower the call on the cash limit of the funding agency. In addition to official scrutiny of associations' rent policies on an annual basis, rent levels will be examined if an association needs capital funding for major repairs, re-improvements or development cost-overruns (HCiS, 1989). Thus it is crucial that associations pitch their rent levels such as to satisfy their funding and sponsoring agencies, but they are having to do this without official guidance as to the correct level of affordability, and in the face of other difficulties. Locally based associations, such as many of those in Scotland, need to maintain the political support of

their communities and local authorities if they are to survive in the long term, and this support could be jeopardised if rents are raised too quickly. Members of the management committees of associations, who are volunteers, also feel the moral pressures of this new responsibility, namely to set the rents to be paid by their friends, neighbours and others to whom they feel an obligation and affinity.

Nonetheless, the official pressures are having their desired effects, to an extent. In England, a year after the commencement of deregulation, rents on new housing association dwellings were rising at the rate of 20 per cent per annum or twice the rate of inflation (NFHA, 1990a). In Scotland, associations have been proposing Fair Rent increases 10–20 per cent higher than would otherwise be the case. In Wales, rents are rising at lower rates (an average rate of increase of 8 per cent per annum in the first half of 1990), but the ratio of gross rent to net income has risen from 20 to 23 per cent (WFHA, 1990).

In addition to the pressures to raise rents, associations are also concerned that the Government wants them to house people on slightly higher incomes than their existing tenants, and who could afford higher rents or part-ownership (see SDD, 1987; and Ridley, 1987). Both these issues are ones which could divide the voluntary housing movement, for some associations will be prepared to go further than others in the directions the Government wants. If, as a result, some associations put themselves in a strong financial position in the eyes of private lenders, and if they are also judged by the Government to be relatively financially-efficient compared to other organisations, then those associations will reap the benefits of state patronage, that is faster expansion and larger mixed-funded development programmes.

At a collective level, associations' representative bodies have been trying to establish a common approach to the issue of affordability by providing their members with advice and research results. They have recommended to their respective members that an affordable rent is anything up to 20 per cent of the net income of a tenant household spent on rent, after receipt of Housing Benefit (see NFHA, 1990b; and Treanor, 1990). This is justified in terms of comparisons with the net payments of owner-occupiers (22 per cent) and first time buyers (25 per cent) in Britain and with the situation in West European countries (NFHA, 1990c). Initially, associations' representatives pressed hard for the Government to define what it meant by affordable rents. Having not initially achieved this objective, the Federations of associations then became less vociferous in this regard, probably considering that at least associations have some flexibility under current arrange-

ments, and that any official guidance would be less to associations' liking than their own internal advice. Beyond giving such advice, an attempt by some members of the Scottish Federation of Housing Associations at its annual conference in 1989 to regulate the behaviour of member associations so that they strictly comply with collective policy resolutions (such as the definition of affordability) was defeated. This desire for autonomy on the part of associations may partly explain why the Federations' advice to their members on affordability has only been in the form of very general guidance. Another contributory factor may be that such organisations do not have the resources and research capacity to take the debate further.

Turning to the level of individual associations, research in Scotland suggests that in reality we are far from achieving a regime of affordable rents within the sector (Kearns, 1991). Only 50 per cent of associations use a definition of affordability in the construction or consideration of their rent policies. Of those associations which do not operationalise a definition of affordability, some do not have sufficient information on tenants' incomes to hand to be able to do so. Nonetheless, a quarter of associations had not and did not intend to carry out a tenant income survey despite the requirement that they implement a policy of affordable rents. Other associations consider the question of affordability to be irrelevent because a high proportion of their tenants are on full Housing Benefit and would have any rent increase met by the state. This position ignores the potential poverty trap effect on such households of high rents, which can prevent the uptake of employment opportunities due to the potential loss of benefit and resultant high net housing cost.

Some associations continue to rely on comparisons with Fair Rents to give them a guarantee that their assured tenancy rents are affordable. This is an unsatisfactory position since Fair Rents are rising as pressures are placed upon Rent Officers, and there has never been a guarantee that Fair Rents are affordable. Nor is it a sustainable position since the Fair Rent system is in decline as a result of the recent legislation. There are two other affordability tests used by associations. The first is to examine the rate of refusal of offers of accommodation under assured tenancies and their causes. The assumption is that if the rate of refusals is not rising, then assured tenancy rent levels can be deemed to be affordable. This is not a sound argument, as it is easy to understand that households in desperate housing need who have waited a long time for any offers of accommodation to be made to them could easily choose *not* to decline an offer for price reasons, pre-

ferring to try to make a go of the tenancy. A further disincentive to refusal is that housing association accommodation, even if it is expensive relative to a tenant's income, may still seem good value for money.

