

# LIVING RENT THAT WORKS

Unlocking Genuinely Affordable  
Homes for Thriving Lives

March 2024



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# About the CSJ

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five "pathways to poverty", first identified in our ground-breaking 2007 report Breakthrough Britain. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in government thinking and policy. For instance, in March 2013, the CSJ report It Happens Here shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policymakers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises, and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2024 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

# Acknowledgements

The CSJ is grateful to the many individuals and organisations who have kindly contributed to our evidence gathering on the subjects within this paper in the course of research for this and other CSJ initiatives. In particular, these include Seyi Obakin and Centrepoin, Mayor of Bristol Marvin Rees, Deputy Mayor of London Tom Copley, Cllr Tom Renhard, Rob Lamond, The Guinness Partnership, Rachel Maclean MP, Steven Rance, and Darren Baxter (Joseph Rowntree Foundation). We are further grateful to CSJ Alliance and wider charities who have discussed issues around work, affordability, and supported housing with our Housing & Communities policy unit in recent years, including Exerio Trust (Loughborough), Green Pastures, Lifeline Harrogate, LATCH (Leeds), Community Campus 87 (Stockton-on-Tees) and Back on the Map (Hendon, Sunderland).

We are especially grateful to the Nationwide Foundation for their support which has made this project possible.



In what follows, the views and analysis presented are those of the CSJ alone and not necessarily those of any stakeholder who has contributed to our evidence gathering and development of this report.

# Executive Summary

Unlocking the supply of new homes of all tenures is, over the long term, the only solution to tackling the root cause of our dire housing situation. However a pressing need now is for affordable homes in the social housing sector, particularly for the least well-off households that such housing is designed to serve.

*The current approach to 'affordable housing' needs substantial improvement*

CSJ polling has previously found that less than a quarter of the public believe that the government's definition of affordable housing is truly affordable for local people.

Over the last decade, most new affordable homes have been built under the system of "Affordable Rent". At the same time, the number of homes built for "Social Rent" has declined substantially.

These two systems differ importantly: whilst Social Rent is set by reference to the incomes of local residents, Affordable Rent is linked to the price of local equivalent private rentals.

This matters because, in areas where private rents are high – such as urban centres and the capital – the homes delivered under the system of "Affordable Rent" often fail to live up to their name. A new, representative CSJ survey of over 2,000 UK adults demonstrates that more of the public see income-linkage rather than rent price-linkage as a fairer system of rent setting in the social housing sector (43 per cent approval, compared to less than a quarter (24 per cent) for the alternative option).

Local and Combined Authorities in London, Manchester, Bristol and the West Midlands have introduced policies and initiatives to challenge and improve upon the government's Affordable Rent system by linking rents in some social housing schemes to local incomes rather than the private rental market.

*The Government should invest in Social Rent and introduce Living Rent accommodation, whilst also ensuring housing providers have robust revenue streams*

The ability for councils and housing associations to do this is constrained by the funding available. Local government leaders pointed out to us that where this happens, there can be a trade-off with the number of affordable homes that can be built. Polling in this report indicates that over 60 per cent of the public are supportive of building social homes that are let at lower rents even if that means fewer are built.

The Government is right, under Michael Gove's leadership, to have refocused spending where possible towards Social Rent accommodation. This should continue, in a fiscally responsible manner, when spending headroom allows.

At the same time, the Government should look at a convenient future moment – such as a social housing rental settlement review, or a future Affordable Homes Programme – to introduce a new tenure, Living Rent, as an improved, income-linked successor to Affordable Rent. This should ensure that rents are set relative to local incomes and thus remain truly affordable.

However, it should also ensure that such a system is financially robust and sustainable for housing providers. To do this, the Government should provide guarantees or insurance measures to mitigate the risk of revenues becoming too low as a result of an unforeseen decline in local incomes which, in turn, reduces rents.

In addition, the Government should continue to refine and improve Shared Ownership options for residents, looking to implement them with income-linked rents where possible following the scheme pioneered in London.

*The Government should identify where more public sector service providers (such as the NHS) can use land to develop truly affordable housing for employees*

Scenario testing by the CSJ for this report reveals overwhelming support for the construction of affordable housing for healthcare employees on public land, even when it could be sold to the highest private bidder and the funds used to improve services.

Previous initiatives to use public land for housebuilding have dismally underperformed. The Government must now look to use it as an opportunity to build truly affordable housing, and should examine how it can work with large public sector employers to deliver income-linked accommodation schemes.

*Income-linked 'Stepping Stone' accommodation should also be made available to help people in supported housing to transition towards an independent, long-term home of their own.*

Residents of supported housing face a catch-22 scenario. They struggle to earn enough to afford a deposit for a private rental of their own. And yet, they face disincentives to working more than 16 hours per week because, if they do, benefits are withdrawn suddenly, in such a way that their supported accommodation often ceases to be affordable. As such, these residents are stuck between a rock and a hard place.

'Stepping-Stone' schemes, which guarantee to tenants that their home will be affordable by linking their rent to a proportion of their personal incomes, have been used effectively to overcome this problem. More should be rolled out across the country.

However, they have faced obstacles and challenges to implementation from authorities over minimum space standards and the income-linked rent-setting policy. We find that these concerns are unfounded. Polling reveals that a strong majority of the public support such schemes and consider that relaxing minimum space standards and allowing individualised rents for them is a good idea.

Furthermore, the Renters Reform Bill – which is supported by the CSJ – may pose a further obstacle to such Stepping Stone accommodation. This is because it proposes to end fixed-term tenancies. We recommend that an exception to this should be made for Stepping Stone accommodation.

*The Public are strongly supportive of local decision-making over affordable housing, but have some concerns about its effectiveness*

Over 60 per cent of the public believe that local decision-making rather than national decision-making is the right level of administration for setting plans to build affordable housing.

At the same time, there are mixed views over the quality of decision-making in local authorities about the building of affordable housing, with the highest proportion of response to our survey question about this being 'don't know' (39 per cent). This would appear to suggest a prevalent lack of local democratic engagement on this issue in local areas.

In three cities where there is an elected mayor-led authority (Greater London Authority, Greater Manchester Combined Authority, and West Midlands Combined Authority) more respondents were prepared to answer this question positively or negatively. This offers some indication that local democratic engagement is strengthened by regional devolution.

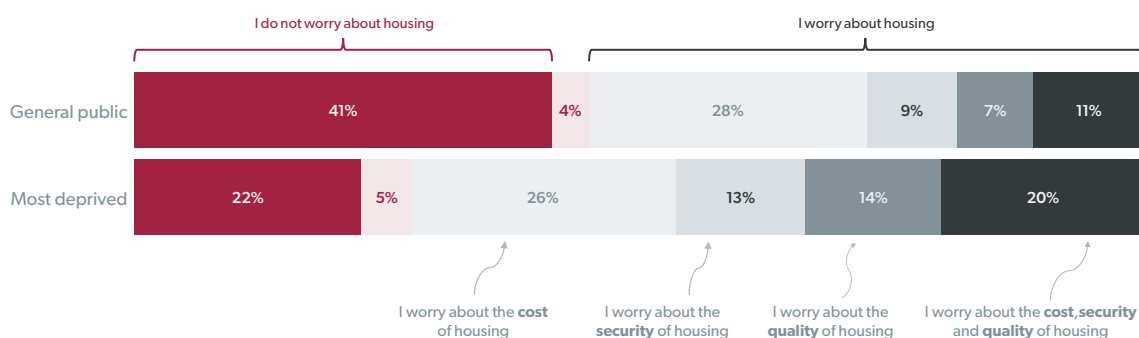
The Government is right to be devolving additional housing policy responsibility through forthcoming 'trailblazer' devolution deals and should seek to ensure local initiatives are enabled and supported. At the same time, an appropriate balance must be struck between national and local priorities. Successive government should bear this in mind whilst seeking to further devolution in the coming years.

# Introduction

Through engagement with our CSJ Alliance of more than 650 small charities and social enterprises, we regularly hear how insecure, poor-quality, and unaffordable housing can be a major obstacle to thriving and flourishing for individuals, families, and neighbourhoods across the country.

This became especially clear through our recent *Two Nations* research. Representative polling found that whilst 41 per cent of the general public do not worry about housing, 55 per cent do.<sup>1</sup> Among the most deprived individuals in the country, this figure rises to 73 per cent.<sup>2</sup>

## Perceptions of Housing, 2023



Across all the issues examined in a very broad survey, asking about quality in the local area, housing was the most important negative social issue for the general public, and the most negatively rated issue among the most deprived demographics.<sup>3</sup>

One of the key issues people raised is affordability. There is no ignoring the fact that, underlying this affordability problem, is a tremendous challenge with the supply of housing of all types. As we have discussed elsewhere,<sup>4</sup> we have failed to meet our national housebuilding target for decades, leaving the country short of millions of homes. This is caused by a cumbersome, poorly resourced planning system, fraught with uncertainty which increases costs and is inimical to an effectively functioning, competitive market. To tackle this problem, generational reforms of planning are sorely needed.

At the same time, a further key issue affecting the accommodation available to the least well-off households is that of the number and type of affordable homes provided through government-backed subsidy. During our research on *Exposing the Hidden Housing Crisis*, it became clear that there is widespread disillusionment with the financial adequacy of “affordable housing” which is provided by Government. Less than a quarter of the public agreed that “The Government’s definition of “Affordable Housing” is truly affordable to local people”.<sup>5</sup>

1 The Centre for Social Justice, *Two Nations*, (2023) p.142  
 2 Ibid.  
 3 Ibid. pp.15-16  
 4 See, for example, The Centre for Social Justice, *Levying Up*, (2022)  
 5 The Centre for Social Justice, *Exposing the Hidden Housing Crisis*, (2021), p.34



This discussion paper examines this topic in greater depth. At the heart of the topic is the way in which rents in affordable housing are set. Whilst many social homes, set at 'social rent' are linked to the incomes of less well-off households in local areas, in recent years the lion's share of new affordable homes have rent levels linked to the price of housing in the local private rental market.

Researchers and policymakers have discussed the idea of returning to an income-linked system of rent setting in the social housing sector, often under the name of 'Living Rent', an idea that the CSJ has supported. Around the country, local authorities and housing organisations are implementing schemes designed explicitly to challenge this system, linking or limiting rents to local incomes. This paper highlights several of these schemes and discusses prospects for delivering them on a broader scale in the coming years. The paper is structured in two Parts.

In Part 1, we examine the policy context in three chapters. Chapter 1 discusses the idea of Living Rent, and Chapter 2 discusses its purpose. Chapter 3 turns to look at how different leading devolved authorities in London, Manchester, the West Midlands, and Bristol have used or proposed 'Living Rent' or income-linked rent setting practices and initiatives to challenge and improve upon the central Government's approach to defining affordable housing.

In Part 2, we look at prospects for future change, drawing on evidenced gathered through policy research, an expert stakeholder roundtable, and opinion polling. This section begins with Chapter 4, examining prospects for introducing mainstream social housing which is linked to incomes rather than local market rents. Opinion polling demonstrates how the public considers this form of rent setting as fairer than the Affordable Rent tenure type.

Four broad options are considered; adapting the Affordable Rent system, pivoting towards more Social Rent housing, developing a new Living Rent housing tenure, and creating more Shared Ownership housing. The chapter discusses prospects for these options, taking into account the sobering macroeconomic and fiscal situation the country faces presently. Several recommendations are made for Government action.

In Chapter 5, we turn to look at more specialist schemes, where there is a possibility of delivering housing which links individual occupant rents to individual household incomes. This is not viable as an option in mainstream housing tenures – where simplicity is important – but is possible on a smaller and specialised scale.

One area with prospects for this is in employer-supported housing; an issue previously covered by CSJ research. In particular, large public sector employers could be in a strong position to do this. Public sector departments further own considerable land which could be used for housing development, but recent initiatives to do this have substantially underperformed. Recommendations are made to unlock more public land for income-linked affordable housing.

This chapter also considers a second specialist form of accommodation for which income-linked Living Rents are already proving to be an ideal solution: stepping-stone accommodation to be offered as a transition between supported housing and long-term rental accommodation. Many residents in supported housing struggle to make the leap between their current living arrangement and securing a place of their own. Drawing on the example of Centrepoin's Reuben House in Peckham, this paper shows how several key areas of regulation need review to unlock and scale-up delivery of stepping-stone homes. Further, we find considerable public support for doing this.

The final section, Chapter 6, turns to consider public attitudes to local government and the delivery of affordable housing. The chapter discusses the tensions inherent between national and local housing objectives. It finds that whilst there is frustration with the quality of local-government decision making around affordable housing, a clear majority of the public is supportive of the broad idea that, in general, decisions relating to affordable housing should be taken by local, rather than national, levels of government.

In addition to desk research, this discussion paper is informed by two further sources of evidence: an expert roundtable hosted at the Centre for Social Justice in January 2024, and polling conducted by Opinium in February 2024. The roundtable was attended by senior representatives, experts and politicians from the social housing sector, housing financial services sector, charity sector, and local government (Greater London Authority, Bristol City Council, and West Midlands Combined Authority).

Polling was conducted by Opinium in mid-February 2024 using a nationally representative sample of 2,134 adults from across the UK. In addition, a sample boost was used to achieve results for the key city regions under discussion in this paper; London, Greater Manchester, and the West Midlands. In these areas, at least 200 respondents participated in the polling, meaning sample sizes are sufficient for comparison across these areas.

The paper begins, in the following chapter, with a discussion of the idea behind Living Rent and the role it can play in the UK's housing system.

## Part 1:

# Living Rent in Theory and Practice

## Chapter 1: The Idea of Living Rent

The concept of a ‘Living Rent’ has been used in discussions of UK public policy for close to a decade.<sup>6</sup> It is used in a range of theoretical and practical settings. The Centre for Social Justice has previously called for the Government to commit to developing 50,000 ‘Living Homes’ per year; these would be sub-market dwellings with rents which “[...] reflect affordability according to local incomes rather than being pegged to the overheated housing market”.<sup>7</sup> The essence of a ‘Living Rent’ approach to setting social housing rents is a meaningful connection, reached by design rather than by coincidence, between the rent people pay for an affordable home and incomes residents receive.

This contrasts with other methods of social housing rent setting, such as linkage to national consumer price inflation<sup>8</sup>, pegging to a proportion of local Private Rented Sector rents,<sup>9</sup> or ‘Cost Rental’ which links rents directly to the cost of ‘building, managing and maintaining’ dwellings.<sup>10</sup>

The term ‘Living Rent’ is clearly related to the idea of a ‘Living Wage’. The nature and purpose of a living rent can be brought out by comparison. A ‘living wage’ is a familiar term in policy and employment practice, significantly since the introduction of the statutorily binding National Living Wage in 2016. This is a higher minimum legal wage for workers, applicable to those aged 23 and older<sup>11</sup> and 21 and over from 2024.<sup>12</sup> The idea animating the term, as its name suggests, is that wages for workers should enable them to live.

However, there is debate surrounding the meaning of the term ‘Living Wage’ since the National Living Wage is not calculated based on living costs. Rather, it is calculated relatively, based on aiming to meet targets such that living wage thresholds would constitute a given proportion of median hourly income.<sup>13</sup> Present policy is based on the target of enabling “[...] the NLW to reach two-thirds of median hourly earnings by 2024”.<sup>14</sup>

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6 Several practical examples are discussed in this paper, and for policy reports discussing the term see Savills & JRF: Savills, [Living Rents – a new development framework for Affordable Housing](#), April 2015, Institute for public policy research, [Renting beyond their means?](#), June 2020, and Affordable Housing Commission [Making housing affordable again](#), July 2020

7 Centre for Social Justice, [Repairing our society](#), July 2022, p.16

8 For example, the social housing Rent Standard published for 2020 which limited rental price increases to CPI +1% annually: [Rent Standard 2020](#), April 2020

9 For example, the ‘Affordable Rent’ policy implemented in England and Wales

10 For an example of cost rental, see the example of the initiative implemented in Ireland: [Cost rental housing](#), Citizens Information, November 2023

11 [National minimum wage and national living wage rates](#)

12 Eduinlatimer, Low Pay Commission, [How we calculate a path for the National Living Wage’s target of two-thirds of median wages in 2024](#), May 2023

13 Ibid.

14 Ibid.

Challenging this approach, and the appropriateness of the term ‘Living Wage’ for the present policy, is the voluntary, non-statutory, Living Wage initiative from the Living Wage Foundation (LWF).<sup>15</sup> The Foundation independently sets a Living Wage threshold above which employers must remunerate their staff in order to be eligible for corporate accreditation as a Living Wage Employer.<sup>16</sup> Crucially, the wage rates set by the Living Wage Foundation are made “[...] according to the cost of living, based on a basket of household goods and services”<sup>17</sup>. As a result, at present, the LWF’s wage rate (which they refer to as the Real Living Wage) is substantially higher than the statutory rates, presently at £12 nationally and £13.15 in London compared to the Minimum and National Living Wage rates of £10.18 and £10.24).<sup>18</sup>

The idea of a ‘Living Rent’ can be understood relatedly: the overarching principle is that beneficiaries of a Living Rent enable to them to afford the cost of their accommodation in relation to their income. This is understood in contrast to an open market rent, or a rent dictated by a policy framework which is not linked to actual incomes.

Whilst there is no such national statutory term as a ‘Living Rent’, as there is with the ‘National Living Wage’, it does exist in various ways through combined authority policy initiatives and wage-setting regimes established by some non-governmental organisations such as charities and housing associations. These are addressed later in this paper.

Nevertheless, there are several policy mechanisms which exist through national legislation and policy which are related to the idea of a rent-setting regime which offers affordability to residents. The most obvious of these are used broadly in the setting of rent prices for social housing: Social Rent and Affordable Rent.

These rent-setting mechanisms are, like the National Minimum wage, subject to critical scrutiny and debate for similar reasons. Neither Social Rent nor Affordable Rent (as discussed in more detail below) are set strictly as a proportion of incomes. Social Rent (otherwise known as Formula Rent) is partially adjusted according to local (county-level) earnings, but is in the first instance priced from a baseline relative to national rental prices. Affordable Rent, despite its name, is likewise not defined according to local incomes, but rather set at or beneath a ceiling defined relatively to local rental prices. As such, as we discuss below, the policy of ‘Affordable Rent’ in social housing is, likewise, not seen as being true to its own name. In many areas with expensive local rental prices, so-called Affordable Rent homes may not be all that affordable.

