

Moving Up

Higher wages for social housing tenants

Nigel Keohane

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Enhancing Life Chances

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EXECUTIVE SUMMARY

The new Prime Minister Theresa May has pledged to create ‘an economy that works for everyone’. This research looks at the employment challenges among a group in society for whom the economy has too often not worked: namely social housing tenants. In particular it looks at the challenges of low pay and ‘in-work poverty’.

It comes in the context of the introduction of important measures affecting wages, housing policy, benefits and work incentives, as well broader concerns about immediate economic uncertainties following the decision to leave the European Union. In addressing these issues, this report speaks also to a wider agenda – the social role of housing associations and the steps that landlords can take through housing and beyond to help their tenants.

THE CHALLENGE OF LOW PAY AND IN-WORK POVERTY IN SOCIAL HOUSING

Social housing continues to provide a significant proportion of all homes in England. In 2014-15, there were 2.3 million properties let by housing associations and 1.6 million properties let by local authorities.

Despite housing some of the most vulnerable in society, social rented households are now much more likely to have someone in work than in past decades. The number of households with no-one in work has fallen by 300,000 in England or by nearly a fifth in proportional terms since 1996. However, there are 1.75 million people living in poverty in working households in the social sector. Average hourly wages among social housing tenants are very low (£7.78) – compared to £11.11 in the economy as a whole. The result is that half of workers in local authority housing and 45% in housing association homes earn below the low pay threshold (as measured by two thirds of the hourly median wage). This compares to nearer a fifth for the rest of the population. Not only do tenants typically earn low wages, but many also work shorter hours. This has become more pronounced in social housing over time: in 1999, the ratio of full-time workers to part-time workers in England was 4:1; by 2013 this ratio had reduced to 2:1.

A wide range of factors contribute to this situation, including low levels of skills, and the prevalence of both lone parenthood and long-term health conditions and disabilities. In one sense, this confirms the fact that housing associations and councils are performing their 'social' job of housing the most vulnerable in society. However, it also suggests that social-rented households often face different, more complex or deeper challenges than people in other tenures. This makes it all the more important that any interventions are tailored and informed by an understanding of their needs.

IMPROVING THE WAGE AND EMPLOYMENT PROSPECTS OF SOCIAL TENANTS

The National Living Wage (NLW) is helping address this problem of low pay. Our analysis indicates that more than a third of employees in the social rented sector can expect to see a wage increase by 2020 as a direct consequence of the Government's new policy to introduce a higher regulated wage for those aged over 25. On its own, the NLW would have significant positive effects for household incomes and for work incentives. However, the NLW in combination with changes to Universal Credit will not be so benign, producing a wide range of winners and losers.

Policies to improve the earnings prospects of social housing tenants

Therefore, more focused interventions will also be necessary. Because of their proximity to their tenants, social landlords may be particularly well-placed to assist them. Four in ten housing associations already provide employment and skills support to their tenants, including by setting up social enterprises, providing training opportunities and using their role as employers and contractors to make apprenticeship and employment opportunities available. But, more could be done and the report recommends the following steps:

1. **Building the wider role of housing associations in a time of revenue constraint.** Significant reductions to housing association revenues are set to put pressure on their ability to fulfil their broader roles as social market institutions, for instance in the sphere of employment support. With this in mind, the Government should look to innovative ways to help landlords continue to play a broad role in the lives of their tenants. This could include the Treasury making a deal whereby tenants could opt to have their rent paid direct to their landlord; in return for this greater certainty of income, housing associations would commit to allocate a portion of this revenue to a fund to help training and employment support or to boost work incentives for tenants.
2. **Employment support and help to those in low paid work.** The new Secretary of State for the Department for Work and Pensions should prioritise the needs and interests of workers who are stuck on low pay. The department should pilot a programme for tenants claiming Universal Credit who have been on a low wage for two years. The Government could enter a risk-sharing arrangement with housing associations to improve their earnings – social landlords therefore would have the potential funding available to create training and employment initiatives.
3. **Building more affordable homes.** With private development likely to fall back post-referendum and indicators of economic uncertainty growing, the Government should look to stimulate the building of more affordable homes potentially by re-opening the Affordable Housing Guarantee Scheme, which would enable cheaper finance for housing associations to get developments underway.
4. **Building new homes near jobs.** There are implicit dangers in the policies of Right to Buy for housing association tenants and the divestment of the most valuable local authority properties. New affordable housing that replaces this stock may have poorer access to good labour markets. Therefore, the Government should commit to ensuring that replacement homes are situated in places that have the same or better employment opportunities (for instance in terms of job vacancies or employment rates).