The other affordability test used by associations is the monitoring of rent arrears as a warning sign of a general affordability problem among tenants. Keeping a check on the total level of arrears and the number of tenants involved is a more useful indicator of unaffordability, but it is not infallible. A static rate of incidence of rent arrears could hide the fact that households may be adjusting their expenditure priorities in order to meet their housing costs, and as a result be suffering hardship in other areas. A study of low-income households in Strathclyde region indicated that among households liable to pay a net rent after Housing Benefit, rent was identified as the most important expenditure item far more often (53 per cent) than either food (27 per cent) or fuel (10 per cent) (Erskine, 1990). Therefore, associations need to have both quantitative and qualitative information from tenant surveys to hand if they are to make judgements about rental affordability.

Housing associations which do use a definition of affordability in their rent policies adopt variations of the ratio measure of rent to income. Most of these associations consider that gross rent should represent no more than 20 per cent of income. However, some associations raise this ratio to between 20 and 25 per cent, and a few associations adopt a lower ratio of 16 or 18 per cent of income. The income level chosen is either the average net income of those tenants in work, or the average income of a group defined as being on the lowest incomes (for example, the bottom third of the income distribution of those tenants in work). The affordability test carried out by associations is to then compare the *basic* rent within their proposed rent structure with their chosen income figure, subject to the selected affordability criterion.

Considering the variations in approach taken, which do not correspond with the collective policy of associations, one is inclined to conclude that associations have defined affordability as it suits them individually to do so. What suits associations is probably either an affordability criterion which makes their proposed rent levels appear acceptable on social grounds, or a criterion which places a limit on their ability to raise rents, thus inhibiting them from meeting the Government's requirement that they generate from rental income a provision for future major repairs to their properties. This is an addi-

tional expectation of rental income which many associations are extremely reluctant to meet given that such costs were for many years met by capital grants.

There are other ways in which the approach taken by Scottish associations falls short of an adequate approach to the question of affordable rents. The use of gross rent levels assumes that the Housing Benefit system is efficient and equitable in operation, whereas it is in fact more generous to some household types than others and can distort the relative economic position of households in respect of their net housing payments. The use of the base rent figure avoids consideration of the actual rent levels charged, which are the result of variations made to the base rent under the association's rent structure, to reflect the amenities offered by particular classes of property under its management. Finally, the use of an aggregate, single income figure pays insufficient attention to the different household types within the tenant population, and does not make full use of the tenant income surveys which have been carried out by associations.

Thus, it cannot be said that the current approaches to affordability taken by individual landlords have contributed to the establishment of a regime of affordable rents within the sector. Such a regime would have to contain fewer inconsistencies than the existing situation, and also avoid inequities between different types of household and the tenants of different landlords. At present, the economic position of tenants is over-dependent on the preferences of individual associations, and on the resolve of those associations to tackle the problem of affordability with the sensitivity it requires, whilst resisting the contradictory edict that they maximise their rental incomes.

TACKLING AFFORDABILITY AS A STANDARD OF LIVING ISSUE

The affordability debate has become one primarily concerned with defining a single ratio of rent to income as an affordability norm which can be applied across the board. As a sensible approach, this can be contested in principle and in practice. The use of a single ratio is far too crude to cope with different household types on different income levels, who have different expenditure requirements. The ratio of rent to income, considered in abstraction, tells us nothing about the impact of housing costs on a households' ability to fund other expenditures. A household spending a designated percentage of its income on housing, in line with a central policy or stipulation, may nonetheless be suffering welfare hardships if the housing costs norm has not been defined in a way which is sensitive to that household's

TABLE 4. *The impacts of essential non-housing expenditures on the disposable incomes of Scottish housing association tenants 1989*

	Single adult	*Couple*	*Couple with 2/3 children*	*Lone parent*
Mean net income (£)[a]	100	132	170	82
Average expenditure on essentials (£)[b]	62–83	90–112	117–121	91
Deciles of income distribution	1–5	1–5	1–5	1–10
Expenditure on essentials as % of mean income	62–83	80–85	69–71	111
Share of mean income remaining (%)	17–38	15–20	29–31	0