Several initiatives are discussed in the policy literature which advocate for, or implement on smaller scales, alternative systems to the statutory Social and Affordable Rent pricing systems. Significant policy reports discussing them include those by Savills and the Joseph Rowntree Foundation<sup>19</sup>, the Institute for Public Policy Research<sup>20</sup>, and the Affordable Housing Commission.<sup>21</sup> These reports use the term ‘Living Rent’ to describe rent-setting systems for social housing which are more closely linked to residents’ incomes than current practice<sup>22</sup>. As noted, the CSJ has used the term ‘Living Home’ to describe an affordable rental property whose rent price is linked to local incomes.<sup>23</sup>

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15 Living Wage Foundation, [What Real Living Wage](#)

16 Living Wage Foundation, [Accredit](#)

17 Living Wage Foundation, [What Real Living Wage](#)

18 Ibid.

19 Savills, [Living Rents – a new development framework for Affordable Housing](#), April 2015

20 Institute for public policy research, [Renting beyond their means?](#), June 2020

21 See, for example, the proposal for a system of Local Income Related Rent (LIRR) which functions similarly, linking rents directly to income levels: Affordable Housing Commission [Making housing affordable again](#), July 2020

22 See the titles of the Savills / JRF and IPPR reports. See, for example, the recommendation on p.106 of the Affordable Housing Commission report calling for “new rent models for low income households, such as living rent and flexible rent”

23 Centre for Social Justice, [Repairing our society](#), July 2022 p.16

Within these systems, there is diversity of approach. One system used a highly granular approach, tailoring each resident's rent according to their personal or household income: the New Era estate in Hackney run by Dolphin Living, which offered rents "[...] based on a household's net income and the most recent JRF minimum income standards".<sup>24</sup> Another example, Trivallis Housing, a Registered Provider based in South Wales, used a more generalised approach; rents on their Living Rent model offered "[...] an area adjustment using Office for National Statistics (ONS)' small area income estimates for middle layer super output areas".<sup>25</sup>

Different systems, as documented by the IPPR, have clear respective "positives and negatives".<sup>26</sup> The most obvious trade-off between them is that whilst a more granular approach offers closer tailoring of rents to resident households' actual incomes, it is significantly (and perhaps prohibitively) expensive to implement.<sup>27</sup> As such, a more generalised approach based on local incomes may strike an optimum balance between affordability and administrative efficiency.

In addition to variation by method of income-linkage, there is also variation of *scope* among proposed or actual living rent models. The IPPR discussion of the policy is clear that "[i]ntroducing a living rent for all households in the social housing sector would not be appropriate, but *the principle* of capping rents using a living rent approach – for instance, to one-third of household incomes for all forms of social housing – does have merit".<sup>28</sup>

Schemes being implemented in London and Manchester are restricted to certain specific affordable housing schemes. By contrast, in the West Midlands, the principle of limiting all social housing rents to a specific proportion of local incomes applies across the entire Combined Authority area (to housing where the Combined Authority can exercise discretion). The ideas discussed in the policy paper produced by the Bristol Living Rent Commission go further still, extending the idea to Private Rented Sector (PRS) rents.

Nevertheless, these systems all have in common the intention to enable low-income households' rents to track more closely their inhabitants' incomes, be it their actual household income or the average income of broadly comparable households in their area. This is the essence of Living Rent as a policy concept. We can now turn to various rationales behind the policy: *why implement a system of living rent?*

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24 IPPR, *Renting beyond their means?*, June 2020, p.40

25 Ibid., p.39

26 Ibid., p.6

27 Ibid.

28 Ibid. p.33

## Chapter 2: Why Living Rent?

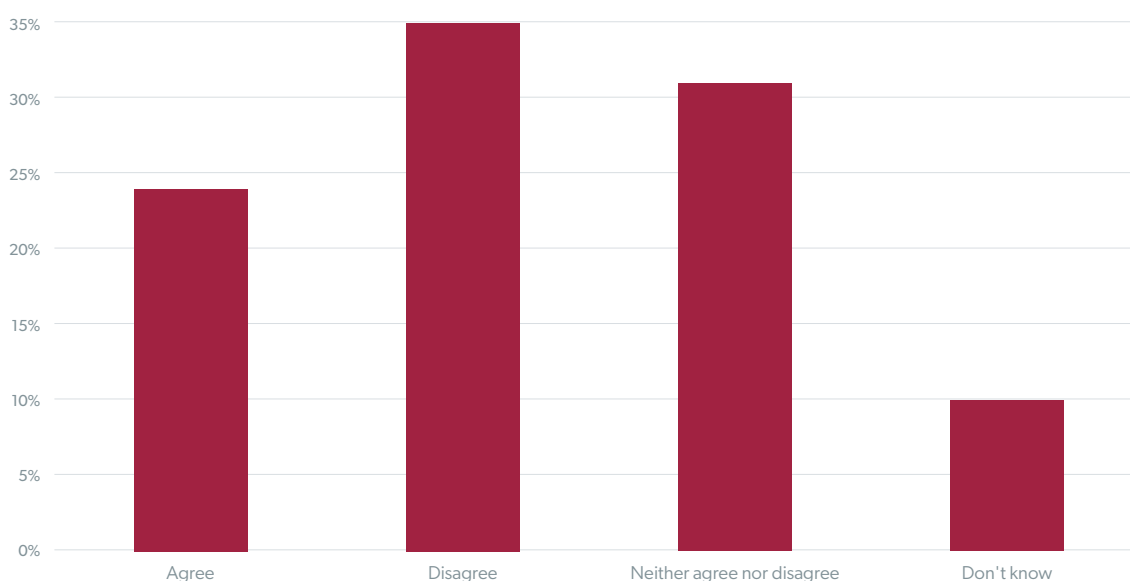
There are several key reasons as to why a Living Rent model might be implemented. Five of these are discussed here:

- i. Responding to public concerns about the affordability of 'affordable housing'
- ii. Aiming to achieve fairness in rent-setting
- iii. Supporting younger households into homeownership
- iv. Ensuring keyworkers can live close to workplaces in expensive locations
- v. Supporting a sustainable path from homelessness

### *Responding to public concerns about the affordability of 'affordable housing'*

Polling commissioned by the CSJ found that less than a quarter (24 per cent) of the public believe that "the Government's definition of affordable housing is truly affordable to local people".<sup>29</sup> This can be seen in the following data:

#### *The UK government's definition of affordable housing is truly affordable to local people*



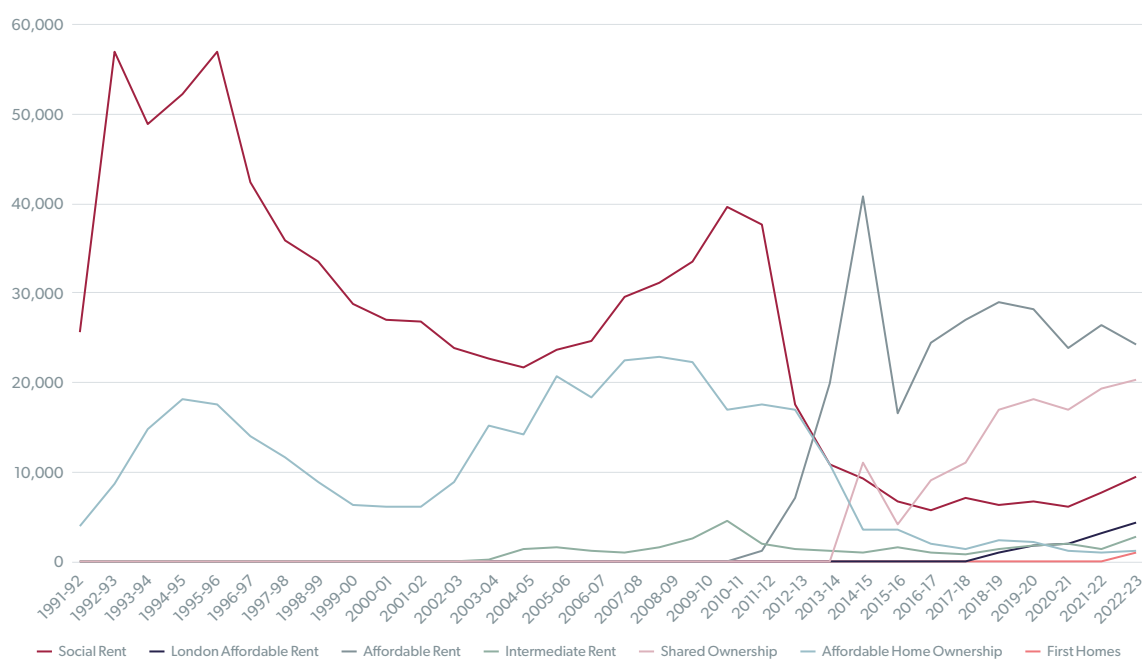
Indeed, this has been recognised at the highest levels in our political system. It was reported that Secretary of State Michael Gove commented last year that "[...] he is exploring ways to increase government support for building social rent homes after admitting that his party has previously focused funding on products "that are not truly affordable".<sup>30</sup>

This can be seen clearly in the statistics relating to affordable housing supply in recent years. Whilst the provision of new social rented accommodation has declined compared to previous decades, there has been a generational increase in Affordable Rent homes supplied:

<sup>29</sup> Centre for Social Justice, *Exposing the hidden housing crisis*, November 2021, p.39

<sup>30</sup> Stephen Delahunty, *Inside Housing*, *Gove vows to explore ways to increase number of social rent homes*, April 2022

## Additional affordable homes provided by tenure, England



Source: DLUHC, Live Table 1000

As noted, Affordable Rent is designed as a *market rate discount* form of housing rather than an *income-linked* form of rent setting which is affordable *by design*. This can be seen especially clearly where market rents are very high, and as such a discount to those rates does not constitute a particularly affordable form of housing for those with modest incomes.

This has been demonstrated very clearly in a recent BBC report highlighting how “People earning more than £30,000 are being told they don’t have enough money to be eligible to rent so-called affordable housing schemes in London.”<sup>31</sup>

Highlighting the case of a young tenant, Sam, who was declined an application for affordable housing because his £33,000 annual salary was insufficient, the BBC reported that “[ ] some landlords insist on applicants earning between £35,000 and £60,000 to stand any chance of being accepted.”<sup>32</sup>

The BBC report correctly notes that this is due to policy choices made by the government since 2010 which constrain the financial envelope within which housing associations operate. As such, pinning ultimate blame on “landlords” or “housing associations” is neither accurate nor fair. As an overall system, it is clear that this stretches the meaning of “affordable” housing.

That said, it must *also* be recognised that the rise of Affordable Rent accommodation came during the era of austerity where the government’s overarching objective was making efficiency measures to shore up national finances. Social housing of any type requires considerable subsidy to be viable. Affordable Rent accommodation requires less subsidy than social rented housing to compensate for the below-market rent gained following its development. As such, all else equal, this housing tenure type enabled a greater number of sub-market dwellings to be delivered than would otherwise have been possible.

<sup>31</sup> BBC, *Affordable housing schemes*, August 2023

<sup>32</sup> *Ibid.*

## *Aiming to achieve fairness and affordability in rent-setting*

A second reason for supporting the idea of Living Rent is that of fairness. Many would agree that this is an important consideration when setting rents. In ethics and political philosophy, the principle of distributive justice being governed by the value of fairness has long been popular and widely discussed.<sup>33</sup> However, the nature of 'fairness' and what it demands in practical terms, is subject to considerable debate.<sup>34</sup>

In the context of both democratic accountability and corporate governance, one relevant consideration is what the general public, and more specifically those affected directly by rent pricing, believe constitutes a fair system. Trivallis reported, following a survey of residents' views on the matter, that "[...] most of the tenants told us it would be fairer to base rent on the average income of lower earners in an area compared to the desirability of an area and access to local amenities and services."<sup>35</sup>

This is consonant with renter focus group findings from the IPPR which reported that "When the idea of a living rent was presented to participants, there was initial scepticism about how the model might operate. However, if these operational barriers could be overcome, participants agreed in principle with the notion that a rental model that linked rent to incomes, instead of the market rates demanded by landlords, would offer a fairer model."<sup>36</sup>

Whilst this evidence indicates a perception that income-linked rents are a fairer principle to price accommodation – at least in the social sector – there are nevertheless limits to the evidence we have. Both the aforementioned survey by Trivallis and the IPPR focus group evidence drew exclusively on a specific demographic: renters.

Whilst clearly a central constituency of concern, renters are not the only affected group in society since, ultimately, the cost of subsidies given to social housing providers, as well as any financial risks or inefficiencies resulting from a living rent policy, will need to be borne by someone. Typically, that is the general taxpaying public. As such, for a fully democratic assessment of the nature of 'fairness' in rent setting, wider, nationally representative quantitative evidence is needed.

Further, it is arguably the case that those most sympathetic to a living rent approach would be its most direct beneficiaries. These would, in the cases cited, be renters. It is therefore plausible to envisage a living rent approach being less popular among the general public, but that is an empirical question. The CSJ has undertaken polling for this purpose in this project (discussed in Chapter 4) which shows a higher proportion of the public believe income-linkage is 'fairer' than market linkage.

It would be wrong, however, to suggest that those not resident in social / affordable housing could not stand to benefit from a wider implementation of a living rent policy. This is because wider social benefits can flow from linking rents to incomes. Three of these are especially salient and worth addressing directly: supporting younger households into homeownership, managing labour supply, and reducing homelessness.

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33 The most famous example is that of John Rawls's principle of 'Justice as Fairness'; see Rawls (1958) *Justice as Fairness*, and (2001) *Justice as Fairness: A Restatement*

34 Any survey of the response to Rawls's suggestion, which has been subject to intense and widespread critical scrutiny from many different intellectual directions, will confirm this, for example, see Kymlicka *Contemporary Political Philosophy*

35 Trivallis [video], *Trivallis Fair rent review*, 2020

36 IPPR, *Renting beyond their means?*, June 2020, p.35

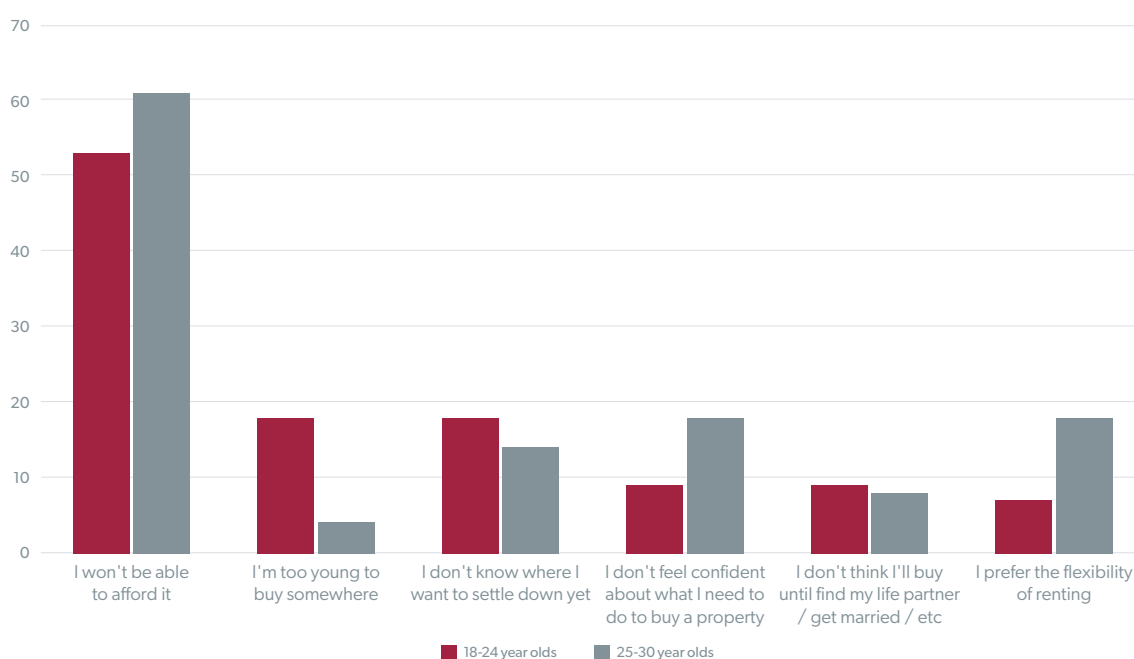


## Supporting younger households into homeownership

The challenge facing young people as first-time buyers is perhaps the most discussed housing issue, given the laudable, near-universal aspiration to homeownership.<sup>37</sup> This is especially prevalent among young people (16-25) in the Private Rented Sector (PRS) where most (85% in England) envisage buying a home in the future, but not in the next few years.<sup>38</sup>

Recent research by So Resi examines reasons for the mismatch between young peoples' homeownership aspirations and their inability to buy.<sup>39</sup> The most prevalent reason is abundantly clear. For young people, buying a home is unaffordable:

### Barriers to Buying a Property (%)



Source: Independent polling conducted for So Resi, 2022

Polling by economics consultancy ChamberlainWalker, commissioned by the National Residential Landlords Association, further highlights the issue through research which dissects the issue. Among those private renters who wish to buy, but cannot, the primary issue faced is having insufficient funds for a mortgage deposit; an issue faced by 63% of respondents in that category.<sup>40</sup>

Among the financial pressures faced by such households, the most significant single monthly outgoing is likely to be the cost of rent. As such, the relationship between high rental prices and inability to save for a mortgage deposit are two directly connected issues. As Martin Lane, former Managing Editor of Money.co.uk put it, "With the cost of renting almost as high as paying a mortgage, it can be an uphill struggle to save a deposit".<sup>41</sup>

37 Owner-occupation is the most common form of housing tenure in the UK, and the vast majority of households in the Private Rented Sector (PRS) expect to buy a home 'eventually': [English Housing Survey 2021 - 2022](#), July 2023

38 Ibid.

39 So Resi, Ibid., see chart, p.20

40 Rhianna Abrey, National Residential Landlords Association, [Private rented sector vital to economic and social life of the country says new report](#), January 2023, p.2

41 Money.co.uk, [7 ways to save up to a mortgage](#)

Indeed, Generation Rent analysed rents, mortgage deposits, and incomes to reveal that “[...] in 2012 it would typically take 6.8 years to save for a deposit for a mortgage. However, soaring private rents and higher house prices have added almost three years to that figure, pushing it up to 9.6 years”.<sup>42</sup>

Dolphin Living’s Westminster Homeownership Accelerator Scheme enables tenants to enjoy a sub-market, intermediate rent for a fixed duration, after which they receive a substantial sum (up to £54,500) which can go towards a deposit for a home of their own.<sup>43</sup> The same organisation is also notable for having implemented an income-linked rent setting method in one of their estates in which each household’s rent is individually set based on an assessment of their income.<sup>44</sup> The two schemes are separate, but nevertheless the link between affordable (discounted) rental accommodation and enabling young people to save for deposits is clear.

