Human City **HEADLINES**

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Affordable Lives?

Housing Affordability, Tenure and Inequality in England

SUMMARY

- **This paper explores whether England has a crisis of affordability. It seeks to review affordability in housing by tenure within the context of earnings and the cost of living, as well as against a backdrop of rising inequality in incomes and wealth. The paper asks whether many households can now lead 'affordable lives'**
- **Housing has become less affordable in all sectors over many years. Mounting demand for housing coupled with inadequate supply over the long-term has resulted in a housing crisis signified by unaffordable home ownership and unaffordable rents.**
- **The average house price in England is now £234,466 – a rise in real terms of 268% over the last two decades. House prices have climbed at more than twice the rate of earnings. This means that average earnings would need to double with no change in average house price for home ownership to return to affordable levels last seen in 1997.**
- **Rising rents in both the private sector and in so-called affordable rents in the housing association sector are becoming less affordable over time. The average rent is 43% of average earnings in the private sector and 30% for affordable rents.**
- **Achieving more affordable lives generally is being held back by the decline in full-time and secure employment, replaced by part-time and zeros hours employment, and the rise in low paid self-employment. This has been exacerbated by welfare reforms, and has precipitated a rise in poverty – especially child poverty.**
- **Social tenants are especially subject to financial exclusion, reliance upon low incomes, welfare benefits and high-cost lenders, and have seen their standard of living decline appreciably in recent years. This is linked to the large proportions of their income spent on food, fuel and transport, which have seen above inflation increases.**
- **Low income households have borne the brunt of the squeeze on incomes since 2010 and will be the main losers by 2020. The bottom 40% can expect real terms decreases in incomes over the next four years, while the top 40% will see their incomes rise.**
- **These trends fit with long-term widening of income and wealth inequality. The top 1% of earners now have a greater share of incomes (at about 20%) than at any time since WWI. The top 10% own 45% of national wealth while the bottom 50% own 9%. The wealthiest fifth of households own 117 times the wealth of the bottom fifth.**
- **Some solutions include a massive investment in social and other forms of affordable housing, potential rent control in the private sector, enabling social and other renters to control their housing and community assets, greater access to affordable credit, the introduction of a real living wage and possibly a citizens' income, reversal of welfare reforms, and introduction of more progressive taxation and a wealth tax.**

Introduction – A Crisis of Affordability

This paper reviews to what extent England has a worsening affordability crisis. It focusses on trends in affordability for all three major tenures of home ownership, private renting and renting in the social housing sector (social renting and affordable rent).

The paper seeks to illustrate that deteriorating affordability in housing is the central problem of the growing housing crisis.

Alongside, it considers whether a wider affordability crisis, where individuals, or sometimes whole communities, cannot access employment, earnings, and/or benefits and/or credit at a time of escalating living costs that enable them to lead 'affordable lives'.

The paper links worsening affordability to widening inequalities in income, wealth and life chances. Inequality is a powerful driver in the growth of the working poor, just about managing (JAM) households, marginalised groups, and emergent 'precariat' class, and in stunted social mobility.

In particular, the paper reviews whether social tenants are able to live 'affordable lives' and their reliance upon high-cost credit to make ends meet.

This paper also explores the role of unaffordable housing in the crunch in living standards generally – especially of people at the bottom of the income spectrum – and questions whether some communities are now living unaffordable lives.

This briefing is based on a review of key data from government sources, think-tanks and from research by the Human City Institute (HCI).

The paper finally suggest some possible remedies to improve affordability, reduce inequality, and enable all citizens no matter in which tenure they are residents, to live more affordable lives.

Definitions of Housing Affordability

Deteriorating housing affordability in England, on generally accepted measures, has been noticeable for fifteen years or more. However, the conflation of stagnant household incomes, climbing house prices and rents since the international financial crisis hit in 2008, have seen the problem of affordability worsen.

For home ownership, the ratio of median house price to median earnings, and changes over time, for example, is widely accepted as a reasonable measure of the affordability of home ownership.

However, there are some contentious issues around the concept of 'affordability' in the private and social sectors. Definitions tend to centre upon proportions of income spent on rent in localities. Using 25-30% of incomes to cover rent represent a broad measure of affordability for the rented sectors.

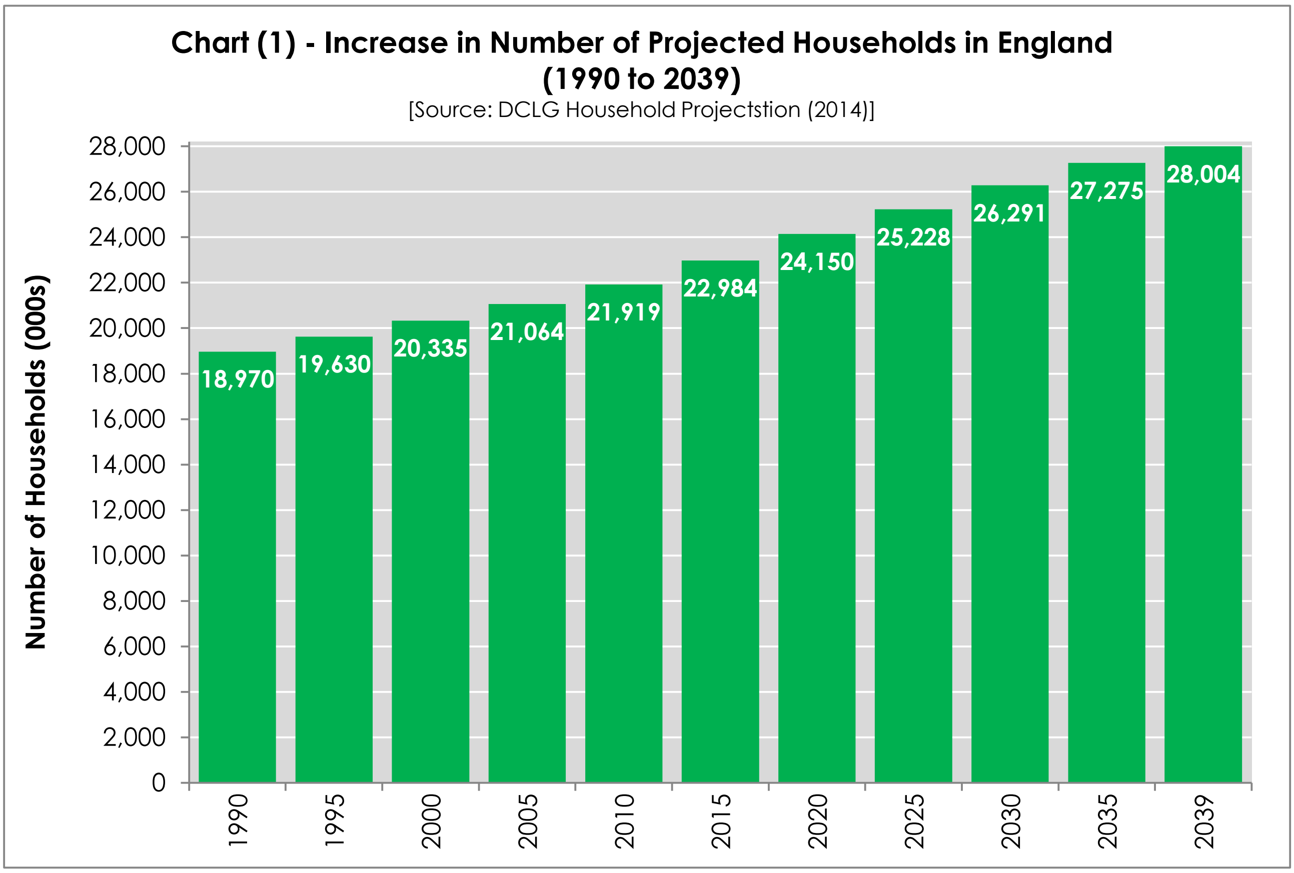
The Government's definition of 'affordable'[1] rests on the 80% of market rents without reference to income. Welfare reforms, including various caps on total benefits claimed and on support for rent payments, have complicated the issue since rents that push total household income requirements above caps are not taken into account in assessments of affordability.

Ultimately, if housing costs exceed the level of income that enable households to live more widely rounded affordable lives – for example being able to pay rent but having to rely on high cost credit or food banks to get through the week – then such rents should be deemed unaffordable.

[1] https://www.gov.uk/government/publications/national-planning-policy-framework--2

Housing Supply, Demand and Affordability

The affordability crisis in all main tenures has been created predominantly by inadequate housing supply, rising demand, stagnant real terms household incomes, welfare reform, and the growth of low paid, part-time, and insecure employment, including the dramatic rise in self-employment and work on zero hours contracts.



Rising demand in England is underscored by projected increases in the number of households. As chart (1) illustrates, between 2014 and 2039, an additional 5.3m households will be formed (representing an increase of 23%).

This is equivalent to five times Greater Manchester or the West Midlands conurbation. Inner and outer London, and the South-East will have the highest rate of growth in the, with the majority of local authorities seeing at least a 20% increase, with some as high as 49%. Some revision of projections may be required to take account of the outcomes of Brexit negotiations that affect migration between the European Union and the UK.

Greatest growth in households will be in the young and older age cohorts, and in newly forming small and large households. Ageing will be a major issue, with large increases in numbers aged 70 years or older. The working age population will grow in number, but will form a decreasing share of the population.

Growth will be more rapid in the young adult population than in those aged 40 or older, and there will be an increase in the child population. There will be a 200% growth rate in the number of under 25 year old households, which are the key demographic requiring new housing. The average household size is predicted to fall from 2.35 to 2.21 people.

Alongside this predicted new demand, there are significant backlog needs of households that have not seen their housing needs met. In England 1.2m households, or around 4m people, are registered on local housing registers (waiting lists).[2]

There has been a reduction in the number of households registered over the last three years, but this is more likely due to changed registration criteria, introduced by the Localism Act 2013, than an actual and significant decline in housing need. Despite this, the number of households on local housing registers England remains, considerably higher than two decades ago. Homelessness and rough sleeping are also on the up too.[3] Official homelessness, rough sleeping, and use of temporary accommodation have also all been on the up in since 2010.[4]

Various national studies[5] suggest that between 240,000 and 350,000 new homes are required annually for at least the next ten years to cope with rising demand and backlog housing needs. The Government is sticking broadly to its target of enabling 200,000 per annum to be built between 2015 and 2020.