[a] Special tabulation for working tenant households from a national survey of new housing association tenants carried out in 1987 (SFHA, 1987). Incomes have been uprated to 1989 levels in line with increases in average earnings in Scotland over the period.
[b] Calculated from tables in the Family Expenditure Survey by deducting expenditure on 'non-essential' categories. The amounts have been uprated to 1989 levels in line with the General Index of Retail Prices.

pattern of spending needs. Even the reliance on the experience in other West European countries is flawed, since the affordability ratio is often varied by household type, and in some cases by income level as well.

The important thing about the affordability of housing costs is their impact upon the household budget. This point has also been argued by Sharp and Jones on the basis of a study of housing costs in London (Sharp and Jones, 1990). In the Nordic countries, housing policy is constructed in such a way as to ensure that housing does not take too large a share of the household income, thus guaranteeing that a specified level of consumption of other goods is achieveable. This is in addition to a goal of avoiding the consumption of insufficient housing (Turner, 1990). Thus, one can have a broader rather than narrower consumption objective as an integral part of housing policy. This broader objective related to maintaining or improving, and equalising, standards of living within the social rented housing sector, requires an examination of the adequacy of the residual incomes remaining to households after the payment of net housing costs (that is, after taking account of the receipt of any Housing Benefit).

Using this approach, we can look at the situation facing housing association tenants in Scotland around the time of deregulation (see Table 4). Results from the Government's Family Expenditure Survey have been used to establish average amounts of weekly expenditure on 'essential' items for different household types within the bottom

half of the income distribution (from which 85 per cent of housing association tenants are drawn). For this purpose, expenditures on 15 items which might, by some commentators, be considered 'non-essential' have been deducted from total recorded household expenditures (for example, cinema outings, books, holidays, sports, etc). The revised expenditure totals for different household types have then been compared to the average incomes of tenant households with an adult in employment. The results show that many housing association tenant households would not have 20 per cent of their disposable income remaining to pay an 'affordable rent', or they could pay such a proportion of their income in rent but have little left for non-essential spending. For many tenants, the requirement that they pay a fifth of their disposable income in rent would mean that their expenditure on essential items would have to be below average, that is they would experience a below average standard of living as a result.

If one decides to examine affordability in terms of the residual income remaining after the payment of net housing costs, then one has to somehow judge the adequacy of those residual incomes for different household types. One or two housing associations have begun to adopt this strategy, using as their criteria of adequacy either state Income Support levels or Family Credit entitlement levels, perhaps with a percentage or flat rate addition (see Normid Housing Association, 1990). The dangers of a reliance upon state welfare benefit rates can be demonstrated by looking at changes in the system of rent assistance over the last decade. If we take the average housing association rent for a new letting in England in the second quarter of 1990 (£26.23), we can compute, for different household types, the income level at which entitlement to Housing Benefit would expire given this rent level. We can then compare these income levels with the situation as it would have been under the preceding Rent Rebate system in 1980, before the Fowler Review of Social Security (Table 5). The equivalent rent at this time, discounting for inflation, would be £14.

The results of this exercise show that there has been a massive cut in the maximum eligible incomes for rent assistance over the past 10 years, by at least a third in real terms. Protected incomes for single people, couples and lone parents are barely half what they were at the equivalent rent level in 1980. Furthermore, the index of maximum eligible incomes shows that the household composition weights resulting from the benefit system have altered in favour of families with several children and away from single people and lone parents. The state's judgement about the relative levels of income required by

TABLE 5. *Comparison of maximum eligible incomes under Housing Benefit 1990 and rent rebates 1980*

Household type[a]	*Rent rebates 1980 rent = £14.00*		*Housing Benefit 1990 rent = £26.23*		
	Maximum income (£)[b]	*Index*	*Maximum income (£)*[c]	*Index*	*Compared to 1980 real terms*
Single person	82.13	83	74.15–82.05	69–76	47–52%
Couple	99.93	100	107.95	100	57%
Couple, 1 child	109.53	110	127.65	118	62%
Couple, 2 chidlren	119.13	119	140.00	130	62%
Couple, 3 children	128.73	129	158.25	147	65%
Lone parent with 2 children	119.13	119	123.80	115	55%

[a] All children under 11, except third child aged 11–15.
[b] Maximum incomes for which rent rebates are paid.
[c] Incomes at which Housing Benefit entitlement expires.

different household types has been changing, and it is these regular, unexplained changes in the implicit assumptions contained within the welfare benefit system which should lead one to be wary of relying solely upon it for answers to the question of affordable housing payments.