The most prominent scheme designed to support younger households towards gaining equity is the “London Living Rent” scheme, created by the Greater London Authority, which is “a type of intermediate affordable housing for middle-income Londoners who want to build up savings to buy a home”<sup>45</sup>. This initiative differs from the Dolphin Living initiatives in that beneficiaries must save funds for a deposit on their own accord (rather than receiving a lump sum at the end of the tenancy) and have rents “based on a third of local household incomes”.<sup>46</sup>

These schemes demonstrate how an income-linked affordable rental accommodation policy can be used as a tool to help address the challenge first time buyers experience when it comes to saving for a deposit to become homeowners themselves. Both schemes are based in London where the affordability issue is most acute for younger households with lower incomes.

### *Ensuring workers can live close to workplaces in expensive locations*

In addition to helping young people to buy homes, the provision of income-linked affordable housing in areas where accommodation is expensive can be seen as having a further function significant function: supporting labour supply.

This is most significant in certain professions where physical presence is essential but remuneration is relatively low compared to house prices. This is especially relevant for junior / relatively low-paid frontline staff in professions such as policing, firefighting, nursing, and teaching. Many employees in these professions – especially those in ‘blue light’ roles – have to work non-standard hours, including through the night. This means that transport can be a problem for police, health, fire, and security staff who need to start or finish shifts late at night.

Indeed, the increased commuting times caused by housing affordability pressures in the capital undermine the flourishing of the city as a whole. This was recognised by the London Chamber of Commerce and Industry who recognised that “[l]onger commutes by essential workers in both the public and private sectors may also impact on the ability to deliver essential services and respond to crisis situations, diminishing London’s economic resilience.”<sup>47</sup>

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42 Rupert Jones, The Guardian, [First-time homebuyers now need nearly 10 years to save a deposit, research finds](#), July 2023

43 Dolphin Living, [Home ownership accelerator scheme](#)

44 IPPR, [Renting beyond their means?](#), June 2020, p.40

45 Greater London Authority, [London Living Rent](#)

46 Ibid.

47 London Chamber of Commerce and Industry, [Getting our house in order](#), May 2014

The need for frontline staff to be present and thriving in their roles is not the only work-related issue caused by housing unaffordability. Bespoke polling of large UK employers conducted for the CSJ<sup>48</sup> found that:

- over half (54%) said that housing issues are having an adverse effect on their staff's commute times
- nearly half (48%) said that housing issues are having an adverse effect on the wellbeing of their staff
- and over half (54%) said that housing issues are having an adverse effect on recruiting staff

This has a negative effect on business productivity and thereby undermines the quality of the city as a whole on many levels, not least through leading to sub-optimal public and private service provision.

On an equally important, more personal level, this matters deeply to families whose quality of life is undermined by having to endure long and laborious commutes at ungodly hours, negatively impacting the quality time they can spend with children and each other. ONS research found that "Holding all else equal, commuters have lower life satisfaction, a lower sense that their daily activities are worthwhile, lower levels of happiness and higher anxiety on average than non-commuters."<sup>49</sup>

This may, further, be a barrier to accessing and staying in work, particularly for the least well-off individuals and households in society. JRF undertook research on the relationship between housing and work incentives, specifically focusing on households with lowest incomes. Its findings were clear, that:

*"Housing can act as a barrier to employment when it is located in areas with few employment opportunities. Consequently, commuting becomes a critical cost factor in employment decisions. The alternative, relocation, is also often constrained by housing cost and availability and the types of jobs and financial returns on offer."<sup>50</sup>*

Overall, then, the availability of housing which is affordable for low-income households with workers in keyworker roles, especially in emergency service roles, is significant for reasons beyond the (also important) private wellbeing of those residents: it matters for the wellbeing and effective functioning of cities as a whole.

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48 Centre for Social Justice, [Housing that works](#), July 2019

49 Office for National Statistics, [Commuting and personal well-being](#), 2014, February 2014, p.1

50 Kenneth Gibb, Mark Stephens, Darja Reuschke, Sharon Wright, Kirsten Besemer and Filip Sosenko [How does housing affect work incentives for people in poverty?](#) Findings document, February 2016, p.2

## *Supporting a sustainable path from homelessness*

A final reason for which income-related rent products have been created concerns the provision of housing which offers a sustainable route out of homelessness.

In one sense, something approximating this has existed for a long time: traditional social rented housing. However, it is scarce, and certain groups of people experiencing homelessness are not highly prioritised as being eligible for a social home of their own. One such group is young people. As such, younger renters who are not classed as having a priority need must look for accommodation in the Private Rented Sector. In central London this is prohibitively expensive.

As Centrepoin explain, “129,000 young people faced homelessness in the UK last year with 1 in 5 young people unable to move on from hostels because they couldn’t afford rent in the private sector. [...] For many in lower paid work or apprenticeship schemes, it simply wouldn’t be possible to afford to rent privately.”<sup>51</sup>

Some pioneering initiatives have tackled this directly, by creating income-linked rental accommodation which is explicitly aimed at reducing homelessness. The leading example in the UK is Centrepoin’s innovative Reuben House in Peckham. They are a charity dedicated to reducing youth homelessness, and Reuben House responds to the challenge of high rent costs by offering accommodation with rent capped at 1/3 of income.<sup>52</sup> As they explain, this benefits residents in being able to live with the confidence they will always be able to afford their accommodation, even on a modest income.

As reported in *The Big Issue*, this makes a considerable impact on young people’s ability to build an independent lifestyle in London as compared to other accommodation types: “That means typically a 20-year-old young person in London earning a minimum wage of around £7.49 an hour or £1,298 a month would pay around £432 per month to live in a self-contained apartment. The cheapest rental property in the area available on popular listings website Rightmove comes in at more than double that amount: one listing for a single room in a shared house for £900 a month.”<sup>53</sup>

At that level of rent, it would not be possible for someone experiencing homelessness to live in a setting in London which facilitates a lifestyle of building independence, having self-contained private space. This is helpful for building a lifestyle with a foundation of secure housing, and young people can enter employment locally knowing that they will not need to move in the immediate future, thereby enabling them to focus on building strong personal and employment connections.

We discuss this initiative, and the prospects for expanding it and multiplying what works, in the final section of this paper.

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51 Zan Langton, Centrepoin, [Prince William opens the new reuben house development as part of our independent living programme](#), July 2023

52 [Centrepoin twitter](#), 14 June 2023

53 Liam Geraghty, *Big Issue*, [Prince William opens London housing project offering cut-price rents to youngsters facing homelessness](#), June 2023

## Chapter 3: Local Government Living Rent and Income-Linked Housing Initiatives in England

As discussed, the most acute pressures on ‘affordable housing’ rental prices occur in cities where open-market rents are high. This is because 20% discounts to these prices (as with Affordable Rent) do not amount to an easily affordable cost when compared to modest incomes. As such, it has become commonplace for politicians, researchers, and campaigners to talk about “genuinely” affordable housing, suggesting that policy at present is not working.<sup>54</sup>

Many areas with high rental pressures for low-income households are major cities with considerable devolved local government powers such as London, the West Midlands, and Manchester. Each of these cities have elected Mayors.

Since the Living Rent policy initiative was discussed, almost a decade ago in the 2015 JRF / Savills paper, Metro Mayors have implemented affordable housing schemes to ‘re-define’ the meaning of “affordable housing” in their cities.

This paper therefore provides us with the opportunity to take stock by comparing different initiatives and ask how they might inform central government decision-making.

In this section, we review four major local government initiatives designed to address the ‘affordable housing’ problem.

### *London Affordable Rent and London Living Rent*

In London, three flagship policy initiatives aim to increase the affordability of state-subsidised housing in the city with highest house and rental price pressures. They are London Affordable Rent, London Living Rent, and London Shared Ownership. These exist in addition to classic Social Rent accommodation which, together with these three, is considered ‘genuinely affordable’ by the London City Hall and Mayor of London.<sup>55</sup>

Each is aimed at a different market segment. Whilst Social Rent is most affordable, London Affordable Rent is the next most affordable rental option. London Living Rent is a product aiming to help people to transition into shared ownership from renting, and London Shared Ownership is, as its name suggests, a Shared Ownership scheme (in which equity in the property is partly owned by a resident and partly by a Housing Association). Together, the three types of accommodation were introduced as part of Sadiq Khan’s *Homes for Londoners* initiative.<sup>56</sup> Here, we focus on London Affordable Rent and London Living Rent tenures.

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54 For example, LLR site: Greater London Authority, [London Living Rent](#). Manchester: Mark Cantrell, Housing Digital, [Metro mayor Andy Burnham helps launch Stockport scheme](#), November 2023. Gove: Shelter, [‘There is a people’s case for the reform of social housing – more and better’ says Michael Gove at Shelter conference](#), April 2020

55 Greater London Authority, [London Living Rent](#)

56 Greater London Authority, [Homes for Londoners](#)

## London Affordable Rent

London Affordable Rent is designed to be an affordable rental tenure, and significantly more so than the nationally applicable Affordable Rent scheme at 80% of market rents. However, it is not as affordable as Social Rent.<sup>57</sup> The precise way in which the rents are set is complex. *Inside Housing* reported that rent setting under this tenure is an “opaque art” and that “[h]ow rent is calculated and how much should be paid is not as clear as it could be”.<sup>58</sup> The same article describes it as follows:

*“A tenure introduced by Sadiq Khan that is lower than national affordable rent and based on target rent levels towards which social rents are gradually being raised. This makes it higher than average social rents in the capital, but in line with the rent that would likely be charged if a new social rent unit was built and set according to the same formula.”<sup>59</sup>*

As such, it is a much more affordable tenure than Affordable Rent, closer to the social rented housing pricing. Homes England grant funds could be used for London Affordable Rent, but not for social rented accommodation. As such, the article states;

*“One London rental expert tells *Inside Housing* that the LAR is, in effect, a means by which housing associations can apply for grant for social rented homes while still coming under the auspices of the AHP.”<sup>60</sup>*

This is not strictly an income-linked tenure. However, since the London Affordable Rent benchmarks aim to approximate social rent, which itself is partially income-linked, there is a sense in which it comes close.

Overall, though, the fact that the Greater London Authority felt a need to have a distinct *London* version of the product for the city demonstrates the perception that the typical Affordable Rent homes were not living adequately up to their name in the city.

## London Living Rent

London Living Rent is different, aimed at a market segment with somewhat higher incomes. The GLA describe it as follows:

*“Living Rent Homes are for middle-income households who want to build up savings to buy a home through shared ownership. Landlords are expected to actively support their tenants into home ownership, so that homes are sold within ten years.*

*London Living Rent homes will be offered on tenancies of a minimum of three years. By offering a below-market rent, tenants are supported to save and given the option to buy their home on a shared ownership basis during their tenancy.”*

The rent-setting model does relate to incomes in this case because the homes have “rents based on a third of local household incomes”.<sup>61</sup> Benchmark rents are published for each London Borough by the Mayor and updated annually.<sup>62</sup> As such, there is a locally rooted form of local income linkage with variation across London. This can be seen clearly in the heatmap including in the GLA’s policy document.<sup>63</sup>

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57 Gavriel Hollander, *Inside Housing*, [The opaque art of rent setting](#), May 2018

58 *Ibid.*

59 *Ibid.*

60 *Ibid.*

61 Greater London Authority, [London Living Rent](#)

62 *Ibid.*

63 [London Living Rent: Updated rent benchmarks](#) December 2022

As can be observed, there is considerable variation between wards as to the rental prices of London Living Rent properties, enabling a sensitivity of pricing to remuneration in different areas.

### *West Midlands Combined Authority re-definition of "Affordable Housing"*

Rather than introducing certain specific affordable housing products, in February 2020, the West Midlands Combined Authority (WMCA) announced that it had become the "first region to re-define 'affordable housing'".<sup>64</sup>

The basis of this re-definition directly addresses the same issue as in London; the acute disparity between rents and low incomes. As WMCA put it, this policy enables "[...] linking the definition to the real world incomes of people in the area rather than to local house prices."<sup>65</sup> The WMCA state that "[t]he new definition, which has been approved by the WMCA's Housing and Land Board, is based on local people paying no more than 35% of their salary on mortgages or rent."<sup>66</sup>

The purpose of this measure, furthermore, is aimed at encouraging homeownership and enabling keyworkers to benefit from accommodation close to their places of work:

"Home ownership could be put within the reach of thousands more people in the West Midlands thanks to a new regional approach to affordable housing. [...] The WMCA believes the change will not only provide genuinely affordable homes for local people but also encourage new types of affordable housing to come onto the market, benefitting key workers including nurses, police and teachers."<sup>67</sup>

Specifically, rent setting is based on "35% or less of the average gross earnings of the lowest quarter of wage earners in the local area."<sup>68</sup> As such, it is directly income-linked, and specifically linked to the incomes of those workers with lower incomes.

### *Manchester Living Rent*

In Manchester, the City Council has introduced its own version of a Living Rent policy. This, too, is a response to the concern over the definition of 'affordable rent' not being genuinely affordable for local families. As their policy statement puts it:

"The Government introduced the term 'affordable' rent that is 80% of market value for an area. For us in Manchester, this is not enough, we need to do more."<sup>69</sup>

The motivation behind the policy is clearly intended to link rental levels more closely to incomes:

"All the evidence suggests that to have a good quality of life, you shouldn't have to spend more than a third of your income on your housing. However, as the cost of renting and buying a home goes up, we need a level of rent that we know Manchester people can afford."<sup>70</sup>

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64 West Midlands Combined Authority, [West Midlands becomes the first region to re-define 'affordable housing'](#), February 2020

65 Ibid.

66 Ibid.

67 Ibid.

68 Ibid.

69 Manchester City Council, [The Manchester Living Rent](#)

70 Ibid.

However, unlike the WMCA policy, the Manchester Living Rent system is instead based on the Local Housing Allowance:

*“The Manchester Living Rent is an amount of rent that is set at or below the Local Housing Allowance level – or LHA.*

*The Local Housing Allowance level is the rent level set by Government that will cover a person’s rent if they are on housing benefit.”<sup>71</sup>*

For those households whose source of income is from the receipt of benefits, this is, indirectly, an income-linked measure. That is because LHA determines the amount of income benefit claimants receive for their housing.

In terms of the extent to which homes in Manchester will fall within the Living Rent scheme, the picture is mixed. The GMCA note that

*“Most Registered Providers and Housing Associations already cap their affordable homes at the Manchester Living Rent to ensure people on housing benefit can access their properties.”<sup>72</sup> At this stage, it is an aspiration that housing associations would “sign up” to support the scheme<sup>73</sup>.*

Further, the tenure of some new homes developed through the council will fall within the Manchester Living Rent definition:

*“This is a level of rent that is used by the Council’s home building company, This City and we have made a commitment that at least 20% of all the homes built by the company will be set at the Manchester Living Rent.”<sup>74</sup>*

This constitutes a different interpretation of the ‘Living Rent’ model, as it explicitly ties rent levels to benchmarks in the welfare system, compared to those in London and the West Midlands which are linked to income levels.

### *Bristol Living Rent Commission*

Marvin Rees, Mayor of Bristol, launched his Manifesto in 2021 on a platform aspiring to ensure Bristol becomes a “living rent city”.<sup>75</sup> For this reason, a Living Rent Commission was set up in 2022 in order to identify policy measures that could help make this a reality.<sup>76</sup>

The recommendations of the commission adopt a somewhat different focus on the term “living rent” as compared to those implemented by schemes in Manchester and London which focus affordable homes in the social housing sector. Instead, the Bristol Living Rent Commission focuses more broadly on the unaffordability of rents across the Private Rented Sector, as well as the supply of social housing.

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71 Ibid.

72 Ibid.

73 Ibid.

74 Ibid.

75 Bristol One City, [The Bristol Living Rent Commission](#)

76 Ibid.



The overarching idea of a 'living rent', expressed in the report by the Commission, is focused on the idea of general private sector rent control. The report notes that this does not refer to a single measure, but could refer to several possible policy measures including "a rent freeze as a short-term crisis measure"<sup>77</sup> and several other forms of rent control (including limits to in-tenancy rent rises, market-linked limits of new letting prices, and so forth).

The majority (but not all) of the commissioners indicate, among a series of policies surveyed, a preference for exploring the possibility of implementing a system "[...] which involved initial rents being based on a property's characteristics, increases within tenancies being fixed at a maximum annual percentage, and changes between tenancies being regulated by their relation to the current market average - could form a potentially fruitful starting point for this discussion."<sup>78</sup>

The motivation for implementing general rent controls is similar to that of the other 'living rent' initiatives. Namely, it is the idea that the definition of housing affordability should be linked to local incomes, and that rents should ideally not exceed a proportion of that:

"The commission believes as a broad indicator of affordability, people should not be paying more than 30% of their income on their rent. Considering this definition, many rents in Bristol currently cannot be classified as affordable."<sup>79</sup>

In this sense, the aspiration towards "living rent" in the Bristol policy initiative is aligned with that of the other aspirations towards city areas with housing costs more closely linked to local incomes. However, its *scope* is much broader, being focused on rents across the board, rather than specifically *affordable* housing (as in the West Midlands) or specific forms of affordable housing (as in Manchester and London).

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77 Bristol One City, [Bristol living rent commission executive summary](#) June 2023, p.6

78 Ibid., p.6

79 Bristol One City, [Bristol living rent commission combined report](#), June 2023, p.15

## Part 2:

# Discussing policy options for expanding the supply of income-linked, truly affordable housing

In this section, we discuss several avenues of policy development that Governments should consider in order to deliver a greater amount of truly affordable, income-linked housing. To investigate these issues, we held an expert roundtable, taking evidence from senior leaders with experience in major city region governments, the social housing system, the charity sector, and in the design of financial architecture to support national affordable housing programmes.

Following on from this roundtable, we have also undertaken a substantial national polling exercise, including a demographically representative national poll of 2,134 adults in the UK, with sufficient additional representation to yield results from three city regions with elected mayoral Combined Authority structures: Birmingham, London, and Manchester.

These results, together with CSJ research and analysis, inform the discussion of policy options set out below. They are grouped into two sets. In Chapter 4, we discuss prospects for creating more income-linked affordable housing available for general needs (open to the general public, subject only to eligibility criteria in line with general needs affordable housing allocation systems). In Chapter 5, we turn to discuss prospects for more specialised housing schemes which could possibly link rents to incomes in a more granular (household-by-household) way.

In each section, we examine some of the advantages and challenges associated with each, and what policymakers can do to unlock more truly affordable housing.

## Chapter 4: Prospects for developing income-linked, truly affordable housing

As discussed above, over the last fifteen years, there have been considerable changes in government policy as regards the kind of affordable housing that is developed through national social housing programmes. A significant shift has been the change from grant-funding predominantly for social rented accommodation towards delivering Affordable Rent housing at a discount to open-market rental prices.

Roundtable participants considered in general that, in expensive city areas, Affordable Rent priced at an 80 per cent discount to market rents is affordable in all but name for the least well-off households who are most in need of social housing. Several policy options were discussed in relation to shifting away from Affordable Rent, as well as challenges associated with implementing them. These need to be considered when evaluating potential avenues for change in future.