However, since there first two years of this target have been missed, the 200,000 target now has to be at least 230,000 for the next three years to achieve the 1m new homes pledge by 2020 (subject to revision of the Government is re-elected on 8th June and to its manifesto commitments).

The Government has also shifted its criteria for homes provided from completions of new homes to net additional dwellings, with 30,600 gains from change of use between non-domestic and residential, 4,760 from conversions between houses and flats and 780 other gains (caravans, house boats), offset by 10,420 demolitions.[6]

The scale of the task in increasing house-building – especially affordable house-building – to levels seen in previous decades underscored by the two charts over the page:

- A first observation is that realising more than 200,000 homes each year has not been achieved since WWII without the social housing sector making a significant contribution to new housing supply.

- Secondly, that social and affordable house-building has been on the decline in recent years, highlighting the failure of housing and planning policy, and of public funding for new housing when it is clear that the private sector cannot resolve the housing crisis on its own.

- Thirdly, that 200,000 new homes annually has not been an adequate target for some years because of build-up of backlog needs.

- Finally, it is likely that there is insufficient capacity and/or desire in the construction sector, which has a major skills crisis, likely to worsen after Brexit, to significantly raise the rate of house-building across the country.

All major political parties are (at least in their manifestos) committed to building more social and affordable homes (although the Conservative Party has backtracked on its pledge to build a new generation of social housing since these will be let at affordable rents, which are considerably higher. Also, the Conservatives aim to sell-off these social homes 10-15 years after construction.

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[2] https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies
[3] https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness
[4] https://www.jrf.org.uk/report/homelessness-monitor-england-2017
[5] https://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/46/4611.htm
[6] https://www.gov.uk/government/statistics/housing-supply-net-additional-dwellings-england-2015-to-2016

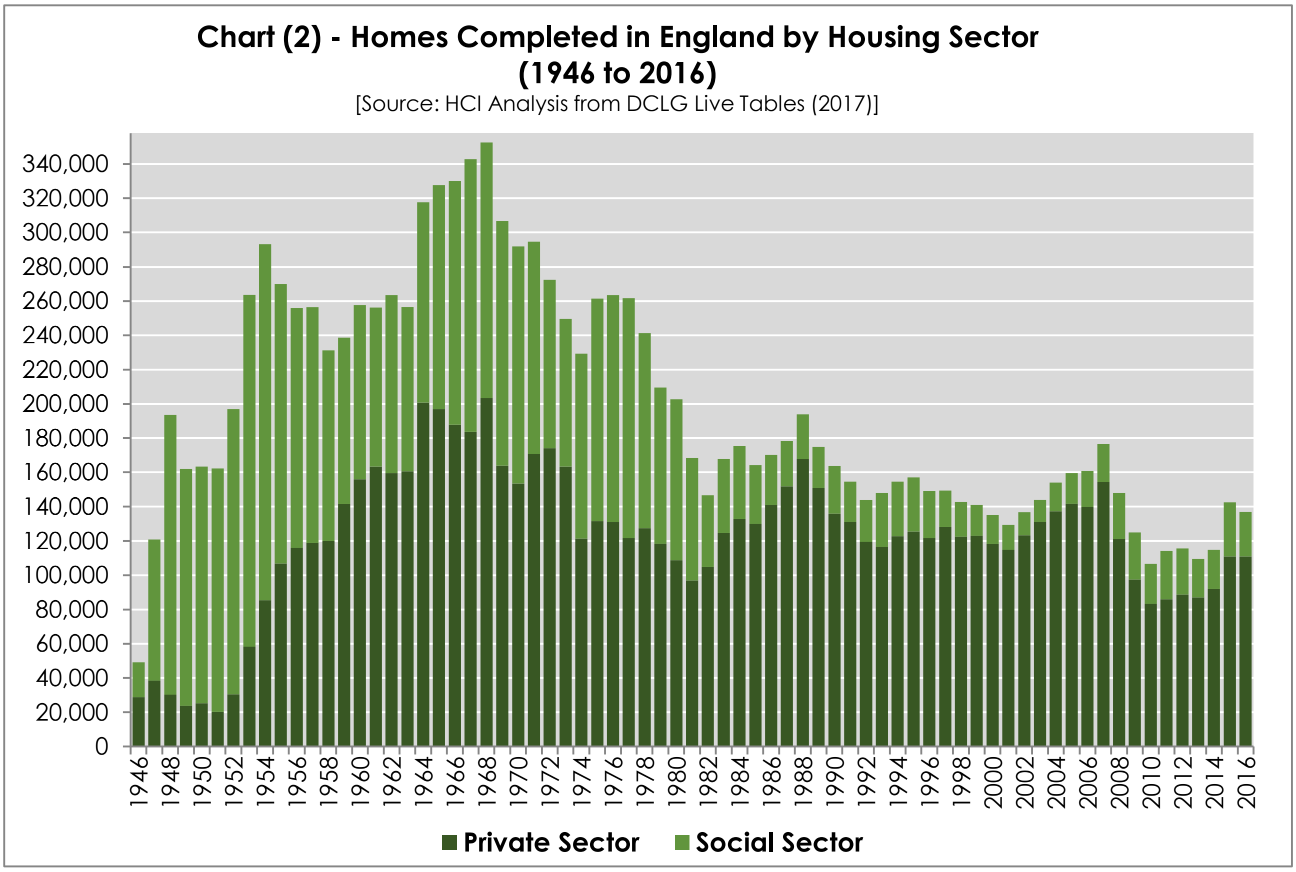


Chart (2) - Homes Completed in England by Housing Sector
(1946 to 2016)
[Source: HCI Analysis from DCLG Live Tables (2017)]
Private Sector
Social Sector

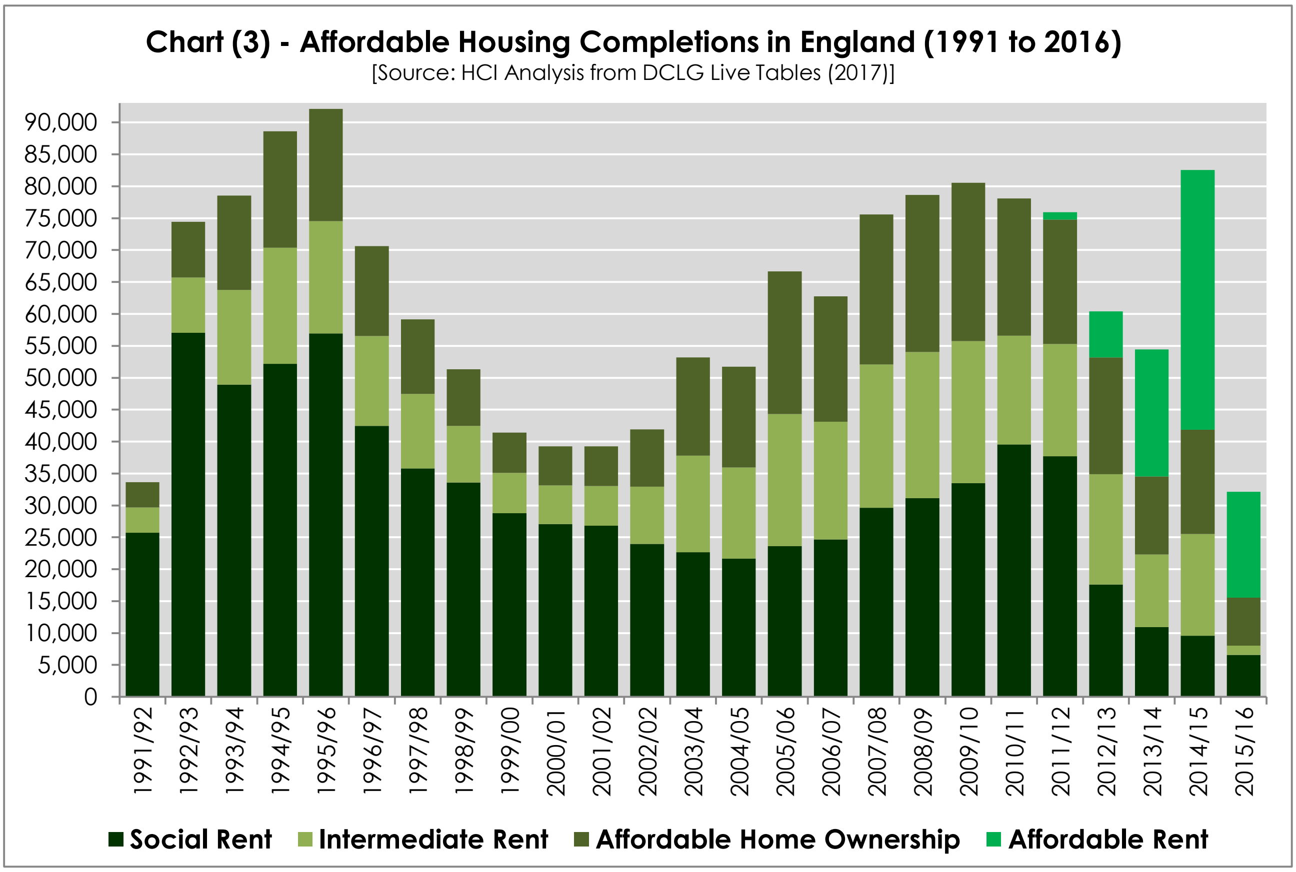


Chart (3) - Affordable Housing Completions in England (1991 to 2016)
[Source: HCI Analysis from DCLG Live Tables (2017)]
Social Rent
Intermediate Rent
Affordable Home Ownership
Affordable Rent

Affordability in the Home Ownership Sector

England has witnessed massive house price inflation in the last two decades. The average (median) house price in England has increased by 318% since 1997, or 248% in real terms, to stand at £234,466 today. All English regions have seen above inflation increases over the last two decade ranging from 141% in the North-East to 418% in London. The capital has the highest average house price of 474,704, but the South-East, the East of England, and the South-West have also seen real terms increase in average house prices of more than 250% since 1997.