Therefore, in order to operationalise the concept of affordable rents, what is required is an independent assessment of the financial resources necessary for housing association tenant households to enjoy a reasonable and modern standard of living. The definition of the appropriate standard of living is itself a thorny question, although it would have to lie between the minimum achievable on Income Support (otherwise there would be no incentive for tenants to take employment where available) and the average standard for the population as a whole. Seen as an issue of standard of living rather than of subsistence, an assessment must be made of the costs of social expenditures as well as of necessities like food and clothing (Atkinson, 1990). In order to achieve this, studies of the expenditures (goods and services consumed) and activities of housing association tenant household types would have to be undertaken on a regional basis, with the results compared to those of equivalent national surveys. In this way, one could determine acceptable, affordable net housing payments for different household types within a number of income bands found within the sector. These 'affordable rents' could be expressed as rent to income ratios if needs be.

A difficulty at present is that housing associations have been told that they cannot vary their rent levels to suit the circumstances of individual tenants, following the convention in British social housing for charges to be property-specific rather than household-specific. In these circumstances, the best that associations can do is to set their rents for the different classes of property they own in order that they be affordable to the vast majority of households occupying each of those classes of property. Associations therefore need to undertake tenant income surveys which can be analysed in such a disaggregated way, by household type and property class, in accord with the association's rent structure.

Associations are also required to ensure that their rent policies are cost covering. At the same time, the definition of those costs to be met out of rental income is being broadened to include more service and depreciation elements. In the first place, associations should determine an appropriate structure of rents which would indeed be cost covering. These rent levels should then be adjusted in order to achieve affordability (after Housing Benefit) for the majority of households occupying each class of dwelling under management. The association can then identify any shortfall in rental income against costs for the forthcoming period (1–3 years) resulting from the affordability policy. This shortfall should then be the subject of a Revenue Grant application to the Government by the association. This would not be a reincarnation of the Revenue Deficit Grant system for associations which the Government has been phasing out, since the Affordability Revenue Grant would be paid upfront rather than in arrears, and would only cover losses arising for affordability reasons.

Several other elements would have to form part of an affordability strategy for the housing association sector, alongside the central affordability mechanism. The development of rent policies would be easier if the rate of capital grant was certain and known in advance (to some extent this happens in England and Wales but not in Scotland). Maximum income levels would be defined for access to the sector in order to determine and control who gains the benefit of the affordability strategy. Minimum rental payments for different household types would be built into the structure of affordable rents in order to avoid the political difficulties of replacing the Housing Benefit system entirely. Where a household's income subsequently rose above the relevant maximum access income, that household would have to pay a premium charge in addition to the basic rent in order to remain in the sector. Such households should not be forced out of the sector

(though the Government strongly encourages them to depart), but neither should such households gain an unwarranted excess of subsidy.

A review of the housing finance systems of European countries shows that within the remit of housing policy there are three broad types of instrument available for the achievement of affordable housing: basing the system of charges (or housing costs) on affordability criteria; setting up a housing allowance scheme which contains explicit assumptions about affordability; and providing finance subsidies to housing providers in order to lower the costs passed on to the occupier (Kearns, 1990). In general, countries with selective finance subsidies have less need for selective housing allowance schemes than countries with general finance subsidies (Turner, 1990). Unfortunately, the voluntary housing sector in Britain is being asked to operate with a complex mix of highly selective versions of all three types of subsidy, without any guarantee of acceptable affordability outcomes. The response of housing associations at a collective level has been to recommend a crude affordability policy for implementation through associations' charging systems, and to argue for modest amendments to the Housing Benefit system to remove some of its most severe effects on working households. The main amendment proposed is to reduce the taper, or rate of benefit withdrawal as a household's income rises, from 65 pence in the pound to 50 pence in the pound (NFHA, 1990c). This would still leave the taper higher than in a number of European housing allowance schemes (Kemp, 1990).