Four broad categories of policy were discussed for delivering affordable housing products which are more affordable than the 20 per cent market discount option. These are neither mutually exclusive, nor collectively exhaustive. They do, however, cover a broad spectrum of policy options with different opportunities and challenges. Many of these are already active in various ways at local and national levels. An effective solution would likely involve a mixed approach, drawing together different aspects of the following options. The policy options discussed include:

- Adapting the Affordable Rent funding framework
- Pivoting towards Social Rent accommodation from Affordable Rent
- A new intermediate Living Rent tenure
- Shared Ownership accommodation using income-linked rents

We discuss each of these in turn in the following sections.

### *Adapting the Affordable Rent funding framework*

One type of policy solution discussed is already widely in use. It involves operating within the contours permitted by funding for Affordable Rent accommodation and adapting it to seek to ensure that homes are more affordable than they would be if they were set at the maximum pricing of 80 per cent of market rates.

Not all housing providers set their prices at the top of this envelope. This means that not all Affordable Rent housing is set at the maximum rental price. Nevertheless, this is clearly a different system from one in which rents are linked, by policy design, to the levels of income in the area in which the housing is constructed. Some local authorities have thus sought to place policy contours around the levels to which rents can be charged to improve affordability.

Three methods of doing this were discussed at the roundtable. Firstly, a system of using Local Housing Allowance (LHA) rates as a rent ceiling. This is the principle behind the Manchester Living Rent system. It was discussed that this system is in use in Bristol (and elsewhere) without a 'Living Rent' branding. In Bristol, the council have sought where possible to restrict Affordable Rent properties from being let at rates any higher than LHA.

In one sense, an LHA-linked benchmark is just another form of market discount, albeit substantially more generous in terms of discount than an 80 per cent market rate. At present, the Government is intending to restore LHA rates to 30 per cent of local market rates. As such, one might think there is no significant change of *system* through an LHA-linked pricing approach, but rather just a change to the level of discount from market prices.

However, this would be too quick. Whilst LHA rates are indeed benchmarked according to local market prices, they are used to set the generosity level of Housing Benefit. This means the LHA ceiling is directly linked to the level of expenditure available to someone in receipt of Housing Benefit. As such, this is a 'workaround' to adapt Affordable Rent properties towards being inherently affordable for those least well-off, and therefore would also be affordable for those with higher incomes and not in receipt of benefits.

This approach can be effective for beneficiaries and enable 'truly affordable' housing options to be delivered through existing funding channels. However, it is also expensive to deliver, which can lead to issues with the number of homes delivered. Experts told us that if this requirement is made of developers as part of their developer contributions of housing in kind, this can become an obstacle to the total number of affordable homes delivered on a site in question, or indeed viability of delivering the entire development as a whole. As such, there is a significant interaction between questions of funding and questions of affordable housing supply.

In the CSJ's view, this is a point over which councils must exercise caution and restraint. Increased housing supply is needed, across the board, and in all tenures. Care must be taken to ensure that ambitious requirements for affordable housing delivery figures do not unduly inhibit housing development across the board. Such requirements must therefore be carefully balanced against the need for more affordable housing.

The second system of delivering income-linked housing using Affordable Rent funds discussed is that of London Affordable Rent. As discussed above, this uses a system of benchmarking to social rents, which are themselves partially income-linked (and much more affordable). The effect of this is also a workaround. It enables something approximating Social Rent to be delivered through the 'back door' of Affordable Rent funding.

This was made possible in part through the aspects of devolved responsibility for housing available to the Greater London Authority (GLA) and through negotiations made with central Government bodies. The London Affordable Rent settlement was created as a bespoke arrangement which enabled the GLA to deliver something approximating Social Rent without needing the product to be classified as such for the purposes of central government accounting.

Whilst this, too, has proven to be helpful to beneficiaries, participants discussed how this arrangement created unnecessary complexity as a result of seeking to reconcile central government aims with devolved government agendas. Why go through the rigmarole of shoehorning a Social Rent-type of product into an Affordable Rent funding system, when, quite simply, more Social Rent accommodation could have been delivered directly instead?

The third system we discussed is that in use by the West Midlands Combined Authority. There, Affordable Rent housing delivered by the authority is set under a rental price ceiling at a cost no higher than 35 per cent of local household incomes. This amounts to a self-imposition of limits to rental prices to improve housing affordability for residents. Again, whilst this is a helpful system that strongly resembles a living rent approach, it is a workaround adaptation, using grant that is not specifically designed to support income-linked accommodation.

Participants have observed that the situation has now changed since, from central government, there has been a change of direction also. The Affordable Homes Programme funding streams have pivoted in recent years to grant fund more Social Rent housing. As such, local governments will be able to focus more on delivering that if that is their policy plan, and to the extent that these changes allow. Participants felt this points to a broader point about devolution and housing policy: namely, that local governments can benefit from being given more discretion to shape their affordable housing approach without being tied too much to central regulations.

Overall, then, the feeling expressed from multiple angles and locations was that more discretion and latitude for bespoke policy on the part of local governments is broadly very welcome.

From a national perspective, however, each of these policies point towards the fact that there is dissatisfaction with the current Affordable Rent regime. Each local system, in Birmingham, London, and Manchester, is explicitly designed to challenge the prevailing options and frameworks available from national funding programmes. As such, they constitute a second-best solution. It would therefore be preferable if Government centrally reviewed the Affordable Rent system and looks to pursue some of the other policy options below.

### *Pivoting towards Social Rent accommodation from Affordable Rent*

Social Rent was described by some of our expert roundtable participants as the “most valuable” type of affordable housing. This is understandable because it is the most significantly discounted mainstream rental tenure in the social housing system. As discussed above, Social Rent can be described as ‘genuinely affordable’ and does involve a level of income-linkage in rent setting. As such, it is fundamentally different to Affordable Rent as a housing product.

However, participants discussed the central challenge to delivering more of it: the willingness of government to allow grant funding to be spent on it, and the amount of grant funding for it that central government is willing to provide. One participant emphasised how, financially, producing sub-market homes is a very challenging enterprise: “Social Rent takes 60 years to pay off. So, for every Social Rent home built [...] it takes 60 years to pay off and it is utterly unprofitable.”

It is worth reviewing the backdrop of Affordable Rent here to draw this out. The Affordable Rent programme was developed at a time when austerity measures and the reduction of state spending deficits was the overarching objective of Government. As the paper on Living Rents by Savills makes clear, Government was therefore pivoting away from the issuing of capital grant in order to focus on creating “financial instruments” through which new types of affordable housing could be developed.<sup>80</sup>

These systems (such as the ‘Help to Buy equity loan scheme’) “[...] do not count as public spending and borrowing”.<sup>81</sup> As Savills explain, this is because “Accounting for assets is different from accounting for grants. Unlike a grant the Department expects, at the point it makes the payment, that it will receive a financial return in the future. [...] In contrast, grants are included in the statement of comprehensive net expenditure as an in-year cost to the Department.”<sup>82</sup>

One advantage of this system was that they “[...] have resulted in very competitive borrowing costs”.<sup>83</sup> However, on the other hand, it has meant less Government grant is available for the provision of sub-market homes to rent. As Savills note, “[...] such instruments are not sufficient in themselves to produce sub-market rented homes, which still require a level of embedded investment to make them financially viable.”<sup>84</sup>

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80 Mark Lupton and Helen Collins, Savills *Living Rents - a new development framework for Affordable Housing*, June 2015 p.34

81 Ibid.

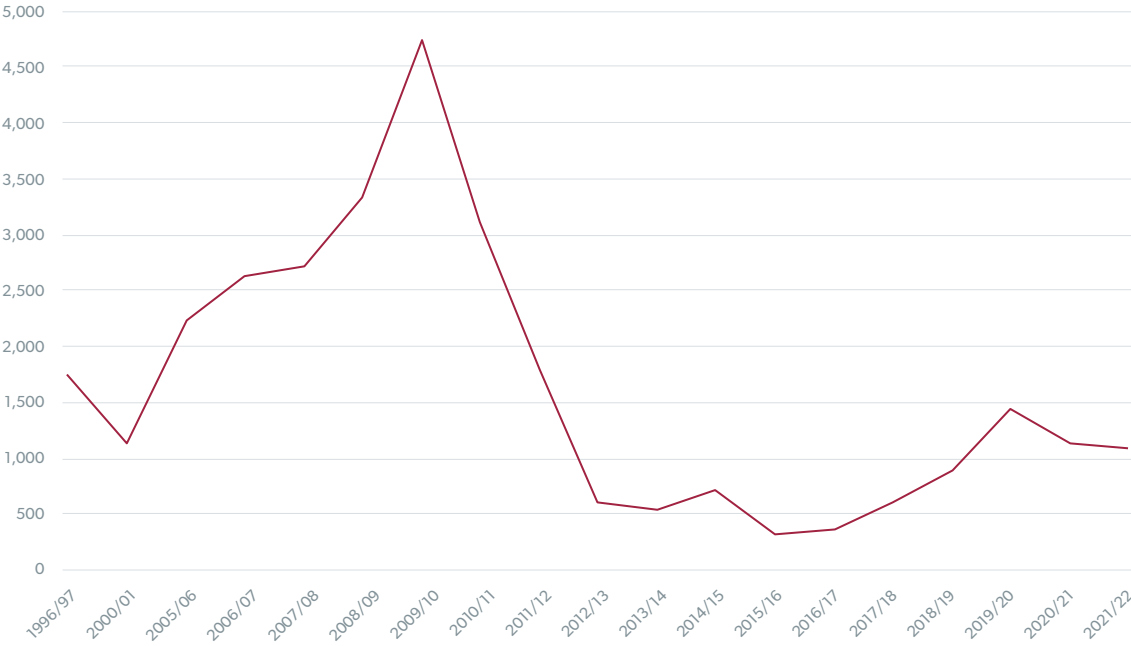
82 Ibid. p.39

83 Ibid. p.34

84 Ibid. p.34

As such, to maintain delivery of affordable housing, Government had less grant available, which meant creating housing based on the promise of a higher future income stream to compensate for the lack of grant being invested at the outset: “Indeed it is important to recognise that the introduction of the Affordable Rent regime represents a shift in government policy from capital support for new homes to one where higher rents are expected to provide more income for new supply.”<sup>85</sup> The decline in the levels of government grant provided over the preceding years can be seen below.

*Housing capital investment in England - real terms (2021/22 prices) HCA affordable housing investment (£million)*



Source: UK Housing Review, Table 64b Housing capital investment in England - real terms

The level of grant funding available was seen by roundtable participants as, still, the principal obstacle to the delivery of more social and affordable housing, particularly that which might be set at a Social Rent level. One participant put it this way: “Unfortunately, the total pot of funding isn’t any bigger. So we’ll be doing less. Homes for social rent are more expensive to fund, but it’s still the most valuable.”

During the roundtable discussion, the adage—well-known in the housing sector—was repeated that “you can’t build subsidised housing without subsidy”. This does ring true, and in essence means that the delivery of more social rented accommodation, under present circumstances, comes down to a trade-off. Either more grant funding is shifted towards Social Rent, but fewer homes are built, or a less affordable tenure is used and more subsidised homes are built.

This issue has attracted media attention in the housing sector press. The Labour Party has committed publicly to increasing the amount of Social Rent housing delivered through government grants, and to achieving ‘net positive’ growth in the number of social rented homes if they are elected to government.<sup>86</sup> However, as noted by Peter Apps, Editor of *Inside Housing*, this will lead to a far smaller number of social homes being constructed if the ‘size of the pot’ of grant funding is not increased.<sup>87</sup> This, though, Apps notes, is not a commitment Labour has been prepared to make as yet.

85 Ibid.

86 Peter Apps, *Inside Housing*, The week in housing: Labour’s housing plans take shape, September 2023

87 Ibid. For a further discussion referencing this and calling on the Labour Party to abolish ‘Affordable Rent’, see Martin Wicks, *Inside Housing*, Labour needs to commit to ending ‘affordable rent’, October 2023

This means that, to deliver new social housing from existing grant funding levels, it is necessary to make difficult and uncomfortable trade-offs. With the same amount of grant funding, *ceteris paribus*, there is a necessary trade-off between building more social housing and letting it at more expensive rents and building less social housing and letting it at less expensive rents. A shift from Affordable Rent to Social Rent would entail exactly this kind of trade-off in the absence of further grant.

We have tested the popularity of this trade-off through a simple polling question to gain an indication of public opinion. We asked the public the following question:

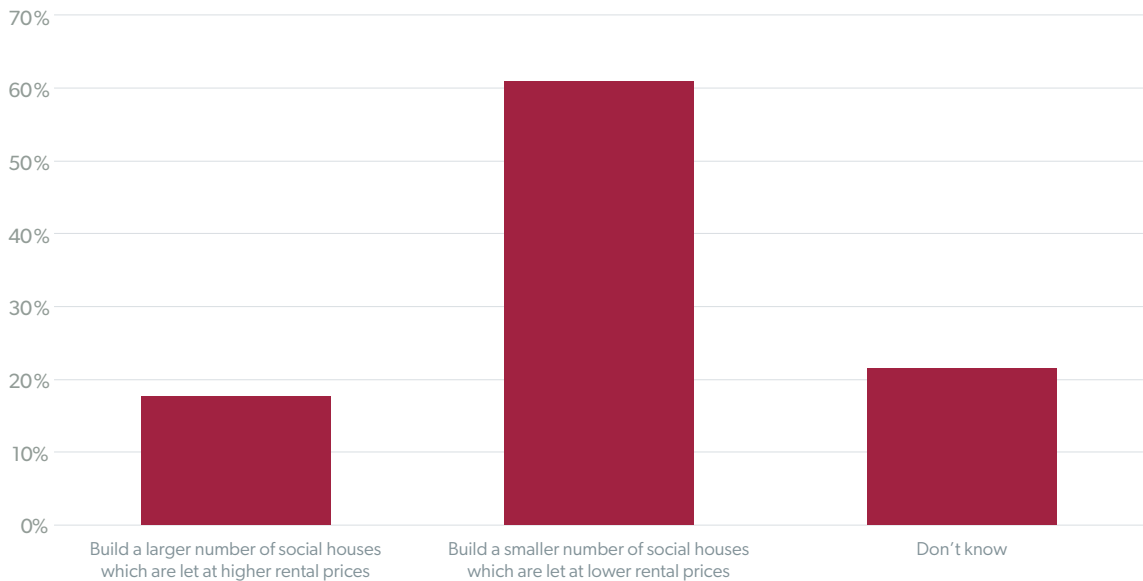
*If more social housing is built locally, which of the following approaches would be better?*

Respondents were offered a choice of three responses:

- Build a larger number of social houses which are let at higher rental prices
- Build a smaller number of social houses which are let at lower rental prices
- Don't know

The results indicated a clear preference from the public in favour of the latter course of action. This would appear to indicate the public is supportive of the Government's and the Opposition's commitment to delivery of more social rented housing above that of Affordable Rent:

*If more social housing is built locally, which of the following approaches would be better?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

This result is consistent across all political persuasions. Indeed, a clear majority of those intending to vote for *either* the Conservative (65 per cent) and Labour (66 per cent) parties at the next election support this course of action. Both parties, therefore, would do well to provide more social rented accommodation.

In summary, the option of increasing spending on Social Rented housing to make affordable housing more affordable will necessarily result in a trade-off without additional grant spending. Whilst, in challenging fiscal circumstances, both parties are clearly seeking to be seen as fiscally responsible, some participants felt that a wider view of costs and benefits needed to be taken into account, over a longer term. One participant put it this way:

“Money has to come from somewhere. And we spend so much money firefighting the consequences of poor housing elsewhere. It just makes so much more sense to actually spend some money up front and deliver decent and safe affordable homes.”

There is, of course, a further option in practice. To raise taxes in order to pay for more social housing to be built. It bears noting that we are in very considerably tight fiscal circumstances, with both major parties in Westminster being extremely reluctant to make and expand spending commitments. We examined the popularity of doing this through an indicative opinion poll question:

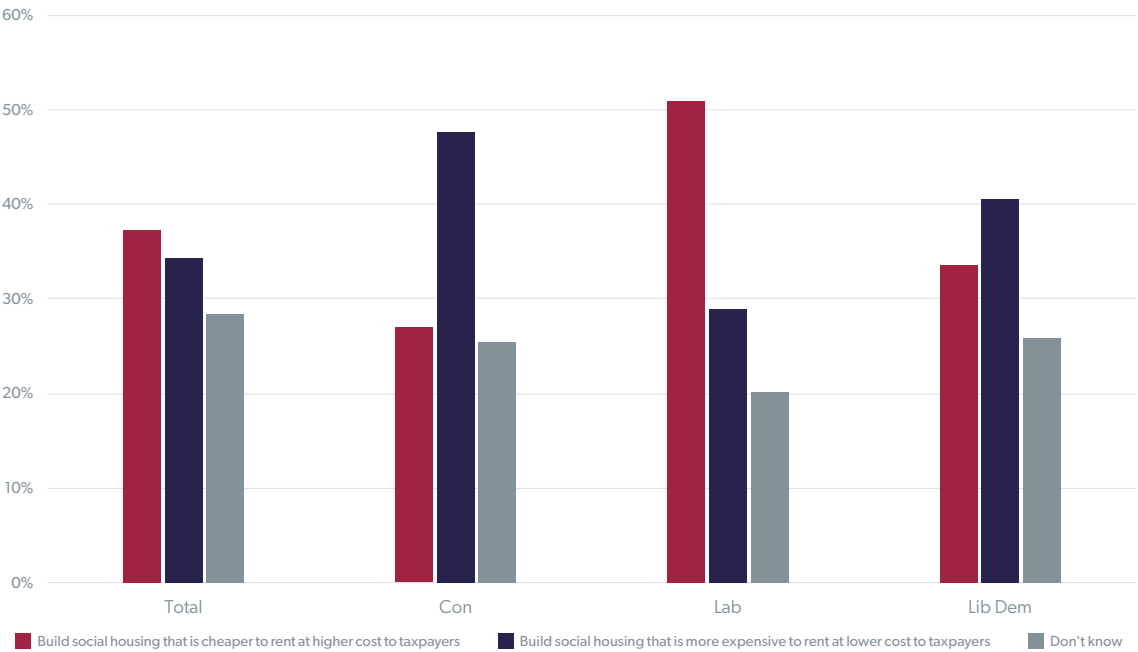
*If more social housing is built locally, which of the following approaches would be better?*

Respondents were asked to choose between the following options:

- Build social housing that is cheaper to rent at higher cost to taxpayers
- Build social housing that is more expensive to rent at lower cost to taxpayers
- Don't know