Table (a) – CHANGE IN AVERAGE HOUSE PRICES BY REGION IN ENGLAND

	February 1997	February 2017	% Change	% Change (-RPI)
North-East	£42,574	£123,749	+191	+141
North-West	£44,691	£152,618	+241	+191
Yorks & Humberside	£44,759	£152,591	+241	+191
East Midlands	£47,346	£176,784	+273	+222
West Midlands	£51,443	£180,516	+251	+201
East of England	£56,694	£281,665	+397	+347
London	£83,579	£474,704	+468	+418
South-East	£69,675	£311,539	+347	+297
South-West	£57,921	£241,582	+317	+267
England	£56,191	£234,466	+318	+268

[Source: Land Registry (2017)]

As chart (4) over the page shows, house price inflation has been significantly above RPI for more than two decades, with the exception of a decline in house prices during the period after the international financial crisis in 2008 to 2009. Since then, house prices have continued to rise, with increases predicted to be around 6% annually (about 4% ahead of RPI) for the foreseeable future.

Housing supply, in terms of new house-building, continues to lag behind demand – but so does the volume of total house sales, including sales of existing homes. Chart (5) illustrates why house prices have risen consistently year-on-year since the international financial crisis – sales have only averaged about 60,000 yearly whereas before the crisis, they averaged around 90,000. This signals that existing home owners have been reluctant to put their homes on the market, exacerbated by the expanding proportion of those who own their homes outright rather than by a mortgage.

Charts (6) and (7) on page 8 show how and why affordability has deteriorated since the international financial crisis hit, following a brief hiatus in 2008 to 2009 when affordability improved marginally. The ratio of median wages to median house price is now 7.8:1, which is higher than at the last peak in 2007 when it was 7.3:1. A similar trend can be seen for lower quartile earnings to lower quartile house price, which now stands at 7.2:1.

The affordability of home ownership, generally accepted to be the average house price being no greater than 3.5 x earnings, has not been achieved for two decades. While there is variation across England, there is not one local authority that now records an affordability ratio of 3.5:1.

The affordability of home ownership remains problematic because earnings are stagnating – at least relatively – as well as house prices rising. Since 1997, as chart (7) reveals, the index of house prices has climbed at much more than twice the rate of earnings. This means that earnings would need to double, with no change in house prices, for home ownership to return to affordable levels last seen two decades ago.

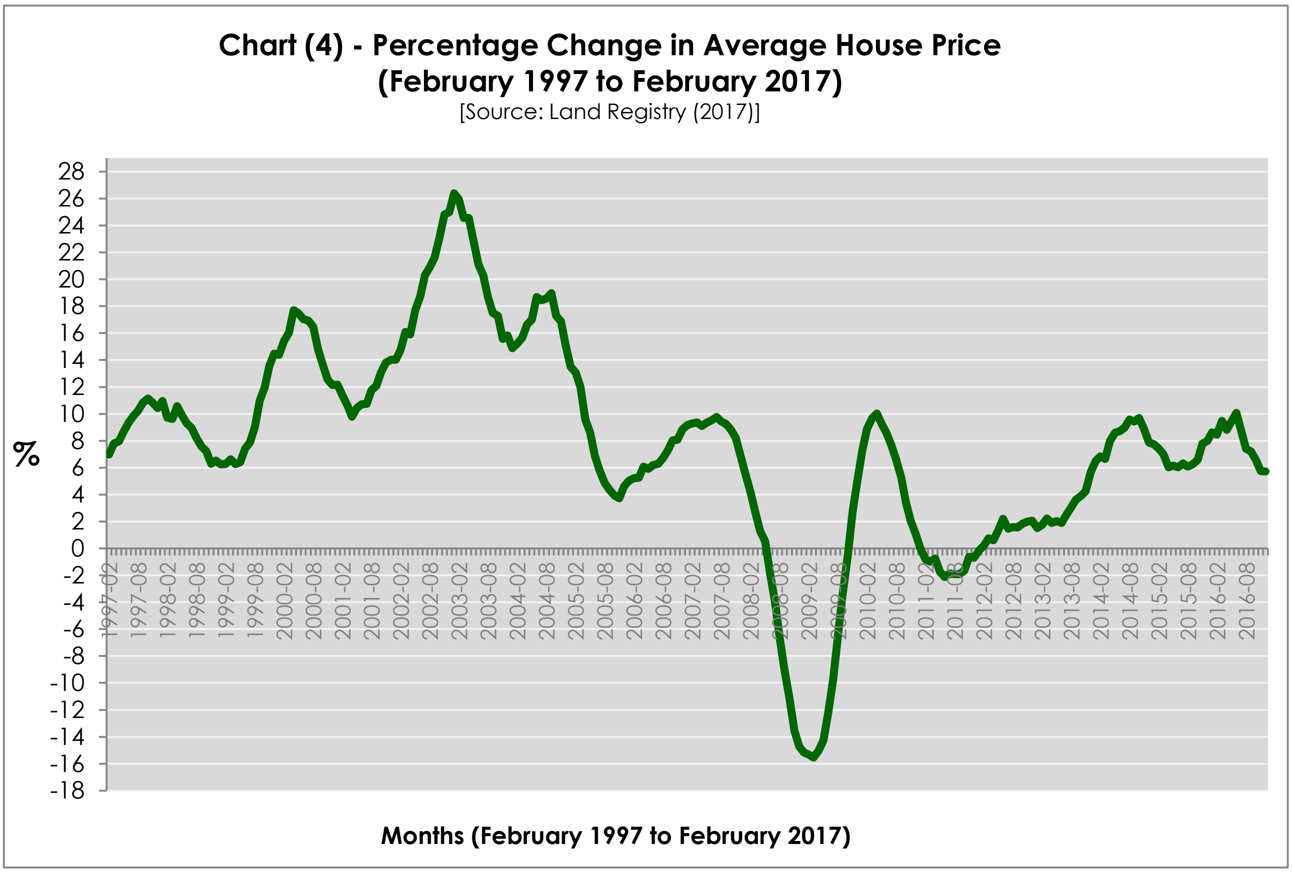


Chart (4) - Percentage Change in Average House Price
(February 1997 to February 2017)
[Source: Land Registry (2017)]
%
Months (February 1997 to February 2017)

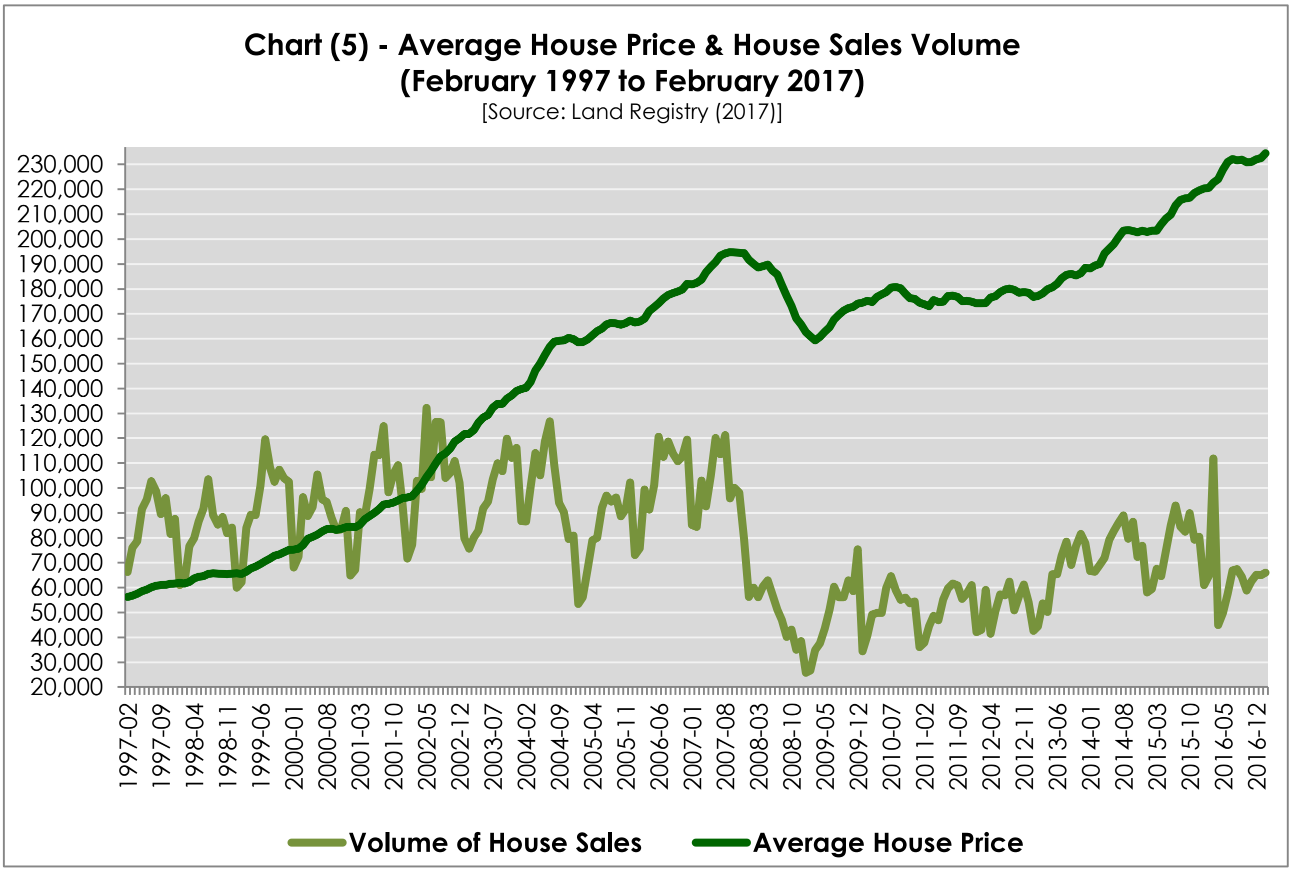


Chart (5) - Average House Price & House Sales Volume
(February 1997 to February 2017)
[Source: Land Registry (2017)]
Volume of House Sales
Average House Price

Chart (6) - Affordability of Home Ownership in England (1997 to 2017)
[Source: DCLG Live Tables (2017)]