For a number of reasons, the associations' collective approach does not constitute an optimum strategy for trying to ensure that the sector can operate a regime of affordable rents. First, it leaves untouched the central issue of the principles and methods upon which one can determine affordable housing costs for tenant households. Second, it is extremely unlikely that associations could achieve the reforms of the Housing Benefit system that they would like, because the scheme is not the responsibility of the Housing Ministry, and because it assists many more council and private tenants than housing association tenants, with the corollary that any reforms would have substantial public expenditure implications. Third, a finance system for housing associations which depended crucially upon, indeed was constructed around, the Housing Benefit system would be extremely unstable for the organisations concerned. The Housing Benefit scheme is subject to regular review and amendment, most often without taking the needs of the non-profit rented sector into account. The approach to afford-

ability suggested above is intended to aim at an appropriate subsidy system which can be durable, specific to the housing association sector, and which contains a mix of subsidy types rather than being over-reliant on any one subsidy which is subject to frequent alteration.

CONCLUSION

In social policy terms, British housing policy has a yawning gap at its centre due to the Government's reluctance to define, or determine a methodology for defining, 'affordable' payments to be made by tenant households for social rented housing. So far, this issue primarily concerns housing associations, but as the evaluation criteria for local authority and voluntary sector housing converge, the question of affordability will also be raised in relation to council housing tenants. This will happen in two ways: the Government could well decide that local authorities should also charge 'affordable rents', and use affordability as a lever to try to raise council rents, which have historically been lower than those of housing associations; and the advocates of council housing will argue that the affordability of council rents is a virtue local authorities possess over and above the voluntary housing sector which has been forced to raise rents under an 'affordable rents regime'.

In trying to measure the affordability of social sector rents, we need to break away from arguments about simplistic, monolithic and static ratios of rent to income. Just as Atkinson (1990) found disagreements about the ends and means of policy in his study of benefit scales, so our study of housing affordability has highlighted the importance of deciding whether housing itself is a means or an end of social policy. The thesis that affordability criteria would be better defined through a disaggregated analysis of household residual incomes after payment of housing costs is premised on a view of housing as a means to a better quality of life, in contrast to a perspective which sees housing (and most often a particular tenure attainment) as an end in itself. In order to put such criteria into practice, there is a need for a new type of *organisational* subsidy paid to housing associations as social sector landlords operating 'affordable rents policies'. This would have the advantage of not making individual tenants more benefit dependent, and would also avoid the construction of a finance system for the voluntary housing sector which is hinged around reforms of the Housing Benefit system which would be both inherently unstable and politically difficult to achieve.

Hence, there is another limiting discourse to be left behind, namely the choice between 'bricks and mortar' and 'personal' subsidies (Kemp, 1990; Hills *et al.*, 1989). In addition to having subsidies tied to people or to buildings, there is another possibility of subsidies tied to organisations by virtue of their social policies. This is not a 'producer' subsidy but a social housing manager subsidy paid to facilitate affordable rents. There are at least three reasons why such an organisational subsidy has advantages over a reliance solely upon producer and/or personal subsidies. First, as Hills has shown, the value of producer subsidies in the long term can be uncertain where there are clawback arrangements (Hills, 1987). Second, where social sector organisations such as housing associations are required to use private, variable interest rate loans, in addition to state grants, to fund developments, the contingent impact of producer costs remains with the provider for some time to come. At any time, these costs can have an undesirable impact upon the organisation's finances and hence upon its rent levels. Third, a long term, recurrent organisational subsidy offers greater stability of provision to the social rented sector and at the same time presents opportunities for guaranteeing the implementation of social housing policies through a contractual relationship between the state and the recipient landlord.

Deciding how much people should pay for subsidised rented housing is a task which should rightly be tackled by the Government itself. However, in the absence of government guidance, housing associations should themselves take up the challenge in new ways, and attempt to implement a collective policy. Left to their own devices, individual associations have been found to take the issue more or less seriously depending on whether they are willing or able to devote the necessary resources to the problem. One way or the other, through either state action or housing association collective action, affordability should become a defining characteristic of the housing association sector in Britain. With overarching principles for determining affordable rents, housing associations can be seen as a coherent part of a broader social policy aiming to improve citizen's standards of living. More than any other element of their operations, the use of affordable housing payments should be the signal that tells observers that housing associations are part of the social rented housing sector. This message should not in the main be communicated simply by the fact that such organisations receive extensive producer subsidies.

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