The results from this were mixed. A plurality, but not a majority, supported the first course of action (37 per cent ) and a slightly smaller proportion (34 per cent ) supported the second course of action. A relatively large number chose ‘don't know’ at 28 per cent. Perhaps unsurprisingly, there was, however, a clear political split on this question according to voter intention at the next election. Conservatives were considerably less in favour of building less expensive social housing at a higher cost to taxpayers as compared to the other way around. The inverse was true for voters intending to support Labour, as can be seen below. Indeed, a narrow majority of those intending to vote for the Labour party supported building more generously subsidised social housing at a higher cost to taxpayers:

*If more social housing is built locally, which of the following approaches would be better?*

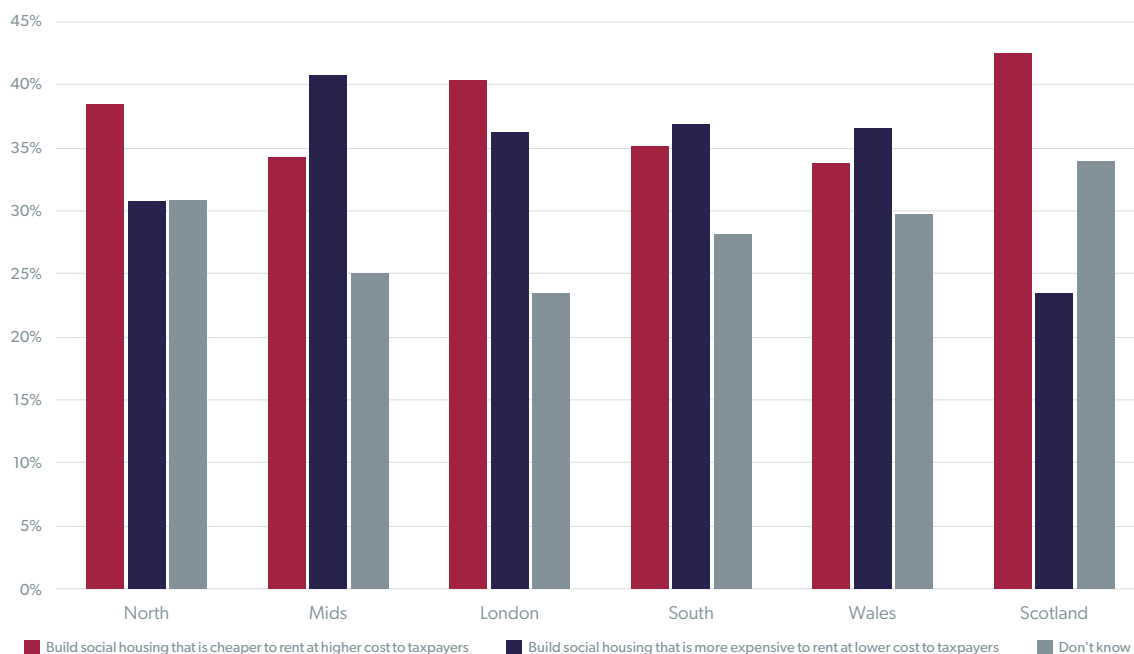


Source: Polling by Opinium for the Centre for Social Justice, February 2024



In addition to this political subdivision, there were also regional differences. In London, there was more support for building social housing which is cheaper to rent but at higher taxpayer cost than in any other English region:

*If more social housing is built locally, which of the following approaches would be better?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

It is clear, from the above, that the country is divided on questions of whether or not to subsidise social housing rents more generously from the public purse. It is, in many respects, a political choice that parties must make. In some respects, however, the question is relatively academic at this point. There is little spare funding in Government, and at a time of both major parties recognising this, it is likely that the funding pot will be broadly comparable, and therefore that the trade-offs (as discussed above) will be relevant. Overall, in relation to Social Rent accommodation, we make the following recommendation:

**Recommendation:**

The Government is right to have shifted the focus of grant funding for new affordable housing away from Affordable Rent and towards the provision of Social Rent housing. Government should continue this focus in future grant funding regimes, responsibly expanding grant funding for Social Rent accommodation where fiscal headroom allows.

## *A new intermediate Living Rent tenure*

Delivering more Social Rent accommodation was seen as a high priority issue, especially for London, by some participants at the roundtable. Our polling would also suggest it is more popular there. However, as discussed, the levels of grant funding needed to deliver it are very substantial. Another policy that can be pursued is to deliver intermediate housing which is not quite as affordable as Social Rent but which, unlike Affordable Rent, is nonetheless linked to an average of relatively low local incomes. This would mean that in very expensive areas, it would be affordable to households of lower- to intermediate means, but who are ineligible for Social Rent housing.

This would be a policy option close to the Living Rent model proposed in the policy literature. Previous studies on Living Rent have not proposed a wholesale replacement of Affordable Rent with Social Rent, but rather introducing an intermediate affordable housing product which is more affordable than Affordable Rent because of income-linkage, and yet caters to a different (somewhat higher income) demographic segment than Social Rent housing.<sup>88</sup>

The merits attributed to this kind of tenure go beyond the affordability benefits it can bring to household finances. As IPPR have pointed out in discussing this type of proposal, it could help smooth out the range of tenures available in the housing ecosystem and thereby reduce stigma sometimes associated with social housing: “Offering a living rent product alongside an expanded social rent offer could help widen the tenure of social housing and help address some of the issues of stigma raised by the participants in our focus group. Expanding the social rented sector in this way would help rebalance the housing system and promote a better blend of tenures, which meets the needs of different households.”<sup>89</sup>

This type of policy was discussed at the roundtable. A key theme that came out through discussion was the importance of any Living Rent general needs housing product being workable both administratively and financially for providers such as housing associations and councils.

In terms of administration, as discussed above, two types of policy have broadly been discussed in the literature: granular and averaged income-linked housing. There was a general consensus that, as a mainstream, general needs housing offer, a granular approach to rent setting on a household-by-household basis would be too burdensome administratively.

One participant observed that “Simplicity is vital. We need to be able to figure out how this will be able to stack up. To make it stack up, we need to be able to administer it on a day-to-day, year-to-year basis”. Granular (household-by-household rent setting) was seen as an insurmountable challenge for a large-scale housing solution since it would entail extensive data collection and monitoring of individual household incomes. As such, for increasing the income-linkage of social housing rents, a system based on local area averages would be the only viable option. For this reason, in this section we restrict considerations to this kind of policy.

As discussed in Part 1, there is some evidence in the policy literature that income-linked rather than market-linked social housing is seen as being a fairer model of rent setting. However, to our knowledge, this has not yet been tested by way of public opinion. We have set out to do this in our polling by asking respondents the following question:

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<sup>88</sup> Jonathan Webb and Luke Murphy, Institute for Public Policy Research, *Renting beyond their means?* June 2020

<sup>89</sup> *Ibid.*

*Social housing rents are usually cheaper than private rental housing. There are different ways to decide how much these rents should be. Which of the following methods would be fairest when deciding the rental prices people pay?*

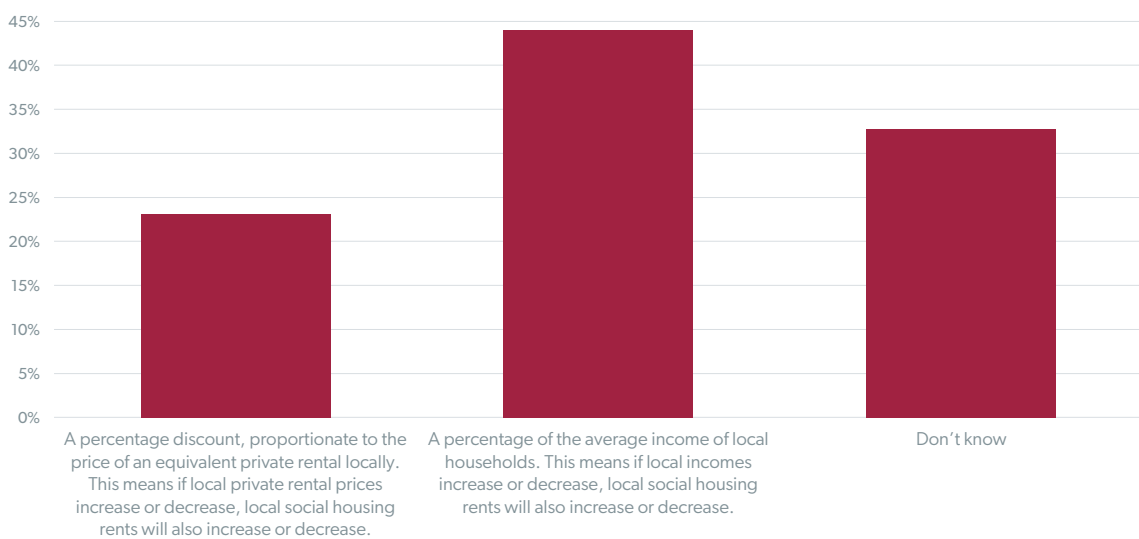
Participants were offered a choice of the following responses:

- A percentage discount, proportionate to the price of an equivalent private rental locally. This means if local private rental prices increase or decrease, local social housing rents will also increase or decrease.
- A percentage of the average income of local households. This means if local incomes increase or decrease, local social housing rents will also increase or decrease.
- Don't know

This was a fairly technical question to ask the general public in an opinion poll. It is also conceptually challenging since (as discussed in Part 1) the concept of 'fairness' is subject to considerable semantic and political contestation. Perhaps, then, it is not surprising that a third (33 per cent ) responded that they did not know.

Nevertheless, the overall result is interesting. The most popular response—by some distance among those who chose one of the two rent-setting models—was that of income-linkage. 44 per cent per cent responded that this was their preferred option, compared to 23 per cent favouring market discounts:

*Which of the following methods would be fairest when deciding the rental prices people pay?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

A breakdown of these figures by voting intention reveals that a slim majority (51 per cent) of those intending to support Labour would support this, whereas just 19 per cent of this group preferred the market-discount model. Of those who expressed an intention to vote Conservative, the results are less clear but nevertheless point in the same direction. 43 per cent supported the income-linked model, whereas 28 per cent supported the rental market discount model.

This presents interesting indicative evidence that, on the grounds of fairness, the public would support a move away from the Affordable Rent model and towards a more income-linked tenure model. Might this be a viable policy option?

Whilst it would be more workable than a granular model, there are challenges that would need to be overcome. The crucial challenge is financial and is not merely to do with the *amount* of revenue generated through rents, but also to do with the *consistency and predictability* with which revenue will be received by housing providers so they can invest in new and existing housing. Whilst (as an intermediate product) grant rates may not need to be quite as high as with Social Rent housing, the critical concern is with financial stability.

As one roundtable participant put it, discussing average income-linked rent setting, “[...] there is a challenge with using the income data because rents could in theory go down as well as up. If local average wages go down, from a provider perspective that makes long-term planning challenging.”

The importance of predictability to housing providers was also discussed at the roundtable. This can be seen through looking at the impact of unexpected rent cuts on social housing providers in recent years. We heard from one major housing provider who indicated that the rent cuts in 2016 have amounted to a cumulative impact of “£3.5bn of income”. A future system of rent setting to be implemented from 2020 was announced in 2017 by the then Ministry of Housing, Communities, and Local Government (MCLG). This was to ensure rents rose one percentage point above consumer price inflation. This would have provided a stable and predictable business environment for provision of, and investment into, social homes. However, further disruption came in 2022 through the decision to set a limit to social housing rent rises at 7 per cent, a level substantially below the rate of inflation.<sup>90</sup>

Whilst this was understandable as a measure to protect tenants in exceptional inflationary circumstances, there was no concomitant compensation to make up for the shortfall in housing providers’ budgets. We must recognise that this will clearly have a considerable effect on investment into affordable housing, further hampering the chances of organisations to pursue as much by way of new developments, housing stock regeneration, and social initiatives in the areas they serve.

In the public discussion concerning the extent to which rents would be capped by Government, numerous voices in the social housing sector stressed how certainty is vital for sustainable organisational finances.<sup>91</sup> As one expert, Richard Petty of JLL, a global real estate services company, put it, “Avoiding significant falls in valuations is vital to underpin secured lending, for the confidence of investors, and for the viability of building more affordable homes.”<sup>92</sup>

Analogously, then, this shows that any income-linked affordable housing tenure must be implemented with great caution and care in order to ensure that the need for affordability is balanced against the need for investment. In essence, introducing an inherent volatility risk, ‘baked in’ to the income streams of social housing providers by pegging or limiting the entirety of a rental income stream for such housing to local incomes, would be, all else equal, understandably unattractive from the perspective of housing providers. As such, the central challenge with this type of housing is to find a way of balancing the twin policy goals of ensuring rents are affordable and ensuring the financial integrity and sustainability of housing organisations.

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90 UK Government, [Policy statement on rents for social housing](#), December 2022

91 Carl Brown, [Autumn statement: reaction as 7% cap on social housing rent rises confirmed](#), November 2022

92 Inside Housing, [Autumn Statement 2022: the sector responds to Jeremy Hunt’s housing announcements](#), 17 November 2022

Indeed, as the National Housing Federation (NHF) have rightly stressed, there is a need for a long-term plan for all social housing tenures which balances such considerations. The NHF's preference is for an inflation-linked rental settlement to be introduced in 2025, with a system of limitation to guard against unaffordable rises for tenants.<sup>93</sup>

There are several ways in which this kind of system could, theoretically, be achieved. One of these would be to have a form of guarantee from government which would ensure that if Living Rent receipts became very low as a result of wage stagnation relative to the rest of the economy, this could trigger 'top-up' from Government to make up for the shortfall needed to cover costs for housing providers. This is the preferred system to be implemented by the National Housing Federation. It would mean that the rent-setting system would be fully 'funded' which would ensure that shortfalls between inflation-linked figures and rents charged would be covered by Government grant.<sup>94</sup>

An alternative approach, discussed during the roundtable, would be for housing associations to look towards taking out bespoke private insurance coverage which would de-risk a Living Rent housing product by mitigating against the possibility of low local wages causing unsustainably low rents. This idea merits further exploration by Government.

Either way, whilst it would be worth Government looking to reform the Affordable Rent system into one which is more income linked, providing a policy tool which reconciles the need for stability with the need for rental affordability is crucial. Overall, this policy avenue is promising as a potential for replacing Affordable Rent as a housing tenure. However, it will require the implementation of an entirely new category of intermediate housing with Government support.

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**Recommendation:**

Over the next Parliament, the Government should look to design and approve an Affordable Homes Programme to succeed the current 2021-2026 scheme. The Government should look to implement a new intermediate housing tenure, Living Rent, to replace Affordable Rent. Consulting widely with residents and housing associations, the Government should look to set income-linked ceilings to the rents within this tenure, and ensure that any sub-inflationary shortfalls are fully funded through a form of insurance or government grant.

### *Delivering Shared Ownership accommodation using income-linked rents*

A further option for general-needs, intermediate affordable housing discussed was that of using Shared Ownership housing. This has been done effectively as part of the London Living Rent homes developed by the GLA. These, too, would be an intermediate housing offer rather than available to those with the most modest means. This is because a degree of saving is necessary in order to acquire some equity in the property at some stage during the resident's tenure.

Shared Ownership is accommodation in which an occupant has blended tenure. Part of the equity of the home is owned by the resident which is either owned outright or purchased through mortgage repayments. The other part of the equity is owned by a housing provider (not other individuals or residents) and rent is paid by the occupant to the housing provider according to the level of equity owned by the housing provider.

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93 Alistair Smith, Inside Housing, *We are calling for a fair rent settlement for social housing*, September 2023

94 Ibid.

There are several significant advantages of Shared Ownership accommodation. The first is that it makes it much easier for people with little upfront capital to gain access to a housing tenure which has an element of homeownership. In the case of the London Living Rent products, Shared Ownership does not start until after an initial period where rents are set at a discounted, income-linked level. This period enables occupants to save up an amount of capital in order to purchase equity in their Shared Ownership property. This, therefore, especially helps increase homeownership for those with relatively lower incomes in areas where house prices are high. It is perhaps therefore unsurprising that the London Living Rent programme was described at our roundtable as ‘extremely popular’ and that properties ‘go like hot cakes’.

In addition to these financial benefits of Shared Ownership for individuals, there are social benefits, too. For residents, the sense of having a stake in their neighbourhood and community is an important qualitative benefit. In addition, the security of tenure afforded by Shared Ownership means workers can have the confidence to take on employment in an area in the confidence that future housing costs and potential moves will not become an obstacle to their work. For local areas, CSJ research has found a positive correlation between the strength of community relationships and the prevalence of homeownership.<sup>95</sup>

In addition to these social benefits, Shared Ownership can also be helpful from the perspective of the public purse. This is because, as was discussed during the roundtable, it can unlock capital investment into affordable housing that would not otherwise be available if there were no element of equity investment in the product. Indeed, we have seen this happen on a growing scale in recent years, including a significant flagship investment by M&G into Shared Ownership through an equity partnership with Hyde Group.<sup>96</sup>

In the case of London Living Rent, where occupants enjoy a reduced, local income-linked rent for a defined period before then being given the option to become shared owners, the grant levels needed are smaller because the rental discount is not offered in perpetuity. Participants discussed the fact that, if London Living Rent were to be continued and subsidised in perpetuity, the grant rates needed would be similar to that of Social Rent. As such, the use of less grant funding is achieved by creating a vehicle which depends on residents accumulating capital during their tenancy in order to acquire equity after a defined period. Participants discussed that it remains to be seen the extent to which current London Living Rent residents will be able to do so. Nevertheless, the point stands that more income-linked affordable homes can be built with less grant than would otherwise have been possible.

These advantages are significant, and, in fiscally tight circumstances, do offer a route to income-linked affordable housing that is less dependent on grant funding, and therefore of interest.

At the same time, roundtable participants discussed some of the challenges that have been associated with Shared Ownership as a tenure. One issue is the fact that Shared Owners, whilst not owning all of the equity in a property, are normally responsible for the cost of all repairs and maintenance. This was described in at one point in the roundtable as ‘iniquitous’.

A further issue is that, whilst rents themselves may be affordable, service charges, on the other hand, may not be affordable. Indeed, one participant commented that “It’s the one advantage of the Affordable Rent programme. It’s that it was all bundled in together under a single, certain cost.” It was discussed that under London Living Rent, the maximum chargeable costs include any service charges, and that this kind of protection is necessary in order to prevent people being taken

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95 Centre for Social Justice, *Pillars of Community*, June 2021

96 M&G, *M&G announces £500 million investment into Shared Ownership sector*, March 2021

advantage of through such products. There have also been wider concerns around the process of increasing equity in a Shared Ownership property, known as 'staircasing', which have in some schemes been inflexible and expensive. However, reforms now allow 1 per cent staircasing which is less expensive, enabling a more gradual accumulation of equity shares in a property, which makes it more affordable for those taking advantage of the schemes.<sup>97</sup>

The London Living Rent scheme has demonstrated that an income-linked affordable housing tenure is possible, and can be popular, using Shared Ownership as a tool to attract investment. It was discussed that the use of the Shared Ownership element for the LLR model was undertaken primarily to secure government grant from the Affordable Homes Programme which fitted with funding requirements. It was further discussed that, under the LLR programme, many shared owners have not yet reached the stage of purchasing equity in their properties. Residents are not monitored in terms of their accumulation of capital to activate the shared ownership option within the scheme, so the success of the scheme in unlocking shared ownership as such remains to be seen.