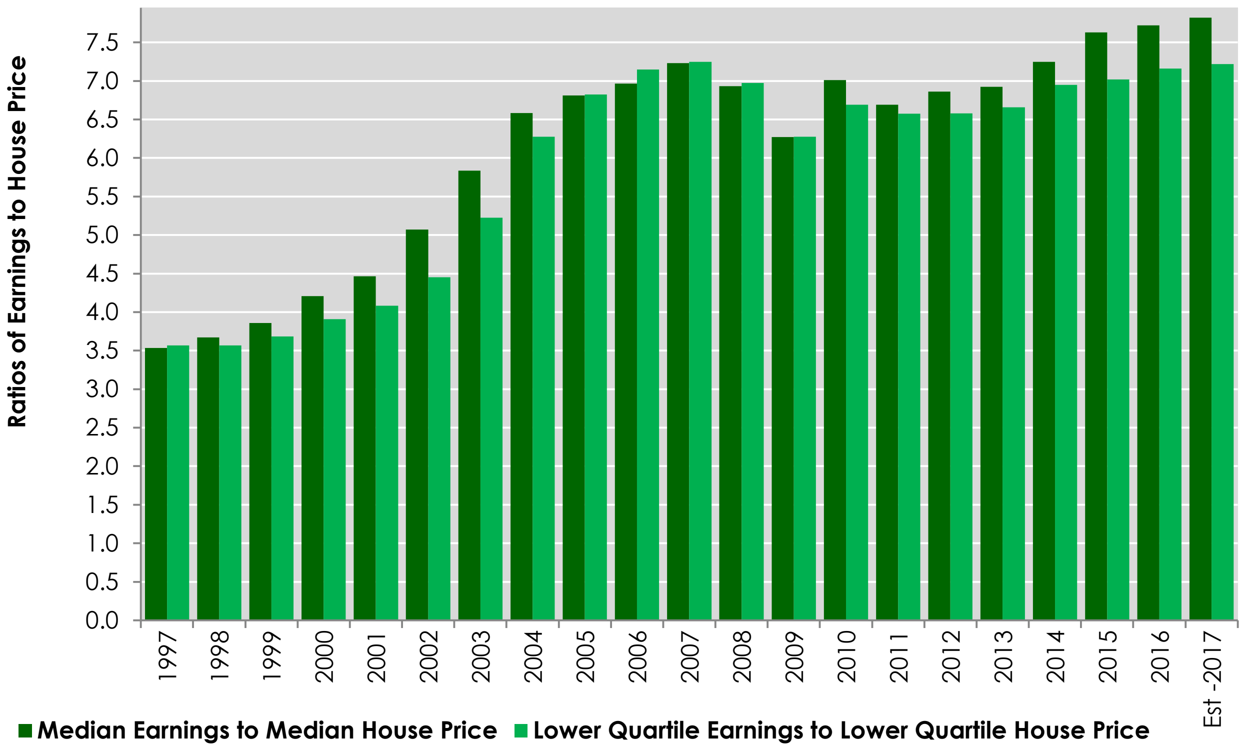
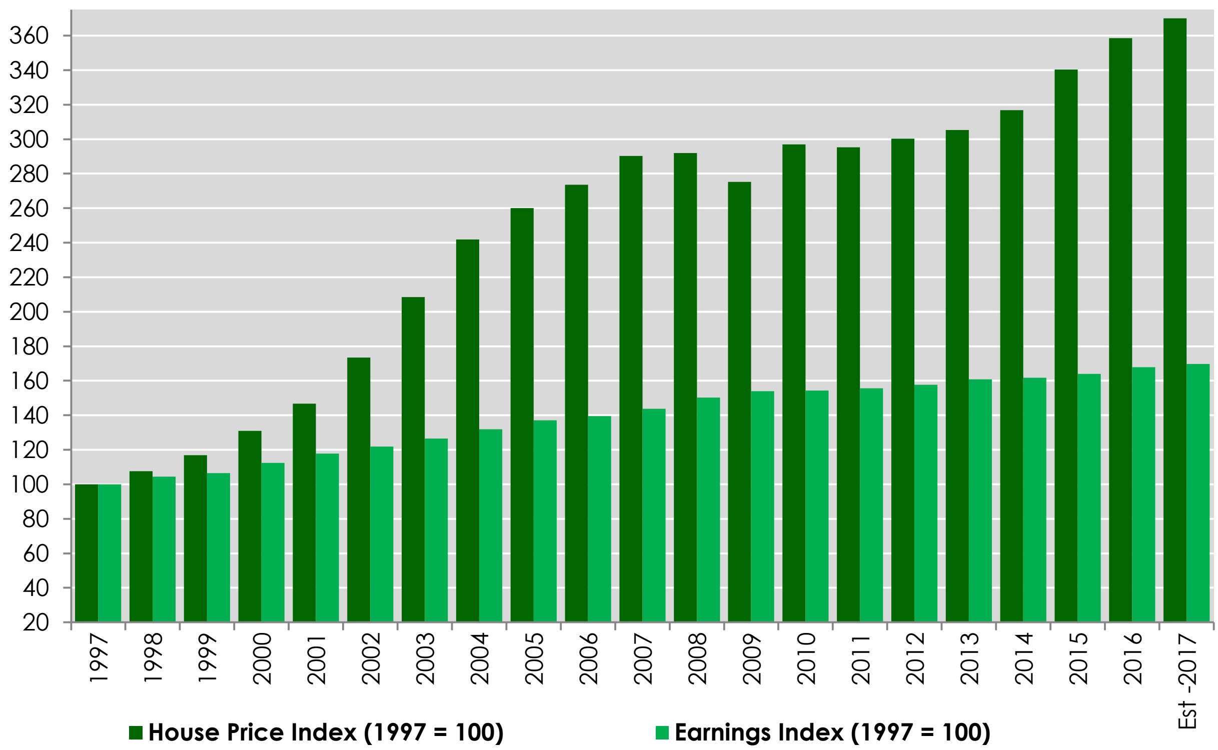


Chart (7) - Indices of House Prices and Earnings (1997 to 2017)
[Source: DCLG Live Tables (2017)]



Affordability and Rented Housing

As with home ownership, affordability in rented housing (sub sectors - social, affordable and market rented) has deteriorated appreciably. Chart (8) over the page reveals a striking rise in market rents over the past decade on a month-by-month basis, despite some decline during the international financial crisis. It also illustrates how market rent rises are converging to some degree between London and the rent of England even as those in the South-East are soaring. Chart (9) illustrates how rents in each sub-sector have all been climbing over the long-term, and will continue to climb for the foreseeable future. The gap between social rents in both housing association and local authority sectors with those in the private rented continues to widen. Table (b) provides an overview of changes in the average rent by sub-sector over a twenty-five year period. Some key observations:

- Market rents have increased most (at +305%, or 245% after inflation is taken into account) with the average now being £189.23 per week.

- Local authority rents have increased (by +270%, or +210% in real terms) – a greater rate of growth than for housing association assured rents (by +214%, or +154% minus inflation) as part of 'convergence' strategies in the social housing sector. Average rents are now £87.93 and £90.96 respectively (of course social rents are due to fall by 1% per annum for the years 2016 to 2020).

- All rental types have increased much faster than earnings since 1995. Earnings growth, once RPI has been accounted for, has been 78%. But growth in rents has ranged from 154% for housing association assured rents to 245% for market rents.

Table (b) – CHANGE IN RENTS AND EARNINGS (WEEKLY) BY SECTOR IN ENGLAND

	1990	2015	% Change	% Change (-RPI)
Local Authority Rents	£22.74	£87.93	+270	+210
Housing Association – Assured Rents	£28.97	£90.96	+214	+154
Market Rents	£46.67	£189.23	+305	+245
Average (Mean) Earnings	£266.70	£635.80	+138	+78

[Source: HSA/CIH Housing Review (2017)]

There is considerable variation in rent levels between English regions, as table (c) points up. Rents in London for all four sub-sectors are highest, ranging from £118.73 per week for council housing to £412.75 for market rents.

Table (c) – AVERAGE GROSS RENTS BY SECTOR AND REGION IN ENGLAND (2015/16)

	Assured Rents	LA Rents	Affordable Rents	Market Rents
North-East	£83.87	£79.02	£95.55	£142.88
North-West	£86.42	£77.46	£102.48	£157.16
Yorks & Humberside	£87.40	£74.37	£95.51	£152.40
East Midlands	£93.58	£78.23	£102.45	£158.75
West Midlands	£94.99	£81.70	£108.29	£168.28
East of England	£102.36	£93.68	£134.35	£198.44
London	£140.44	£118.73	£195.29	£412.75
South-East	£115.58	£96.31	£150.31	£238.13
South-West	£94.45	£83.46	£119.89	£201.61
England	£90.96	£87.93	£131.25	£189.23

[Source: NVO PRMS Statistics (2017)]