Roundtable participants further discussed the aforementioned issue of volatility risk around the fact that, if rent levels are pegged to incomes rather than general inflation, there is a chance that investors may be wary of investing in such schemes, making them harder to get off the ground. Two observations were made in relation to this question.

Firstly, in the current fiscal and monetary environment, there may be opportunities for shared equity arrangements between housebuilders, housing associations, and residents using a Shared Ownership model. This has the potential, unlike a strictly grant-subsidised Affordable Rent product, to unlock equity investment with favourable margins from developers.

Secondly, there are ways of designing financial instruments which can mitigate against risks related to incomes. Specifically, developers can take out insurance policies to cover against the risk of residents losing jobs and income streams therefore being compromised. This would be analogous to an income protection insurance used to cover the cost of mortgage repayments should a mortgagor become unemployed. However, it would be taken out on the investment side rather than on the individual's side. It was discussed that such products tend to be very expensive when purchased by individuals, but, once risks are spread across multiple Shared Owners in aggregate, economies of scale come into play which can bring costs down. Overall, this could then unlock more investment into affordable housing which has some element of income linkage.

These are worth further exploration by the Government and political parties setting agendas for future affordable homes programmes. Whilst fiscal circumstances are extremely tight at present, this may be an attractive option for Government looking to expand the supply of income-linked affordable housing whilst depending less on grant funding.

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### **Recommendation**

Through the next Affordable Homes Programme, the Government should examine what can be learned from the London Living Rent initiative, and collaborate with financial institutions (including the insurance industry), housing associations, and councils to identify how grant funding can be allocated to unlock development of income-linked rent-to-shared ownership accommodation.

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97 UK Government, [Right to Shared Ownership: buying a share of your rented home](#)

## Chapter 5: Prospects for specialist income-linked housing

The previous policy options all concern avenues for the development of income-linked housing for general needs purposes. Adapted Affordable Rent, expanded Social Rent, income-linked intermediate rent, and income-linked Shared Ownership homes would of course have eligibility criteria. For example, there would be income requirements for Shared Ownership and Social Rent would be subject to the requirements of the social housing allocations system. However, the overall gist is that they are available as forms of housing for 'general needs'; people from a wide variety of backgrounds and walks of life who need support with housing costs.

In addition to these, our roundtable participants also discussed how there is considerable potential for more specialist housing schemes to provide income-linked rents. In particular, there is scope for more granular (as opposed to averaged) income-linked rental accommodation in two cases: employer-provided housing and 'Stepping Stone' accommodation for people transitioning from supported housing into independent living.

We examine both of these possibilities here and indicate how government policy can unlock prospects for developing more.

### *Employer-supported housing*

There are many sectors of society and the economy that contribute to unlocking the supply of truly affordable homes. These include central government, local authorities, housing associations, financial institutions, property developers, landowners, and more. Further, one strong reason to expand the supply of affordable housing is to ensure skilled workers can afford to live close to their workplaces. Indeed, one roundtable participant commented that "We know lots of parts of London where the people that we need to keep London moving and going can't afford to live there any more." Connecting these two issues, there exists an under-used set of organisations who could play a significant role in expanding the supply of truly affordable housing: employers.

The CSJ has previously examined the potential for greater use of employer-supported housing.<sup>98</sup> We surveyed large employers (1,000+ staff) to identify their views as to the effect of housing affordability on their businesses. The results were clear: for many, housing is a major issue of concern. Close to two thirds (64 per cent) said that they were concerned about how the affordability of housing is impacting their business.<sup>99</sup> Further, nearly half (48 per cent) said that housing issues are having an adverse effect on the wellbeing of their staff.<sup>100</sup> In addition, over two fifths (43 per cent) said that housing issues were having an adverse effect on their business's productivity.<sup>101</sup>

Of course, not all employers will be in a position to be able to support their staff with housing in a direct way. At the roundtable, it was discussed how smaller employers, in particular, will tend to lack the scale necessary to make this a viable option. For larger employers, however, this may be possible. Indeed, some employers may also be landowners who have plots of land adjacent to their workplaces which could be used as housing for workers.

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98 Centre for Social Justice, *Housing that works*, June 2019

99 Ibid. p.5

100 Ibid.

101 Ibid.



The CSJ has examined this issue before, and our recommendations—many of which are still worthy of serious consideration—can be read in our 2019 paper *Housing that Works*. For the purposes of this project, the issue of interest which bears noting is the connection between employer-supported housing and the potential for granular income-linked rental accommodation.

Roundtable participants noted that many of the challenges of implementing a granular, income-linked rental model for employees would be mitigated in the context of employer-supported housing. This is because, at least in theory, employers know the remuneration levels of their employees and therefore know precisely the income levels of their staff (at least at the individual level) and could therefore integrate the provision of housing into the scheme of remuneration offered.

Indeed, there are certain professions in which housing is routinely offered as part of staff remuneration such as with jobs in the military, housing for clergy, and in education (such as for university academics or boarding school teachers). These may not (always) be income-linked housing options, but nevertheless remuneration levels in many cases will reflect the fact that housing is provided as part of employment. In other schemes of housing, such as keyworker housing, homes are available to rent—typically managed by a housing association—by those who work for a particular employer, such as the National Health Service.

Many such schemes do not adopt an income-linked approach, instead opting for a system comparable to Affordable Rent which is linked to market rental rates rather than local incomes.<sup>102</sup> There is scope, therefore, for large-scale employers (such as NHS bodies) to explore the possibility of offering income-linked rents to employees in housing it owns.

At the roundtable, participants further discussed how, in general, there is a significant missed opportunity for employer-supported housing to be developed. Namely, the use of public land for housing.

Between 2015 and 2020, the Government operated a flagship Public Land for Housing programme “aimed to release land from the central government estate for 160,000 homes by the end of March 2020 supporting the government’s ambition to deliver 300,000 homes a year by the mid-2020s.”<sup>103</sup> However, when the Government released its Concluding Summary Report evaluating the performance of the programme, it became clear that it has disastrously underperformed. Initially, land was identified for an agreed total of 160,000 housing units (agreed between the five major landowning departments).<sup>104</sup> However, by the end of the programme, the Government reported that “[...] departments had disposed of land to the market with capacity for 61,302 homes [...]”<sup>105</sup>. This constitutes just 38 per cent of the land that should have been allocated to bring forward housing; a shortfall of just under 100,000 homes.

At the roundtable, it was discussed that part of the reason for reluctance to bring forward land for the development of homes is the worry that the land could be sold for a higher price and the proceeds used to deliver improvements to government services. In our survey for this project, we examined the public popularity of this using a test scenario survey question.

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102 See for example, the King’s College Hospital development, Hambledon Court, in which tenants “[...] pay 80% of the usual market value for a similar property in the area” *Hambledon Court*

103 Department for Levelling Up, Housing & Communities, *Public Land for Housing Programme 2015-20*, August 2022, p.3

104 *Ibid.* p.3

105 *Ibid.* p.4

Respondents were asked the following:

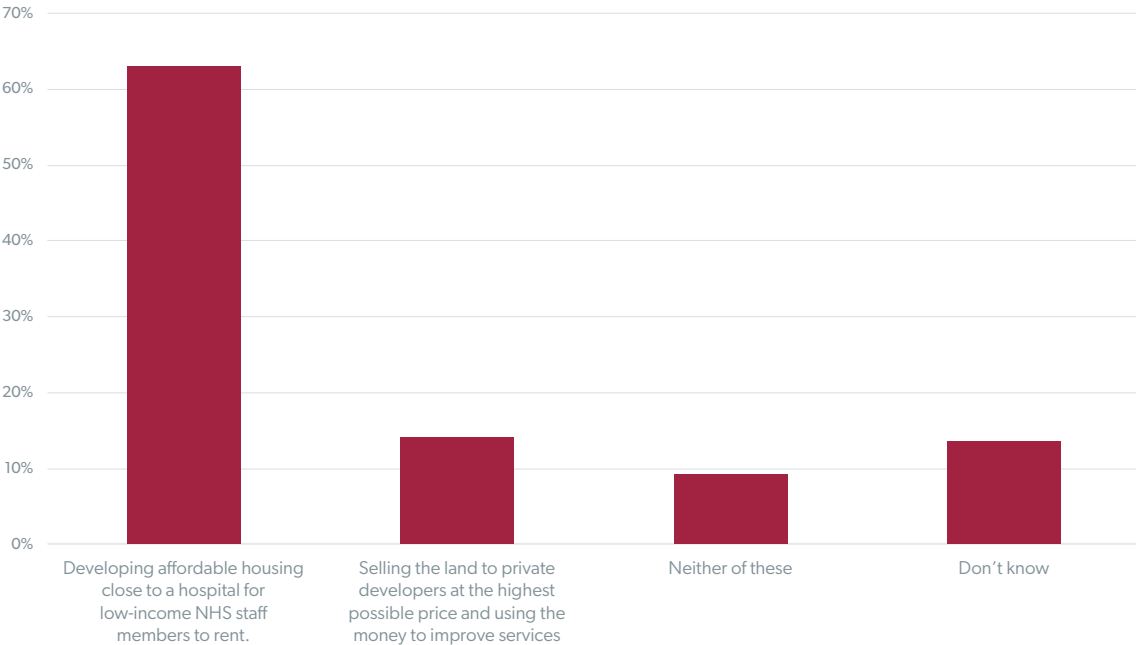
*Government bodies, such as the NHS, own land that could be used to develop housing. Please imagine that your local NHS authority sold or developed a piece of land in your area. Which of the following, if any, do you think would be the best use of the land?*

Respondents were allowed to choose between four options:

- Developing affordable housing close to a hospital for low-income NHS staff members to rent
- Selling the land to private developers at the highest possible price and using the money to improve services
- Neither of these
- Don't know

The results were clear. A resounding majority of the public supported the first of these options:

*Which of the following, if any, do you think would be the best use of the land?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

As can be seen, a commanding majority of the public believe that public land in such cases should be used to deliver more affordable housing for workers. Whilst not all cases will be exactly comparable to this, the results are clearly indicative of public support for using public land for housing. It is notable that the highest levels of support for this type of housing were among respondents in London (65 per cent) and the South of England (66 per cent) where housing affordability pressures are especially high.

There is clear support for using public land for housing. Further, it is a serious missed opportunity to make better use of public assets and provide truly affordable homes. On this basis, we make the following recommendation:

### **Recommendation:**

At the outset of the next Parliament, a renewed Public Land for Housing programme should be implemented which seeks substantially to outperform that of the 2015-2020 initiative of the same name. Further, the Department for Levelling-Up, Housing, and Communities should examine the possibility of implementing Living Rent (income-linked) accommodation on such sites where possible.

### *Stepping-Stone Accommodation*

The second area of specialist housing worth serious consideration by government is that of income-linked 'stepping-stone' accommodation to enable people to move on from homelessness and supported housing into full-time employment and independent living.

Firstly, it is worth asking why initiatives aiming to help homeless people—especially young people—to do this would be improved through the use of income-linked residential accommodation. To understand this, some explanation of the interaction between the benefits system and supported housing is necessary.

### **Supported Housing and Housing Benefits<sup>106</sup>**

In supported housing, accommodation is provided alongside support, supervision or care to help people live as independently as possible in the community. Residents of supported housing include, for example, older people, people with disabilities, people fleeing domestic abuse, people with experience of the criminal justice system, people recovering from alcohol or drug addiction.

For young people living in supported accommodation, such as care leavers and those who have experienced homelessness, access to employment can be a critical step in their journey to independence. However, the current benefit rules disincentivise young people from working more hours and becoming financially independent.

This happens because young people living in supported accommodation receive benefits through Universal Credit (UC) and Housing Benefit (HB) rules, while only UC rules, which include a housing element, are applied to their peers in the private rented sector. The rates at which UC and HB are withdrawn from young people in work is different, as shown below.

When a young person starts working, a 55 per cent taper rate is applied to their UC entitlement.

Until the UC is tapered to £0, HB covers their rent in supported accommodation in full. However, when UC is tapered to £0, a similar process starts for HB, but using HB rules.

When a young person earns more than £132.78 per week - roughly equivalent to 13 hours of work at the minimum wage for a 21-22 year old (17 hours for an 18-20 year old or 24 hours for a 16-17 year old) - their Universal Credit will be tapered to nil and they will face a financial disincentive in working additional hours.

<sup>106</sup> Explanation reproduced here with permission from Centrepoint: Centrepoint, [Making Work Pay in supported accommodation](#)

We heard from Centrepoin, a homelessness charity and Registered Provider of social housing, about how young people in supported housing are disincentivised from taking on additional work for fear of a drastic drop in income. The principle behind the landmark Universal Credit reforms was to eliminate these kinds of cliff-edges in the welfare system which produce disincentives to work. However, a substantial one still exists in this specialist area of the housing ecosystem. Some young people supported by Centrepoin, we heard, have either been reluctant to take on full-time work whilst in supported housing, or have taken on work precariously by not declaring income.

Neither of these are good outcomes. The latter course of action is illegal, and the former course of action diminishes a young person's opportunity to gain skills and develop a career path in full-time work. Furthermore, the loss of income means it is extremely challenging for someone in supported housing to save up for a rental deposit in order to enter Private Rented Sector accommodation of their own.

The CSJ has heard from many supported housing sector charities who see the structural problems this causes, not just for the individuals themselves, but also those who could be supported by supported housing places that are unavailable because people are reluctant to move on from them. The situation is therefore analogous to the problem of 'bed blocking' in NHS hospitals. The slow rate of 'move-on' from supported housing causes a structural blockage in the social care system, which exacerbates social problems and wastes time and public money.

Centrepoin has developed an innovative housing model which deals with this issue. Reuben House, in Peckham, is a pioneering 'Stepping-Stone' model of income-linked housing designed for the explicit purpose of enabling and incentivising homeless young people to move on from living in Supported Housing and into full-time work and independent living.

This is achieved, crucially, through the rent-setting model under which no resident will spend more than a third of their income on rent. This guarantees that residents can have the confidence to move into work full-time, and to progress in earnings, as the financial cliff-edges present under the supported housing welfare system are overcome.

This is possible because, unlike supported housing, no intensive social and pastoral support is offered in the same way, and there is therefore no need for uplifted housing benefit to be provided. Light-touch supportive relationships are available with Centrepoin, but there is no need under the model for professional social workers to support residents. Those who move into the accommodation are carefully selected to ensure they are already in work, an apprenticeship, or training, and capable of taking on an independent lifestyle.

The 'independent' aspect of the living arrangement is emphasised further by the fact that the development has been undertaken in such a way that each resident has a fully self-contained flat with bathroom, sleeping area, and kitchen / dining area with personal laundry facilities. All this is achieved within a dwelling footprint of 20m<sup>2</sup> which is an efficient use of space.

Whilst this is a small space, high-quality interior design makes effective use of it, and residents report high levels of satisfaction. The CSJ has visited Reuben House on two occasions and seen the positive impact the model has had on the lives of residents, as well as the high levels of satisfaction occupants enjoy.

This small size enables very efficient use of a small plot of land; the Reuben House development has enabled the construction of 50 dwellings on small plot of land in Peckham. Financially, this makes best use of funds and therefore makes such accommodation stack up as a business model within a not-

for-profit, charitable environment. Further cost savings have been made in the construction process with the use of off-site, modular construction techniques. This method enables considerable efficiency savings which stretch the use of charitable donations and borrowing further to finance the project effectively.

Whilst this form of income-linked Stepping-Stone housing has been effective in supporting its intended cohort, and also unlocked much-needed space in supported housing, it has also experienced several challenges as a result of public policy. These were discussed at the roundtable and are worth serious consideration by policymakers.

The first two challenges concern permission to introduce such a project through the planning system. Centrepoint discussed the considerable efforts required to secure planning permission on two fronts in particular: permission for granular, income-linked accommodation, and permission to build dwellings smaller than the current statutory minimum space standards for general needs, mainstream accommodation.

Local planning authorities took considerable persuasion to gain permission for an income-linked, granular rent. We were informed, in one case, that this was because of the concern that tenants would find it unfair that different rents for the same type of accommodation would be charged. Some tenants would have higher incomes, and some would have lower incomes, and therefore different rents would be due for exactly the same size and type of home. We were told that, in one case, the particular concern of the planning department in this regard related to the risk of disagreement among tenants leading to anti-social behaviour in the neighbourhood.

It was related at the roundtable that, in Centrepoint's experience, there has been no such anti-social behaviour at the site. On the contrary, they report a strong positive ethos among tenants. Each recognises that the Reuben House initiative is a genuine opportunity for all residents to live in an otherwise prohibitively expensive area, develop professional experience, and move into independent living. As such, the atmosphere in the housing development is positive, clearly demonstrating such concerns to be unfounded.

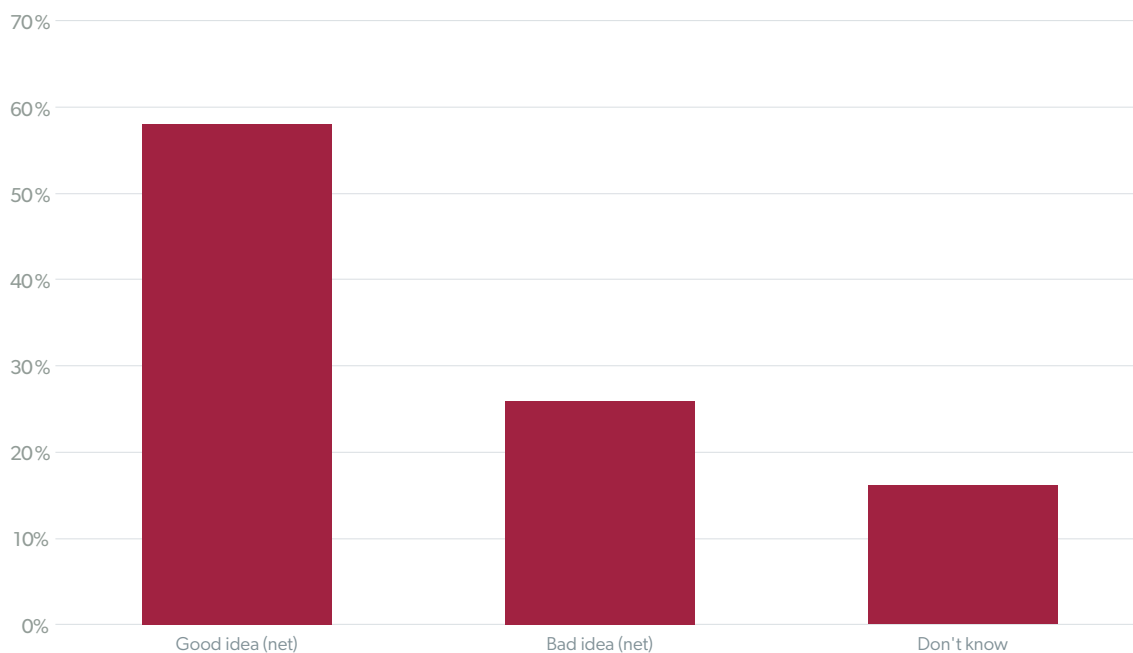
We have also examined the public's perception of this kind of model. It is a technical, challenging issue to convey to polling respondents, and so a scenario-type question was used to gauge public views. We asked the public the following:

*Scenario: A local charity is proposing to create housing for young people who would not be able to afford a private rental in the area. These young people have different incomes. The charity is proposing to charge each young person a rent in relation to the amount they earn. This would mean the young people do not have to worry about being able to afford their accommodation. However, it would also mean that those who earn more would be charged more for the same type of flat.*

*Question: To what extent do you feel this is a good or bad idea?*

The respondents could respond as to whether they felt this would be a very good, quite good, quite bad, or very bad idea, as well as having the option to choose 'don't know'. Grouping the positive and negative responses together, the results were as follows:

### To what extent do you feel this is a good or bad idea?



Source: Polling by Opinium for the Centre for Social Justice, February 2024

As can be seen, a clear majority (58 per cent) of all respondents felt that this would be a good idea, indicating that there is good public support for such initiatives. Perhaps reflective of the acute need for such housing in expensive cities, the highest response rate for 'very good idea' was in London at 18 per cent of responses.

#### **Recommendation:**

The Government, at relevant national and local levels, should permit charities to build granular income-linked 'move-on' Stepping Stone accommodation to enable those in supported housing to progress in work and lead an independent life.

The second planning concern is related to space standards. Planning authorities were worried that granting permission for flats to be constructed at smaller sizes than the legal minimum of 37 square meters (for a single person flat with shower room) could open the door to abuse from private developers looking to profit from such an opportunity without having a comparable charitable purpose.

This is a reasonable concern. Firstly, it bears noting that the small flat size is workable and appropriate to satisfy the needs of this cohort of residents. The tenant representative the CSJ has spoken to, as well as Centrepoin's own data, confirm high levels of satisfaction living in the property for a young, single occupant on a short- to medium-term tenancy. In this way, it is broadly comparable to student accommodation.

Students, like these young residents—many of whom are 'studying' by undertaking an apprenticeship—have less need for living space and are prepared to live in smaller-sized accommodation to save funds and live more centrally whilst they are gaining skills. Like student

accommodation, a smaller dwelling size is acceptable to young people as a fixed-term solution for a period of life in advance of moving into a mainstream housing tenure with more space.

As such, in the CSJ's view, there should not be a concern about the smaller flat size in the eyes of planning policy. However, there is a legitimate concern about this type of project leading to the creation of a loophole through which developers could look to create mainstream housing below statutory minimum standards. This, we agree, would not be acceptable, and any implementation of this type of accommodation must seek to mitigate against this risk.

In the case of Reuben House, considerable Section 106 agreement rules were put in place as conditions of the accommodation receiving planning permission. These include very substantial restrictive covenants to prevent the homes from becoming used for any purpose other than what has been intended by the project.

It is right that such restrictions are put in place when granting permission for developments such as this. Smaller space standards are acceptable, but only in specialist circumstances not involving general needs, long-term use. However, it is also unhelpful that the drawing up and negotiation of such complex planning agreements should take so long and take considerable resource from a Local Planning Authority—most of which are highly overstretched.

Rather, it would be better if a specific planning category for this kind of move-on, 'Stepping Stone' accommodation existed. This would ensure that more such projects can get off the ground efficiently, and additionally create a strong conceptual and categorical firewall between this type of purpose-specific housing any planning applications for general-needs housing which must meet minimum space standards.

We can also consider how the public would feel about such a prospect. It would be an understandable concern if public confidence in planning and housing policy could be undermined by permitting such initiatives. To test public opinion on this issue, once again we used a scenario-type polling question.

*Scenario: Currently, the government requires new-build flats to be a minimum size. A charity is wanting to create short-term 'stepping stone' accommodation for single homeless people. This is to help them transition from a homeless shelter into work and independent living. To do this, the charity would like to build self-contained flats which are smaller than the current minimum size.*

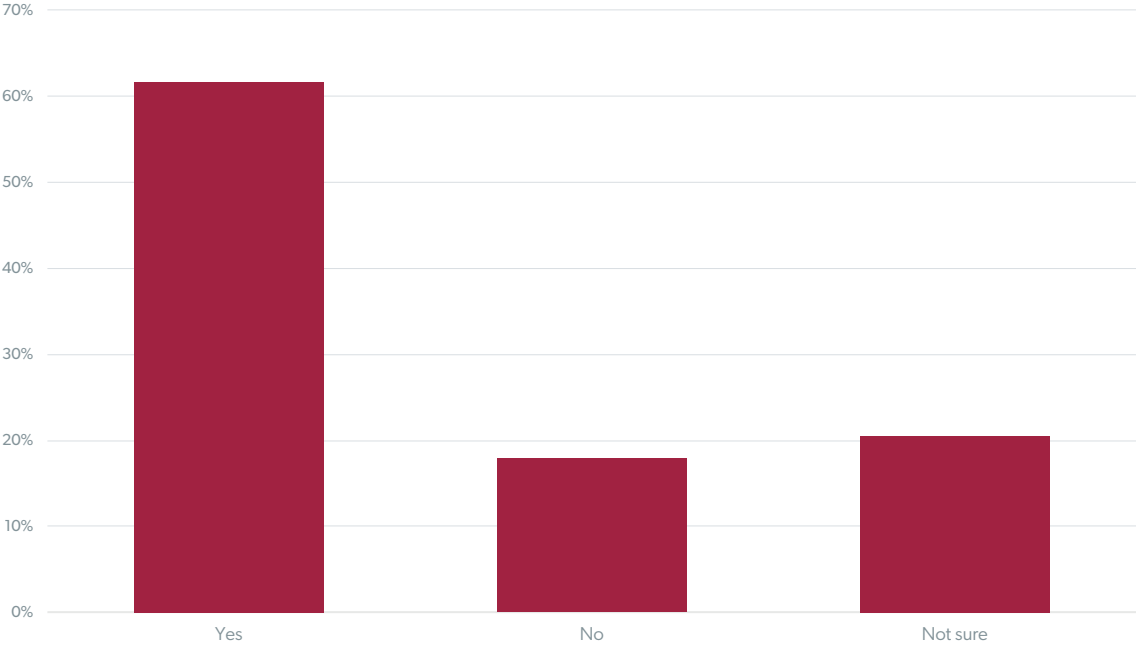
*Question: Should the Government allow charities like this to build 'stepping stone' flats for short-term use which are smaller than the current minimum size?*

The available responses were:

- Yes
- No
- Not sure

The results were as follows:

*Should the Government allow charities like this to build 'stepping stone' flats for short-term use which are smaller than the current minimum size?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

As can be seen, again, a clear majority (62 per cent) of the public were in favour of this being permitted, whereas less than a fifth (18 per cent) disagreed with permitting the proposed scheme. This should reassure political parties that there is public support for allowing this kind of development to go ahead.

**Recommendation**

The Government, at relevant national and local levels, should create a dedicated planning category for Stepping Stone accommodation which enables people to move on from supported housing and transition into employment and independent living. For this category alone, Government should permit dwellings to be constructed at a smaller size than the current minimum space standards, up to a minimum of 20 square meters.

Finally, a third policy issue was identified which is connected to the central need for this type of accommodation to be for short- to medium-term lettings only. That is, the Government’s proposed introduction of reforms to the Private Rented Sector through the Renters Reform Bill.

The CSJ supports the changes to be introduced through the Bill, including the abolition of Section 21 evictions, a considerably expanded list of Section 8 grounds for eviction, and the move to make periodic tenancies the norm. This latter move entails the abolition of fixed-term tenancies in the Private Rented Sector. The CSJ has supported this but recommended that a carve-out be made for



the general student market which is designed for residence over a specific, cyclical, fixed-term period. Abolishing fixed-term tenancies, in this specific situation, would be highly disruptive.

A similar risk is posed by the abolition of fixed-term tenancies to the model of Stepping-Stone accommodation run by Centrepoint. Inherent to the model of 'Stepping-Stone' accommodation, as the name suggests, is the idea that it is a transitional tenure. It enables a resident to move from one phase of life (often homelessness) into self-supporting, independent living. As such, it is dependent upon the possibility of letting to residents strictly on the basis that it is not a permanent housing tenure. Rather, it is available only on a medium-term basis at most. For this reason, it would not be conducive to the common good for the Renters Reform Bill to outlaw this kind of initiative.

In order to prevent this, the Government should look to amend the Renters Reform Bill to ensure a carve-out is present which clearly enables this kind of accommodation to operate on a fixed-term lettings basis. Similar carve-out provisions have been made in the Bill to allow for Supported Housing and Purpose-Built Student Accommodation to operate effectively. We recommend that a similar carve-out be implemented through an amendment to the Renters Reform Bill which enables Stepping Stone accommodation to be run and operated on a fixed-term lettings basis.

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### **Recommendation**

The Government should examine the impact of abolishing fixed-term tenancies on Stepping Stone accommodation and make amendments to the Renters Reform Bill to ensure carve-outs are made to enable fixed term lettings in this accommodation type.

# Chapter 6: City region devolution and affordable housing

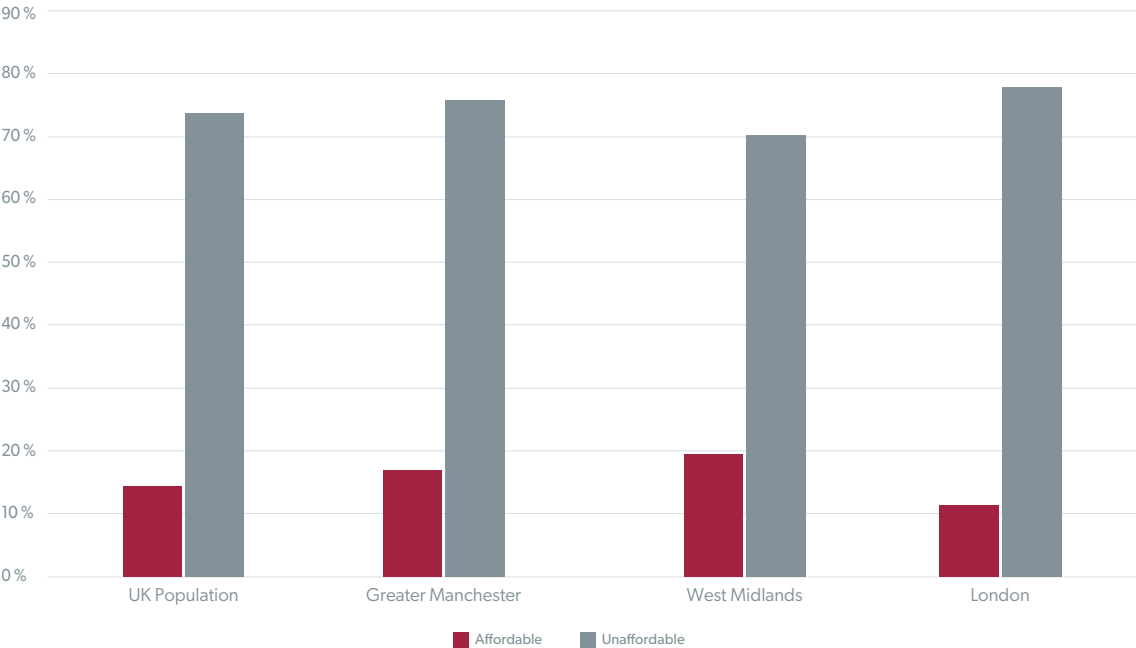
The foregoing discussions of affordable housing policy have highlighted several key ways in which local government administrations are challenging the national definition of 'affordable housing' and seeking to implement initiatives to meet needs identified in their areas. There are a great many different interlinkages between housing policy and local government, and it would be impossible to address each of these here.

This chapter focuses on public attitudes to decision-making over affordable housing delivery, including their appropriate level of devolution and their quality. Drawing on discussions in our expert roundtable, this section also examines some of the tensions, challenges, and opportunities that exist in relation to forthcoming devolution deals in the West Midlands and Greater Manchester.

Our polling data shows that, across the UK as a whole, the public clearly recognise the problem of housing affordability for households with low incomes. Our polling reveals attitudes to this in different parts of the country. Broadly speaking, the vast majority of the public believe that rented housing, in relation to low incomes, is unaffordable. As can be seen, at least 70 per cent of the public in each region believe this.

In addition, there is variation among the different local regions examined. A higher proportion of those in Greater Manchester and London said that housing in relation to low incomes is unaffordable, whilst in the West Midlands, the response rate was a little below the national average of 74 per cent at 70 per cent . Nevertheless, the clear trend is that affordability is highly pressured across the country.

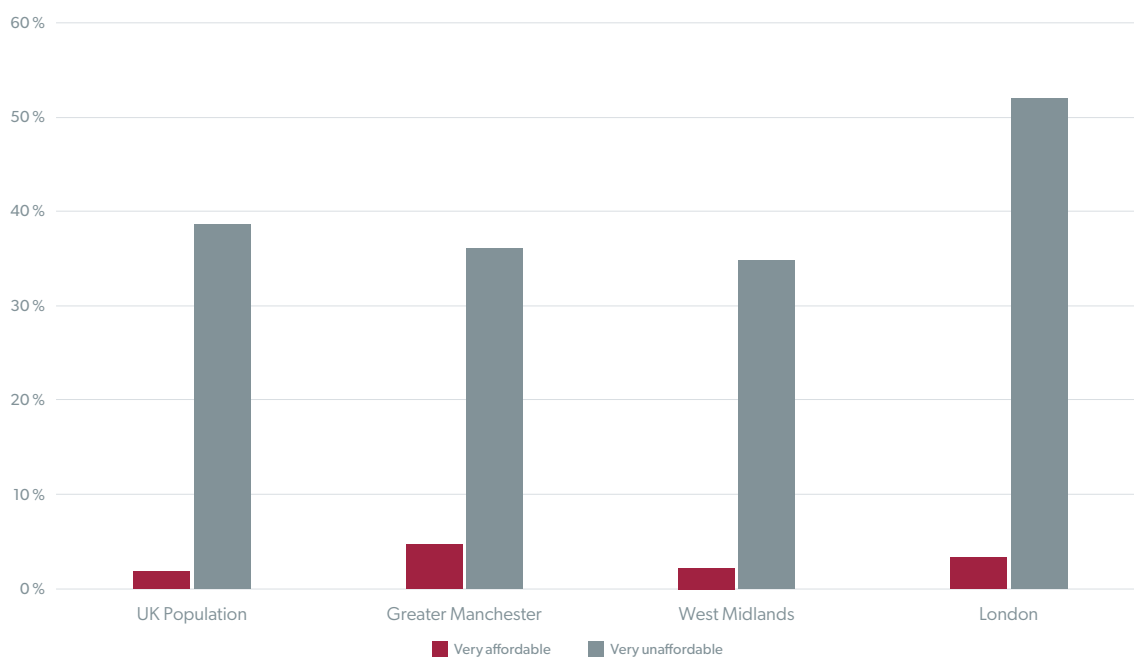
*In your area, how affordable do you think renting a home is in relation to low incomes?*



Source: Polling by Opinion for the Centre for Social Justice, February 2024

The trend in London, however, is (perhaps unsurprisingly) especially stark. When looking in the different regions at a breakdown of respondents who answered ‘very unaffordable’ compared to ‘very affordable’, there is a noticeable difference, with over 50 per cent of respondents in London responding that rental housing for those on low incomes is ‘very unaffordable’:

*In your area, how affordable do you think renting a home is in relation to low incomes?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

Given this, it is perhaps unsurprising that a key focus area for devolved policy in London has been housing.

The connections between local government, devolution, and social housing supply are manifold, as explored in this paper. The pioneering spirit used by city region authorities is shortly to be taken a step further through ‘trailblazer’ devolution deals to be implemented in Manchester and the West Midlands which will extend responsibility in this area in the coming years.

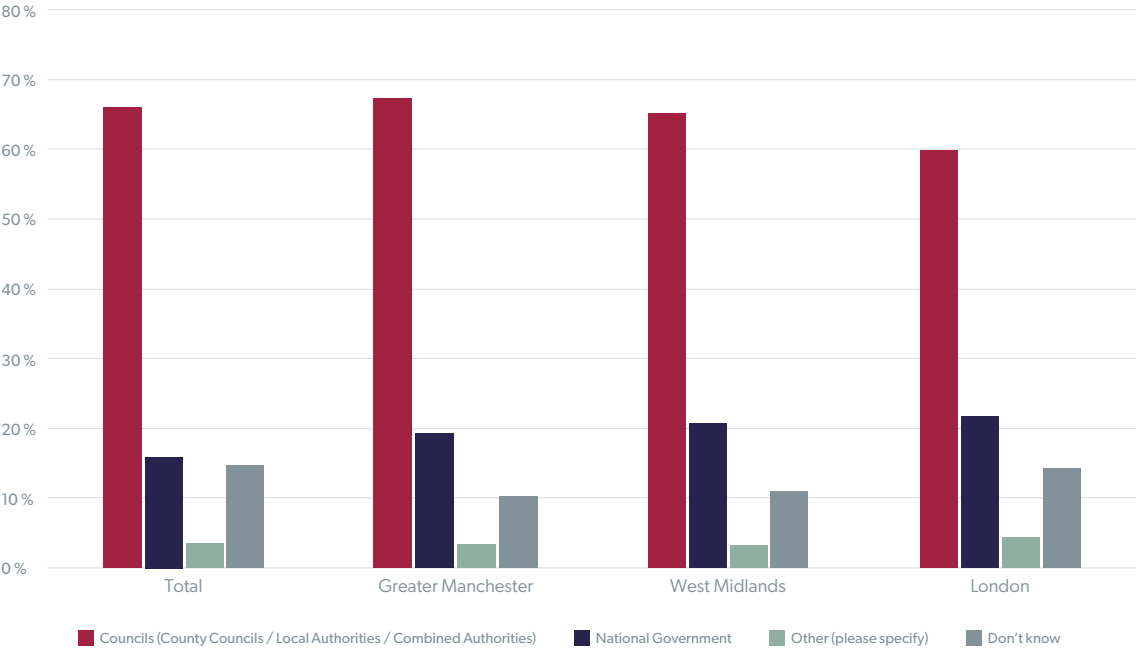
We asked the public their views as to where responsibility for housing policy should sit: at the local (council) level, or with the national government.<sup>107</sup> The results show that, across the country, there is a strong localist current to public sentiment. In general, a strong majority of the public think that responsibility for decision-making about the location and type of social housing to be built should sit within local government rather than national government. Two thirds of the public think this (66 per cent) whereas less than a fifth (16 per cent) supported the ‘national government’ option.