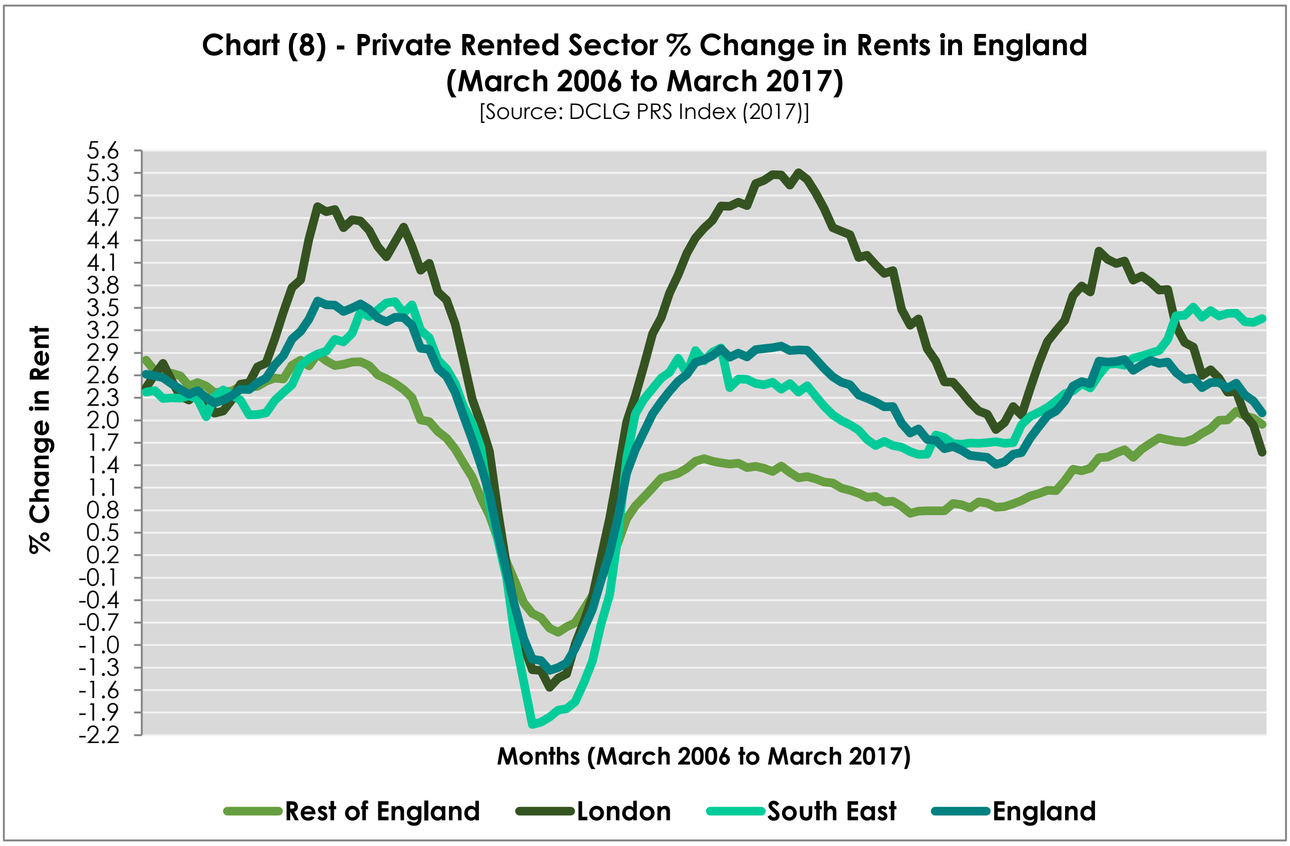


Chart (8) - Private Rented Sector % Change in Rents in England
(March 2006 to March 2017)
[Source: DCLG PRS Index (2017)]
% Change in Rent
5.6
5.3
5.0
4.7
4.4
4.1
3.8
3.5
3.2
2.9
2.6
2.3
2.0
1.7
1.4
1.1
0.8
0.5
0.2
-0.1
-0.4
-0.7
-1.0
-1.3
-1.6
-1.9
-2.2
Months (March 2006 to March 2017)
Rest of England
London
South East
England

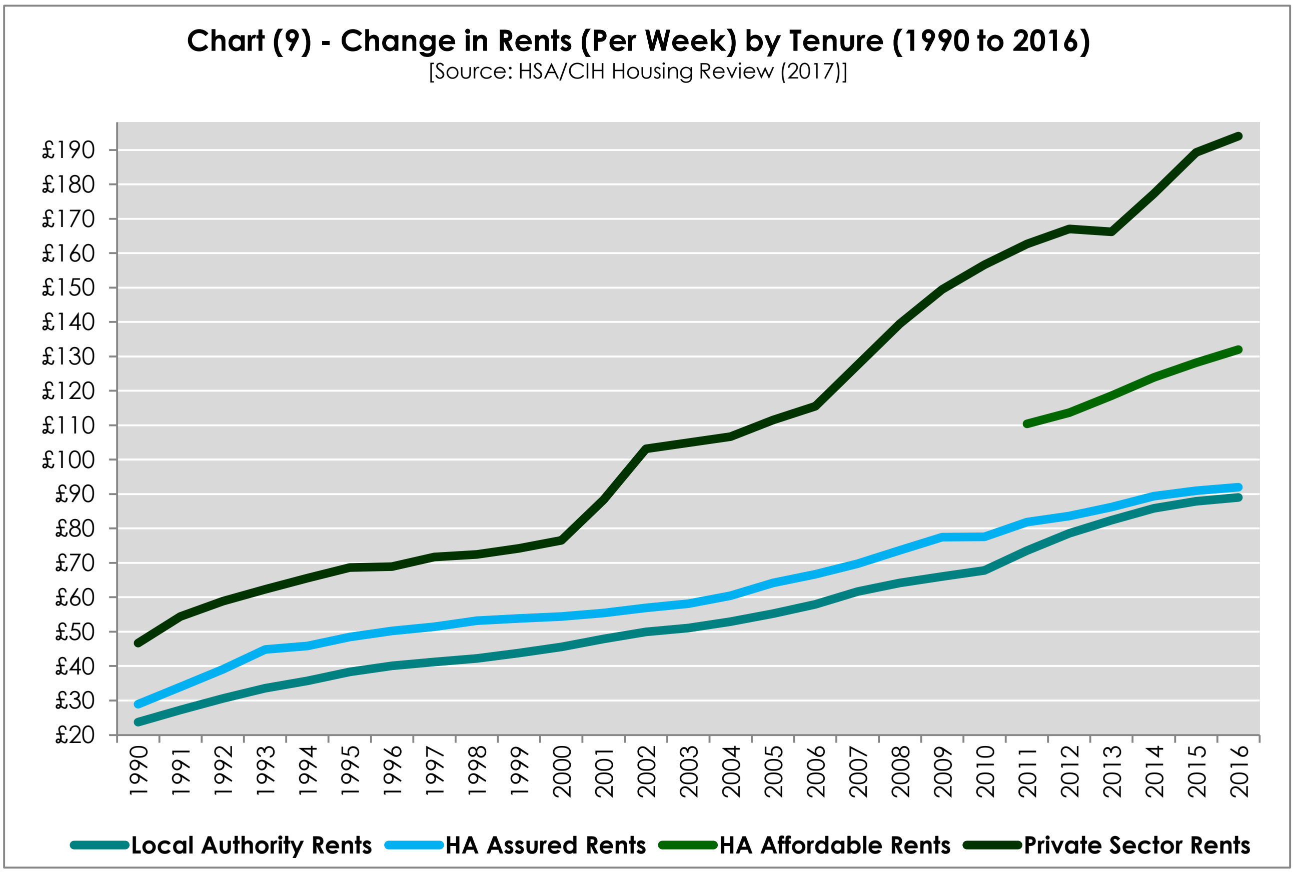


Chart (9) - Change in Rents (Per Week) by Tenure (1990 to 2016)
[Source: HSA/CIH Housing Review (2017)]
£190
£180
£170
£160
£150
£140
£130
£120
£110
£100
£90
£80
£70
£60
£50
£40
£30
£20
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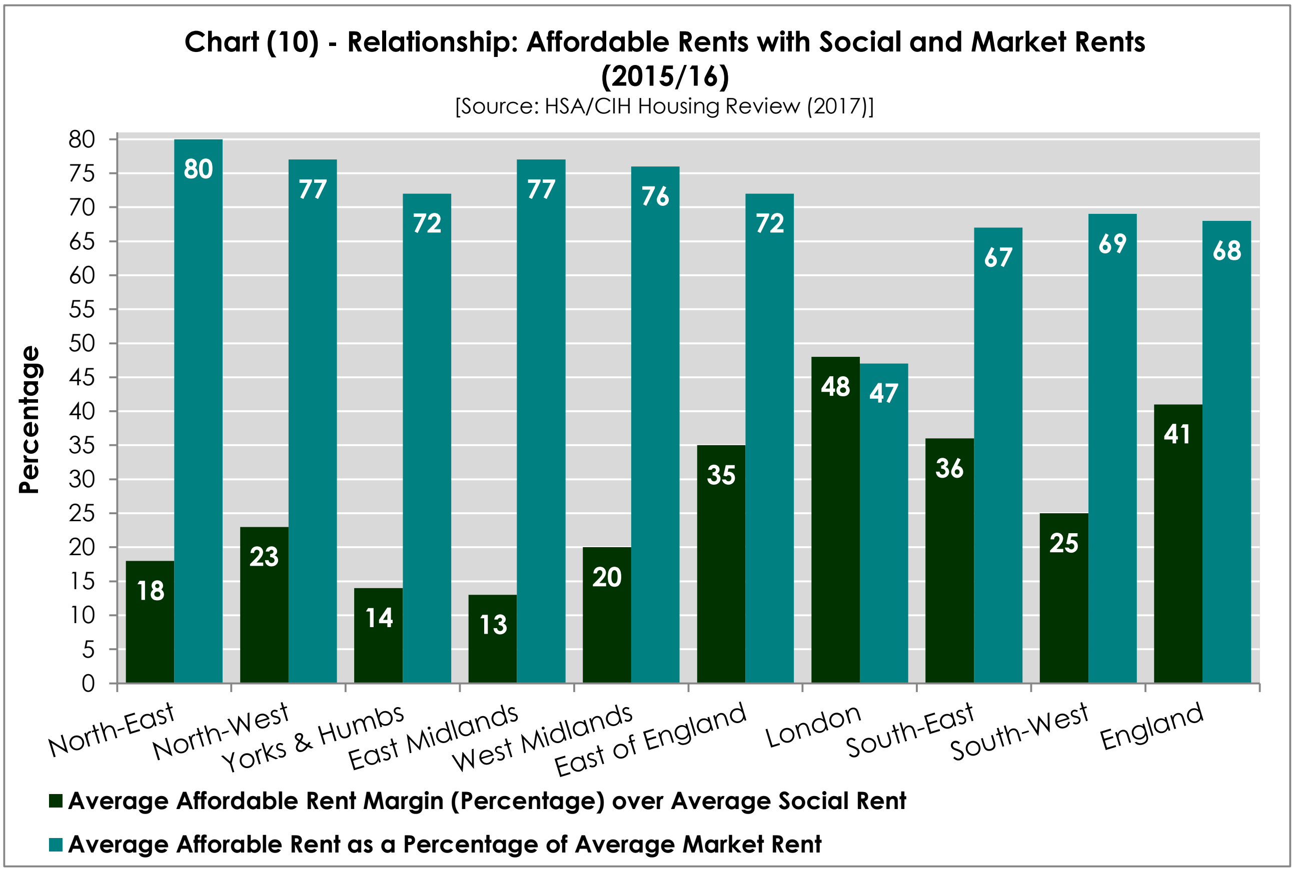
Local Authority Rents
HA Assured Rents
HA Affordable Rents
Private Sector Rents



Rents of all types tend to be lower in the North of England and rise through the Midlands into the South-East and the South-West. As chart (10) demonstrates, there are significant differences between social rents and affordable rents, and between affordable rents and market rents. For England over all, the average affordable rent is 41% more than the average social rent. However, this varies considerably from 13% in the East Midlands to 48% in London and 35% in the South-West. When comparing affordable rents across the country, the average affordable rent ranges from 47% in London to 80% in the North-East. For the whole of England the average affordable rent is 68% of the average market rent. Most regions hover around the 69% to 77% range.