We have also broken down this question according to the three major city authorities that are featured in this report and have undertaken income-linked or ‘Living Rent’ approaches to housing policy.

<sup>107</sup> The different types of local government in use in England are manifold, and so an overarching bilateral choice between national and local options was used for the purposes of a nationally representative survey

Whilst the results can only be indicative (there are different types of council structure), the results are nevertheless interesting. The lowest level of support for more local-level decision-making (whilst still remaining a clear majority) was to be found among respondents from London. Similarly, London had the highest support for national government decision-making.

*When it comes to deciding social housing plans, which of the following do you think should be making the decisions on where and what kind of social housing to build?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

It would be wrong to jump to any conclusion too quickly over this. It is possible that this discrepancy is partly explained by differences in age groups living in these cities compared to the rest of the country. London has a higher proportion of younger people. In our representative survey, 33 per cent of our respondents from London were aged between 18 and 34, whereas just 23 per cent were in that age category across the UK. Likewise, fewer older people live in London.

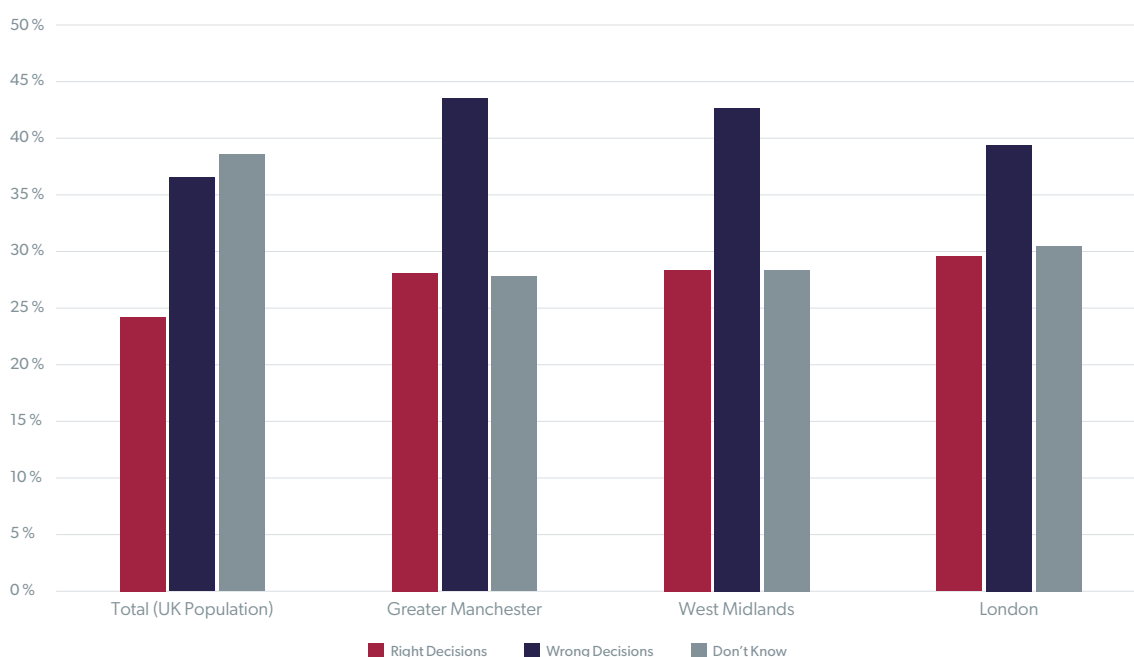
This is significant because support for local-level decision-making is significantly higher among older age groups, whilst the converse is true. 61 per cent of 16-34s and 35-49s favoured more local-level decision-making, whereas just under three quarters (74 per cent) of older respondents (65+) did. Likewise, whilst 24 per cent of 16-34s favoured national level decision-making, only half of that proportion (12 per cent) of over 65s favoured this. As such, it is possible that part of the difference in London is explained by age-related demographic differences. Overall, however, it is clear that across all of these geographic and age cohorts, there is a clear preference for local-level decisions over affordable housing.

In addition to asking about the level at which decisions should be taken, we also asked about the competence with which the public felt local level decisions were being taken. Here, despite the strong preference for localism across the country, the proportion of the public feeling local-level decisions were the right ones was outweighed substantially by the proportion of those who felt that they were the wrong ones.

The most common response, however, when looking at the national level, was 'Don't Know' (39 per cent) – itself a telling result. It would appear that there is a general lack of awareness, and possibly apathy, around local democratic processes and decision-making over housing policy across the country.

What is of interest, however, is that in the city region authority areas, this 'Don't Know' result is noticeably lower. Less than a third of respondents in these regions said they didn't know, which is well below the almost one half of respondents who answered this way in the UK overall:

*Do you think your council (Local Authority or Combined Authority) is generally making the right or wrong decisions about what kind of social housing is being developed locally?*



Source: Polling by Opinium for the Centre for Social Justice, February 2024

This may well indicate that the stronger levels of devolution in these city regions, and their particular focus on (affordable) housing policy is having stronger cut-through to the public, leading to better awareness and democratic engagement—as indicated by clearer and more decisive opinion formation.

In addition, it is interesting that a higher proportion of respondents from these city regions were prepared to express approval or disapproval. In all three city areas polled, *both* levels of support *and* levels of criticism of local decision-making were higher than the results in the general UK population as a whole. Again, this would appear to point to higher levels of democratic engagement with local government in regions with city mayors.

Whilst in the UK as a whole, fewer than one quarter of the public felt the right decisions were being taken at a local level, consistently more than a quarter felt this to be the case in each of the city regions.

In addition, however, it is undeniable from this data that there are also somewhat higher levels of dissatisfaction in city regions as well. Several factors could possibly explain this. The most straightforward, which must be taken seriously, is that decision-making is of lower quality than elsewhere in the country, thus driving the public opinion survey results.

At the same time, there are other factors that are worth bearing in mind. For example, in these cities, space is at a premium and property in the urban centre is very expensive, meaning inequalities can be stark. Further, brownfield land is expensive and challenging to develop. As such, the challenge of using policy to meet housing needs can be very difficult. The fact that these city regions have deeper levels of devolved responsibility means that it may be easier for the public in those areas to have a stronger sense of holding them to account. As such, expectations of the public upon these authorities may be higher.

At present, Government policy in relation to housing devolution to cities and local authorities in England is mixed. The most substantial devolution is in London where the Greater London Authority and Mayor of London have powers over Affordable Homes Programme spending (since 2012), such that “Homes England can only carry out functions in Greater London on behalf of the Mayor”<sup>108</sup>. However, at the time of writing, there are indications that this may be subject to some change. Following an independent review commissioned by the Secretary of State<sup>109</sup>, central Government has now stated its intention to change this arrangement and give Homes England additional powers to act in Greater London.<sup>110</sup>

Government’s reasoning behind this decision may be that levels of overall housing delivery in the capital have been too low, particularly on brownfield land.<sup>111</sup> In relation to affordable housing delivery, experts who conducted the review noted positively that levels of affordable housing delivery have increased: “London has seen a welcome increase in affordable housing completions”<sup>112</sup>. However, they also noted that “Many London boroughs and developers also pointed to issues arising from the pressure to meet the London Plan’s ambitious affordable housing target of 35%, and even more so on Public Land, where the target is 50%, leaving them with unviable projects, particularly on smaller sites.”<sup>113</sup>

This investigation has been subject to political contestation<sup>114</sup> not least since, nationally, housebuilding delivery has also fallen short of targets for decades. More broadly, this issue points to the challenges and tensions between housing policy goals at national and local levels.

On the other hand, whilst Government has made clear its concerns in London, it has also committed to ‘trailblazer’ deals for the Combined Authorities in Greater Manchester and the West Midlands which will, in somewhat different ways, offer considerably more initiative and discretion to these authorities over spending on affordable housing.<sup>115</sup>

At the end of a two-stage devolution process, the West Midlands Combined Authority (WMCA) will “[...] have a ‘strategic role’ in agreeing sites, providers and standards, and to make “key strategic decisions over local investment” [...]”<sup>116</sup>. In Greater Manchester, this deal will go a step further. Whereas the WMCA deal leaves “[...] day-to-day administration of the AHP [...]” with Homes England<sup>117</sup>, in Greater Manchester, “[...] the second stage would see the GMCA given the power to direct Homes England to bring forward sites for affordable housing and to work with specified providers. GMCA would approve Homes England’s funding allocations to specific schemes.”<sup>118</sup>

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108 James Wilmore, *Inside Housing*, *Homes England could get powers in London as government intervenes* (2024)

109 Christopher Katkowski KC, Cllr James Jamieson, Dr Paul Monaghan, & Dr Wei Yang. *London Plan Review: Report of Expert Advisors* (2024)

110 James Wilmore, *Inside Housing*, *Ibid.*

111 Rt. Hon. Michael Gove MP, *Letter to Rt Hon Sadiq Khan*, 12 February 2024

112 Christopher Katkowski KC, Cllr James Jamieson, Dr Paul Monaghan, & Dr Wei Yang. *Ibid.* p.9

113 *Ibid.* p.17

114 Grainne Cuffe, *Inside Housing*, *Khan accuses Gove of ‘desperate political stunt’ in row over London Plan review* (2024)

115 Mark Sandford, House of Commons Library, *Trailblazer Devolution Deals* (2023)

116 *Ibid.*, p.14 citing “DLUHC, *West Midlands Trailblazer Devolution Deal*, March 2023, p.35”

117 *Ibid.*

118 *Ibid.*, p.14. citing “DLUHC, *Greater Manchester Trailblazer Devolution Deal*, March 2023, p.29; WM TDD p.34”

As such, the country stands at a key point of transition over responsibilities for affordable housing policy in the coming years. At our expert roundtable, participants discussed the opportunities of devolution in relation to housing, and many shared a sense that further devolution towards more local-level housing decision-making in city regions is welcome. This would appear to be broadly in line with our polling results, showing a strong preference for local-level decision-making among the general public when it comes to housing policy.

Participants noted how different regions often have specific housing needs that require specific policy solutions. The opportunity to set devolved plans can also open opportunities for significant engagement among relevant local stakeholders. As one participant commented, forthcoming 'trailblazer' devolution deals can spur a "[...] huge amount of engagement with the sector, with industry bodies, with as many people [...] as possible [...]".

Where such devolution deals lead to the delegation of greater power and discretion over funding, such as from the Affordable Homes Programme, it was discussed that there is a need to identify what specific local changes and adaptations would be beneficial. One participant emphasised the need "[...] to try and understand what the good things are about the current programme [...]" and a need to avoid any temptation to "re-badge" policies "for the sake of it", but rather respond to genuine local needs in a conscientious manner. Participants also noted that the different initiatives undertaken to adapt and implement affordable housing strategies on a local level provide opportunities for learning and refinement of new strategies as they are implemented in different regions.

From a local government perspective, participants emphasised the desire for funding of affordable housing, but there was a recognition that there are challenges to doing this, and that 'more money' can only be part of the story. As one participant put it, "it's about the conditions that are attached to that funding as well; making sure we've got sufficient flexibility [...]".

Some participants noted that whilst many local authorities have a desire for more discretion at a local level over housing spending, this is constrained by parameters set by central Government which some find too restrictive. Further, it was noted that frustration can be caused when national government policy changes direction, making it a challenge to implement long-term plans for housing at local authority level. It was noted that there have been regular changes in ministerial leadership over housing policy, and that recent changes of direction (such as over funding for social rented accommodation and estate regeneration) – whilst welcome – point to the fact that changes in national policy direction constrain and can interfere with the taking of initiative over the long term by local government administrations.

In addition, it was noted that because housing development inherently requires long-term planning, especially for complex schemes such as estate regeneration, the level of certainty attached to funding is also crucial. Developers and housing associations will want to see high levels of certainty over funding in order to agree to development schemes that are to take place over multiple years. Where there is uncertainty of the precise terms of devolution in future, this necessarily delays the possibility of making funding commitments and, therefore, any housing delivery that could be supported using such funds.

Part of this tension arises from the fact that housing is an issue of major concern at both national and local levels, and therefore there is a balance to be struck between needing alignment over national needs and scope for local-level initiative and decision-making. It was recognised that central Government will understandably want accountability where grant funding is allocated to local authorities, and as such there is an appropriate balance to be struck.

Within this context, some participants discussed the challenges of implementing income-linked affordable housing. As can be seen from the analysis in previous chapters, the Mayors in the West Midlands, Greater Manchester, and London have all implemented policies to challenge the definition of 'affordable housing' used at a national level. Some have introduced income-linked housing options designed to challenge this, but still operate within the parameters of what is feasible given national funding constraints.

We heard how forthcoming devolution deals are spurring local authorities to ask questions such as, "Is there an opportunity to look at an income-based definition in the programme in the future? How do we do that? How do we agree it with Government? And all of the other partners that will be involved?".

Answering such questions is, by no means, straightforward but our polling shows that the public are overwhelmingly in favour of decisions concerning affordable housing to be taken at local levels. Further, a strong plurality of the public consider income-linked affordable housing rather than market-linked affordable housing to be a fairer policy strategy.

Considering this, the Government is right to press ahead with its devolution agenda in city regions in England. In doing this, it should ensure that ample opportunity is available to consult upon the possibility of introducing of income-linked, truly affordable Living Rent housing where this is best suited to the housing needs of devolved regions.

At the same time, appropriate balances must be struck to ensure alignment between national and regional housing policy goals, between affordable housing requirements and overall supply, and between the scope for local discretion and accountability to national bodies where central Government funds are used to support local affordable housing initiatives.



# List of Recommendations

**Recommendation:** The Government is right to have shifted the focus of grant funding for new affordable housing away from Affordable Rent and towards the provision of Social Rent housing. Government should continue this focus in future grant funding regimes, responsibly expanding grant funding for Social Rent accommodation when fiscal headroom allows.

**Recommendation:** Over the next Parliament, the Government should look to design and approve an Affordable Homes Programme to succeed the current 2021-2026 scheme. The Government should look to implement a new intermediate housing tenure, Living Rent, to replace Affordable Rent. Consulting widely with residents and housing associations, the Government should look to set income-linked ceilings to the rents within this tenure, and ensure that any sub-inflationary shortfalls are fully funded through a form of insurance or government grant.

**Recommendation:** Through the next Affordable Homes Programme, the Government should examine what can be learned from the London Living Rent initiative, and collaborate with financial institutions (including the insurance industry), housing associations, and councils to identify how grant funding can be allocated to unlock development of income-linked rent-to-shared ownership accommodation.

**Recommendation:** At the outset of the next Parliament, a renewed Public Land for Housing programme should be implemented which seeks substantially to outperform that of the 2015-2020 initiative of the same name. Further, the Department for Levelling-Up, Housing, and Communities should examine the possibility of implementing Living Rent (income-linked) accommodation on such sites where possible.

**Recommendation:** The Government, at relevant national and local levels, should permit charities to build granular income-linked 'move-on' Stepping Stone accommodation to enable those in supported housing to progress in work and lead an independent life.

**Recommendation:** The Government, at relevant national and local levels, should create a dedicated planning category for Stepping Stone accommodation which enables people to move on from supported housing and transition into employment and independent living. For this category alone, Government should permit dwellings to be constructed at a smaller size than the current minimum space standards, up to a minimum of 20 square meters.

**Recommendation:** The Government should examine the impact of abolishing fixed-term tenancies on Stepping Stone accommodation, and make amendments to the Renters Reform Bill to ensure carve-outs are made to enable fixed term lettings in this accommodation type.

# Conclusion

In conclusion, we must do more to strengthen housing affordability across the country. Housing is something that many people in the UK today take for granted. However, for too many, housing is unaffordable. As our recent report makes clear, in many ways we have become “Two Nations”. This must change.

Our investment in, and provision affordable housing is in need of renewal and strengthening. Across the country, local authorities, housing associations, and charities are demonstrating how our definition of ‘affordable housing’ is in need of clarification and substantial improvement through income-linked, Living Rent approaches. As this paper has argued, Governments must look to roll out the truly affordable housing that our nation needs.

In doing so, they must ensure that this is done in a fiscally responsible way, and one which robustly safeguards the revenue of the housing providers who build, let out, and maintain affordable homes for people across the country.

As we have also documented, income-linked housing can and should play a vital role in the provision of ‘stepping stones’ from supported housing into a fully independent life and full-time work. Government, at local and national levels, must ensure that planning permission and tenure rules are suitable to ensure these can be delivered.

Whilst our definition of affordable housing, and the homes that it creates, must be improved substantially, these issues are of course only a part of resolving the appalling, complex and multi-faceted housing situation our nation faces today. We must tackle the under-supply of housing, included our cumbersome planning system, improve professionalism in the private rented sector, and tackle rough sleeping with a more supportive approach. The CSJ will continue to campaign on these issues until nobody has to worry about having a warm, decent, affordable place to call home.

## Appendix 1:

# Summary of City Authority-Led Living Rent & Income-Linked Affordable Housing Policy & Initiatives

CITY JURISDICTION	POLICY NAME	OPERATIONAL STATUS	YEAR INTRODUCED	SCOPE	BASIS OF IMPLEMENTATION
<b>Greater London Authority</b>	London Living Rent	Live Policy	2017	Specific Affordable Housing Tenure	Income-linked rental accommodation designed to enable transition to Shared Ownership tenure
	London Affordable Rent	Live Policy	2017	Specific Affordable Housing Tenure	Sub-market rental accommodation let at larger discounts than national Affordable Rent homes. More expensive than Social Rent.
<b>West Midlands Combined Authority</b>	Re-definition of Affordable Housing	Live Policy	2020	All Affordable Housing Tenures	Based on rents being around 35% or less of the average gross earnings of the lowest quarter of wage earners in the local area
<b>Greater Manchester Combined Authority</b>	Manchester Living Rent	Live Policy	2022	Specific new Affordable Housing developments (other rented housing on a voluntary basis)	Rent is set at or below the Local Housing Allowance (LHA) level
<b>Bristol City Council</b>	Bristol Living Rent Commission	Policy Proposals	2023	All rented housing	Proposed control of Private Rented Sector rents



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