Table (d) – AVERAGE GROSS RENTS BY SECTOR AND REGION IN ENGLAND AS PERCENTAGE OF MEDIAN EARNINGS (2015/16)

	Assured Rents	LA Rents	Affordable Rents	Market Rents
North-East	21%	20%	24%	35%
North-West	21%	19%	25%	38%
Yorks & Humberside	22%	18%	24%	38%
East Midlands	23%	19%	25%	38%
West Midlands	23%	20%	26%	40%
East of England	22%	21%	29%	43%
London	26%	22%	36%	67%
South-East	24%	20%	31%	50%
South-West	23%	20%	29%	49%
England	21%	20%	30%	43%

[Source: NVO PRMS Statistics (2017) and ASHE (2016)]

Comparing rents by sub-sector and region as a proportion of median earnings illuminates the extent of affordability of each.[7] Table (d) reveals that housing unaffordability is much greater in the market and affordable rent sub-sectors than for social renting by housing associations or local authorities. For the market sub-sector, between 35% and 67% of median earnings in each region is spent on rent, with northern regions being more affordable than those in the south. This is the case for affordable rents too. Table (d) also clearly shows that social rents for both housing associations and local authorities are much more affordable in every region.

The English Housing Survey[8] indicates that, excluding Housing Benefit, the average proportion of income spent on rent is 37% for social renters and 41% for private renters. These proportions are based on the actual incomes and rents of renters rather than rent as a proportion of average earnings of all households, as discussed previously.

Affordable Lives and Housing

Achieving affordable lives in England for the majority of households, and especially those at the bottom of the income spectrum, is increasingly difficult. Stagnant wages in real terms, the growth of part-time and/or insecure employment, rising costs of living and the impact of tax and benefit changes have all eroded the standard of living of households in the bottom half of the income spectrum over the last decade. Some trends and indicators are useful here.

The Institute of Fiscal Studies (IFS) has calculated that the brunt of tax and benefit changes since 2010 have been borne by the bottom half of the income spectrum, and especially by the bottom 10%. Looking forward, the IFS predicts that the impact of tax and welfare benefit changes implemented and planned between 2015 and 2020 will also disproportionately affect households on low incomes.[9]

As shown in chart (11) the poorest decile will lose more than 10% of income. The 2nd, 3rd and 4th deciles will experience falls in income of between 3% and 7%. The wealthiest 10% will see a small decline in income but these are the richest households who can most afford to do so. The main gainers are those households above median income. The reasons for this are the continued freeze in most working age benefit rates until 2020; cuts to Tax Credits for families with children; and the roll-out of Universal Credit, expected to reduce government spending by around £5 billion a year.

A second trend is the decline in full-time and secure employment, to be replaced by self-employment, part-time work and zero hours contracts. Chart (12) illustrates this trend over the last decade, underscoring the net loss of full-time jobs and the rise of more insecure (and usually lower paid) forms of employment.

A third trend has been the growth in child poverty since 2010. It is estimated that a further 500,000 children have been plunged into poverty (in families living on less than 60% of median earnings after housing costs). More than 1 in 4 children now live in poor households. This is likely to rise to 1 in 3 by 2020.[10] The role of housing costs in contributing to child poverty can be illustrated by looking at some of the child poverty hotspots. For example, the twenty local authorities with the highest child poverty rates (mostly in London, the West and East Midlands conurbations, and Greater Manchester) range from 35% to 44% of children. However, taking off housing costs reduces these by at least 10%. Clearly, the cost of housing is a key driver of child poverty alongside, employment, tax and benefit trends.

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[7] NB that those living in each sub-sector will have different average earnings and incomes from the median earnings of full-time employees, which is a better test of affordability but such data are not available and/or up to date.
[8] Department of Communities and Local Government (2017) English Housing Survey
Headline Report, 2015-16
[9] Hood. A & Water T. (2017) The Impact of Tax and Benefit Reforms on Household Incomes. The Institute for Fiscal Studies
[10] Valadez L. & Hirsch D. (2016) Compilation of Child Poverty Local Indicators: Update to December 2015. Loughborough University/End Child Poverty

Chart (11) - Impact of Tax/Benefit Changes by Income Decile (2020)
[Source: IFS Briefing Note BN196 (April 2017)]

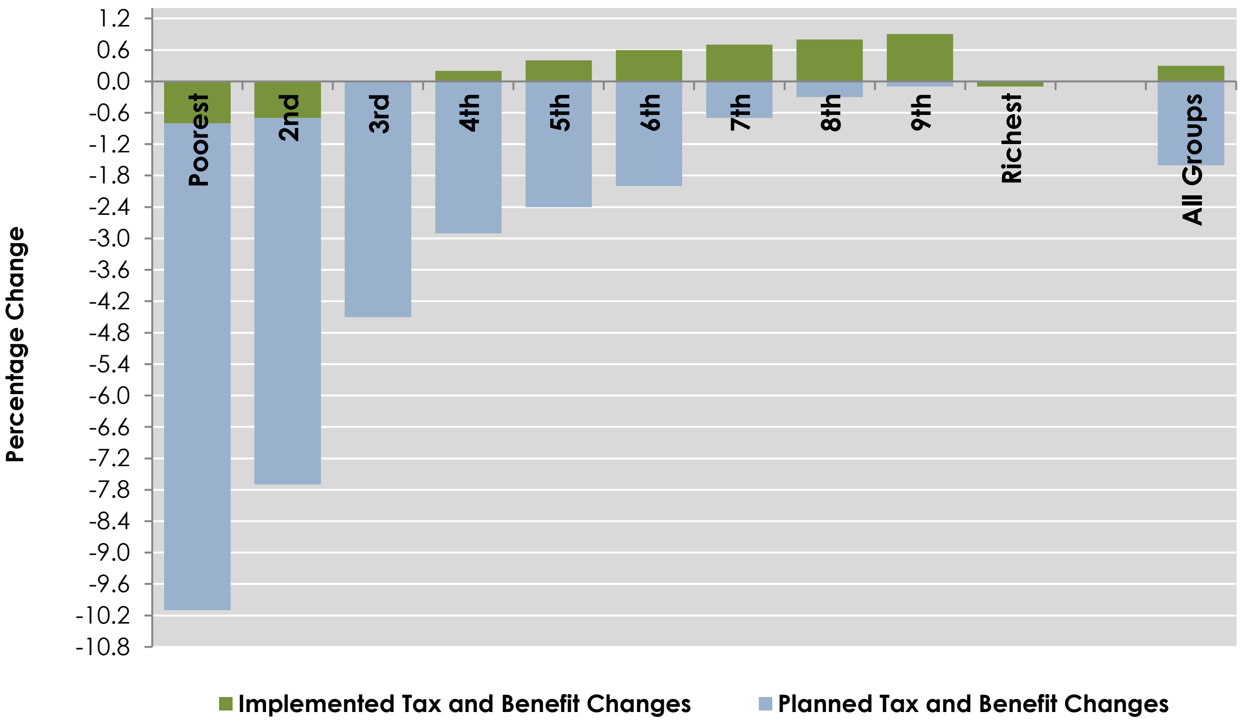
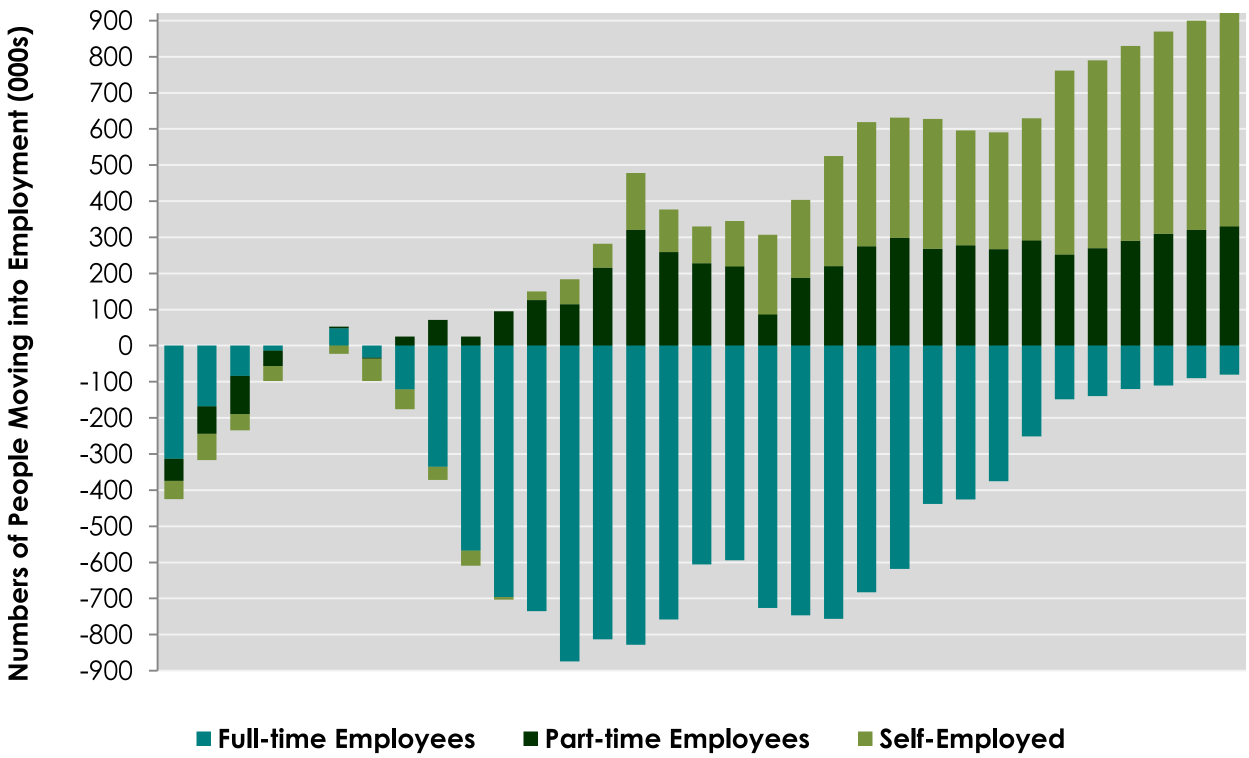


Chart (12) - Change in Employment by Type in 000s (2008 to 2016)
[Source: Office of National Statistics (2017)]



As Observer columnist Will Hutton has commented:

> "…the British residential property system is creating surreal house prices and monumental social unfairness. Huge mortgages for the young, the lottery of property in heritance and crazily high rents are becoming permanent parts of our social landscape."

Housing tenure is a major contributor to widening inequality. Solutions to tackle inequality in the UK must, consequently, include housing as a key area for reform.

Unequal Lives and Tenure Inequality

Inequality is now firmly embedded in the UK economy and society. Inequality has been growing since 1979, after a long period of growing inequality from WWI onwards, as chart (13) describes. The top 1% now receive one fifth of all income in the UK, making the country one of the world's most unequal.[11]

The recent publication of the 'Rich List' by the Times[12] provides a window on the scale of wealth inequality in the UK. The UK is now home to 134 billionaires - 14 more than last year. The wealthiest 1,000 families have combined wealth of £658bn, up almost 15% from last year.

Ludicrously, the Times characterises this as the product of a 'Brexit Boom' rather than the more obvious and accurate explanation of redistribution of wealth to the hyper-rich from everyone else.

Aggregate total wealth in Britain was £11.1tr when it was last calculated in 2014 by the Wealth and Assets Survey (WAS).[13] Wealth grew by almost one third, or £2.7tr, between 2008 and 2014 – the period when the British economy was recovering from the international financial crisis. This is equivalent to annual spending on the NHS for 25 years.

The WAS reveals that the wealthiest 10% of households in 2014 owned 45% of total wealth - almost £5tr - whereas the least wealthy half owned just 9%, or £1tr. Such wealth inequalities have not been seen since WWI. The wealthiest fifth of Britons now have 117 times more wealth than the least wealthy 20% compared with 97 times more in 2008. This is a clear indication of a yawning gap in wealth coming mainly from growth in property and pension wealth at the top.

Wealth has increased over recent years for all higher income groups but it has actually fallen for the bottom 30%.

London, the South-East and the East of England are the wealthiest regions, while average wealth is significantly lower through the Midlands into Wales, the North of England and Scotland.

Wealth for all private households increased by £399bn (11%) to £3.9tr in current prices between July 2010 to June 2012 and July 2012 to June 2014. Over half of all households who own property have net property wealth of £152,500 or more. The highest median value of net property wealth was seen amongst households in London, where half of all households who owned property had net property wealth of £260,000 or more.

It is perhaps unsurprising that social tenants have much lower total household wealth than in other major tenures. Social renters have a median of £18,000, made-up mainly of savings, physical goods and pensions, compared to £270,000 for mortgagors and £411,000 for outright home owners.[14]

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[11] http://www.oecd.org/social/inequality.htm
[12] https://www.thetimes.co.uk/article/the-sunday-times-rich-list-2017-boom-time-for-billionaires-pzbkrfbv2
[13] Office for National Statistics (2015) Wealth and Assets Survey - Chapter 3: Property wealth, Wealth in Great Britain, 2012 to 2014
[14] http://sticerd.lse.ac.uk/dps/case/cr/CASEreport60_summary.pdf

Table (13) - Share of All UK Income Received by Richest 1%
(1918-2005 Actual/2006 Onwards Estimated)
[Source: Dorling D (2011) and HCi Extrapolations]

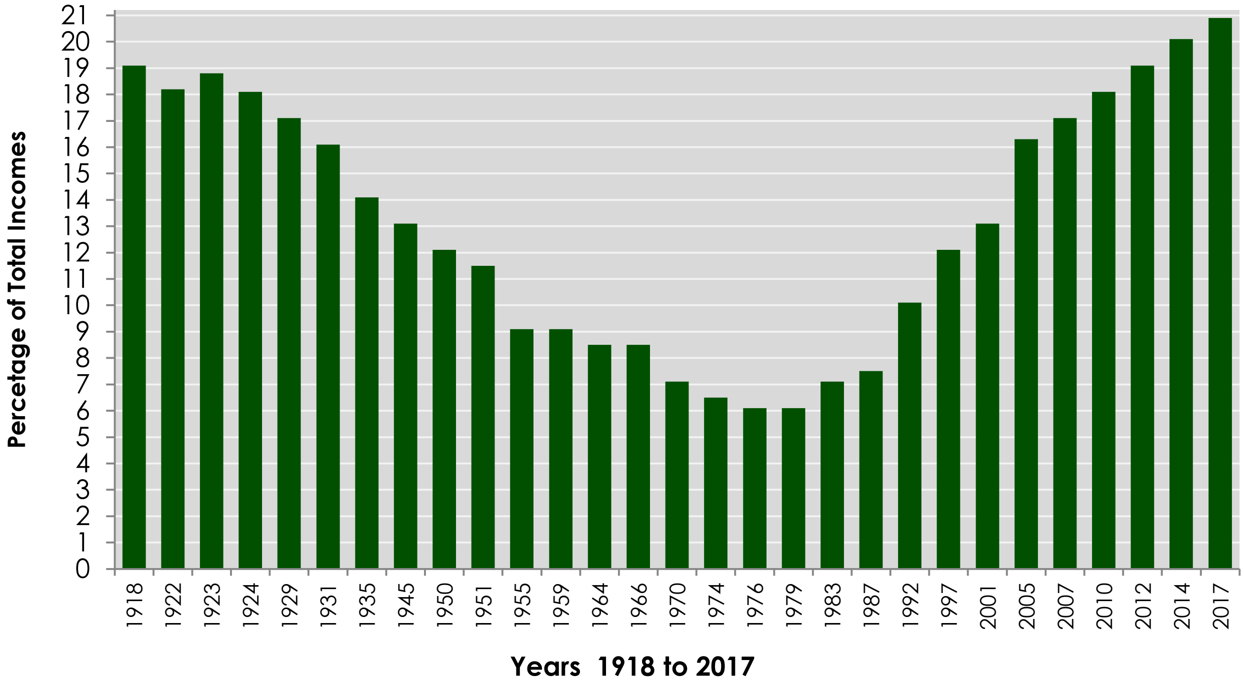
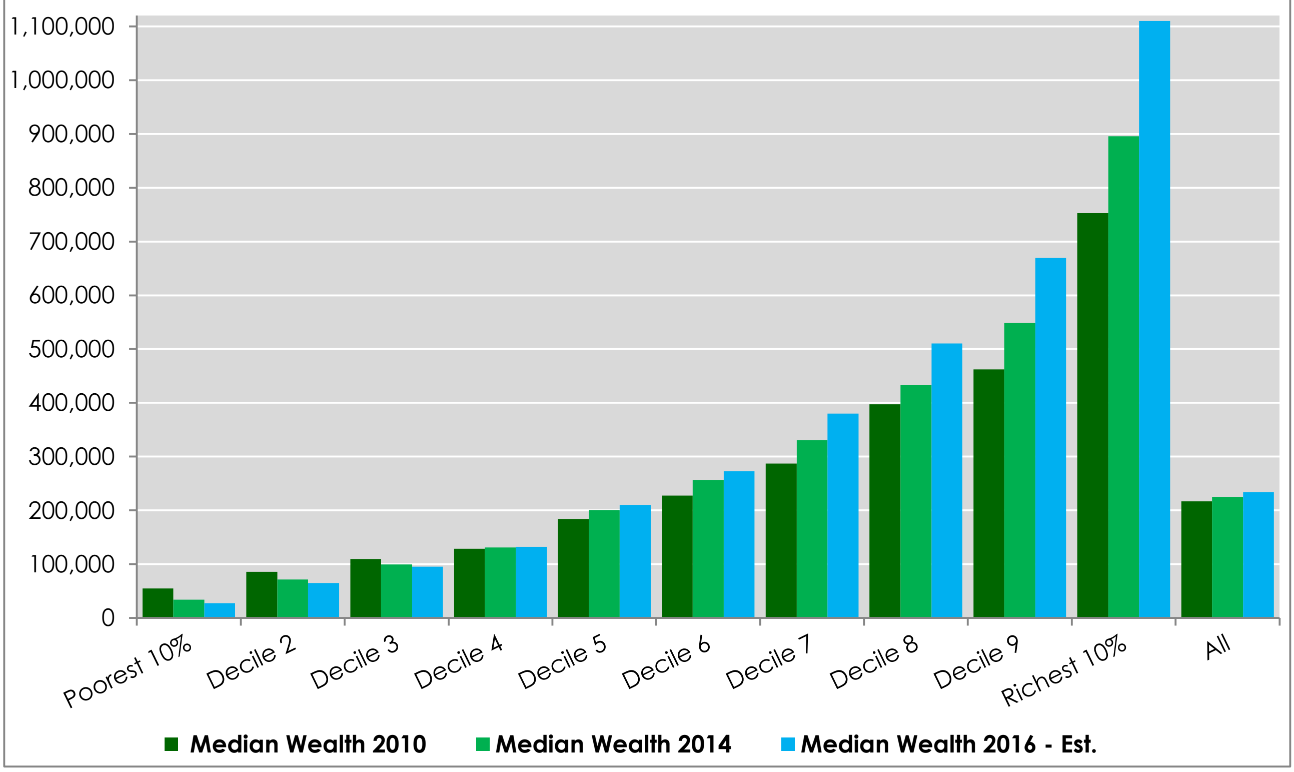


Chart (14) - Median Wealth by Decile [2010 to 2016 (Est)]
[Source: ONS (2015) Wealth and Assets Survey]



Social Tenants and Affordable Lives

Social tenants face increasingly unaffordable lives. They are generally to be found in lower income brackets, rely on welfare benefits and tax credits to survive, are more likely to be employed on sick or disabled, have little in the way of assets (such as savings) and to fall back on in times of crisis. Consequently, they are often depend on loans – from family and friends, high-cost, payday lenders.

One in four low-income households, many of whom live in social housing, struggle to eat regularly or healthily because of food costs. As inflation in food and fuel are set to soar, this should be of deep concern for social landlords.

Social tenants have already been hit hard over the last decade because of stagnating wages, the growth in precarious unemployment, part-time work and zero hours contracts, welfare reforms and rising living costs (particularly of household essentials).[15]

Recent economic trends, especially the fall in the pound post-Brexit feeding into inflation, are putting further pressures on the household finances of social tenants. The poorest third of households, including many social tenants, are set to be worse off from tax and benefit changes, which started in April. At risk are the sustainability of many tenancies in the social housing sector, the durability of social housing communities, and a growing workload for social landlords beyond housing management.

Surveys in the social housing sector by the Human City Institute since 2007[16] reveal that social tenants have already seen their real terms incomes eroded by about one fifth because of barely rising incomes and the higher levels of inflation for household essentials.

The CPI has recorded a 19% rise since the international financial crisis unfolded. But CPI for food has been 33%, fuel 48%, and travel and transport 37% over the same period. Since these are items that take-up the bulk of social tenants' budgets, rises tend to hit them disproportionately – social tenants spend almost two thirds of their incomes on food, fuel and transport, as chart (16) overleaf shows.

The majority of social tenants in HCI's surveys are on are low incomes: the net median household income is just over £9,000 yearly with two fifths coping on under £8,000 (adjusted for inflation over time). Even though 45% are economically active, only 24% are employed full-time. Of working social tenants, 35% are in short-term and sometimes zero hours contracts.

Most social tenants have little in the way of savings or other assets to fall back on in times of crisis, or to invest in future life chances of their children. They are frequently reliant upon family, friends and high-cost lenders for loans - often just to get to the end of the week.

Over one third (34%) of tenants say that their financial circumstances are poor or very poor. Just 4% describe them as very good. Sixty-nine per cent of tenants have no savings. Of those who do, only 11% say they are high or very high. Forty-six per cent of savers have less than £1,000 and 73% have less than £3,000. Just 19% of savers have over £5,000 (7% of total tenants).

In the last two years, 31% of tenants indicate that their standard of living has worsened. Some 49% say it has stood still and only 20% have witnessed any improvement. Similar results were found when tenants were asked about their quality of life.

Tenants in HCI's focus groups provide some insights into their current financial plight:

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[15] Various Surveys with Social Tenants (2007-2016) Human City Institute

[16] Op. Cit.

Chart (15) - Consumer Price Index for a Basket of Goods (2007-2017)
[Source: ONS CPI Tables (2017)]

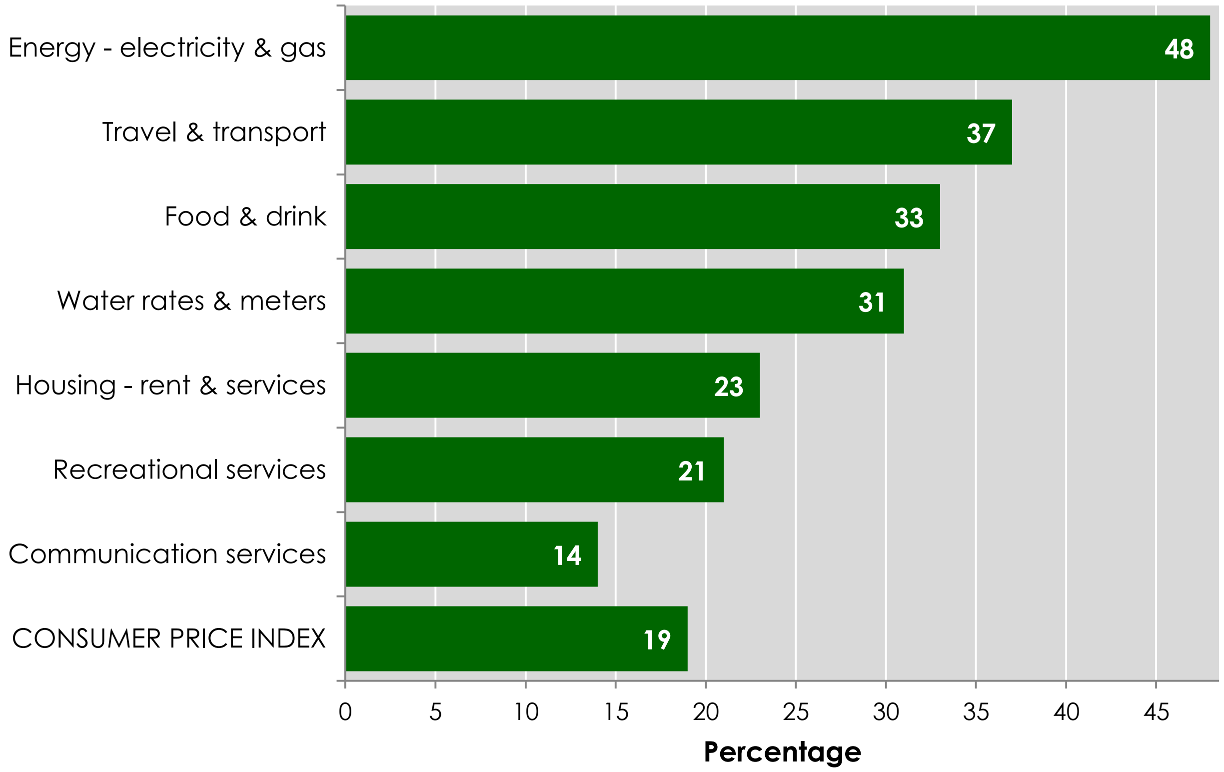
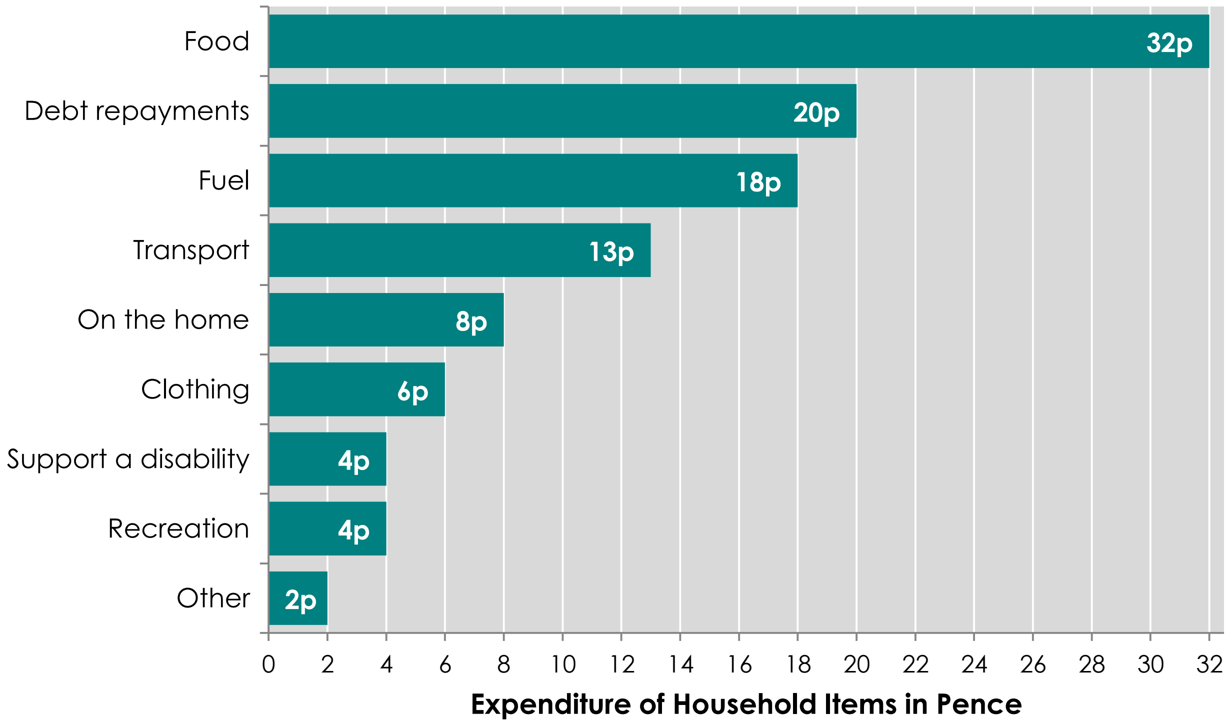


Chart (16) - Average Expenditure per £ by Tenants on Household Items
[Source: HCI Surveys (2007-2016)]



"Nobody has any savings left - you have to use what little bit you have to make ends meet. The gap is widening between the cost of living and salaries. I have not had a pay rise in four years. Food is a luxury. Prices escalating. Can't think of buying anything other than basic ranges."

"Have to go into debt with a payday loan if anything breaks down."

"Young families - the mums go to work and then don't qualify for family credits, they can't afford the nursery places. It makes no sense to give people no incentives."

"Just have to buy the cheapest food or go without. Often just live on toast. There are days where you just don't eat."

"My savings are all gone because my income's gone down. I have to ask my family for an occasional loan just to be able to eat and have the gas fires on. Really at the end of my tether, and don't know how I can cope with the future since everything's so bleak."

"The Government is penalising low paid workers and those on benefits because they don't care and are ignorant of what it is like to be short of money. Use your credit to bridge the gap but then you can't pay it off so you pay more."

"Food too expensive so eat less or go to a food bank."

"People on low incomes and on benefits are penalised every which way – people are just depressed because they can't make ends meet, it is too difficult."

"Bus and train fares have gone up so people are afraid to go anywhere because of the cost and older people can't walk to town and back to buy cheaper food from the market. Don't use heating, wear an extra layer."

"Only work zero hours but the income isn't enough to pay bills so sometimes have to go to money lenders who charge the earth. I can't seem to get ahead anymore."

Potential Solutions

To ensure that all citizens can live affordable lives, a series of radical actions need to be enacted:

1. Income inequality must be tackled by extension of higher rates of income tax to the top income brackets and reversal of welfare reforms for those at the bottom.

2. A 10% wealth tax should be levied on the richest 10% of households, which could raise around £500bn over a Parliament. This should be invested in infrastructure, especially a new generation of truly social housing, and in human capital.

3. Affordable house-building must be at least trebled and house prices allowed to decline over time as wages rise. A rent freeze or cap should be considered in the private sector with a possible return to a 'fair rents' regime over time.

4. Tenure inequality should be tackled by enabling social and other renters to own or control housing and community assets to a greater extent than presently; possibly by mutualising the social housing sector.

5. Insecure and low paid employment should be tackled by introduction of a real living wage and possibly introduction of a citizen's income after extensive piloting.

6. Affordable credit should be advanced by the roll-out of community finances within the framework of a Community Reinvestment Act.

<u>The analyses above and the views expressed in the Bulletin are those of the author and not necessarily those of the Trustees of the Human City Institute.</u>

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