CHAPTER 1: INTRODUCTION AND CONTEXT

THE CHALLENGES OF LOW PAY AND IN-WORK POVERTY

The UK has a higher incidence of low pay than other advanced economies: one in five UK workers is low-paid, compared to an average of only one in six among OECD countries. This was the stated motivation behind the Government introducing the 'National Living Wage' from April 2016.

Low pay, combined in some cases with low hours, is one of the major causes of poverty. Research by the Joseph Rowntree Foundation published in November 2015 showed that more than half of all those in poverty live in a family where someone is in work, equating to 6.8 million people (characterised as below 60% median equivalised household income).¹

THE CONTEXT IN SOCIAL HOUSING

While low pay and in-work poverty are phenomena affecting people from all housing tenures, there are compelling reasons to worry particularly about social housing tenants. First, poverty is widespread in social housing in Great Britain: 43% of social tenants are in poverty (After Housing Costs, AHC), compared with 37% of private rented sector tenants and 11% of homeowners.² In 2013-14, social housing became the sector which accounted for the largest number of people below the poverty line in Great Britain, with 4.4 million individuals.³

A second reason to focus on social housing tenants is that housing affects poverty and vice versa.⁴ By offering below-market rents to tenants, social housing makes work pay more than it would in the private rented sector. This is important. While those on low incomes in the private rented sector also receive a subsidy via Housing Benefit, they have this subsidy withdrawn as their earnings grow. This means that as their earnings increase, they get to keep only a fraction of the additional income. In contrast, those who live in social housing do not see their housing subsidy withdrawn (assuming they are not in receipt of Housing Benefit and not subject to the 'pay to stay' charge for higher earners). While at the theoretical level social housing

should therefore provide strong work incentives, other factors may serve to counteract this advantage and lead to poorer labour market outcomes.

Third, major reforms are changing the benefit conditions and work incentives for social tenants. In 2015, the Government announced further reductions to the level of many working-age benefits, including reductions to the 'Work Allowance' element of Universal Credit; the capping of eligibility of benefits at £20,000 (£23,000 in London) for those out of work, a reduction from the previous £26,000 cap; and, the freezing of certain working age benefits for four years. These come alongside changes to the structure and delivery of benefits through Universal Credit. The latter policy aims to make work pay (by reducing the rate at which most claimants lose benefit support when entering work) and to make the system more responsive to people's earnings in real time. Where previously, housing benefit was paid direct to the landlord by the government, under Universal Credit rental payments will be made to the tenant who will then have to pay rent to their landlord themselves. Analysis and pilots of these changes suggest that this may put a significant proportion of rental income at risk and lead to higher levels of arrears.⁵ Therefore, while landlords have always had a social mission to assist their tenants, this is now bolstered by a clear economic rationale: to boost the economic resilience of their tenants to secure the on-going sustainability of their organisations. Such changes to social security are likely to have a profound effect on the relationship between social landlords and their tenants.

Finally, social housing policy more generally is being reformed. Social rents are being significantly reduced, equating to a 12% drop in average rents by the end of the decade compared with previous forecasts. New-build policy is switching to affordable homes-to-buy rather than new affordable homes-to-rent. Under the Housing and Planning Act 2016, housing association tenants will have a 'Right to Buy' their home.⁶ Partly as a consequence of such interventions, the ONS has reclassified social housing as part of the public sector. With housing association debts counting towards the national debt, there is likely to be tighter borrowing opportunities for landlords. Combined, these pressures are likely to mean that the broader roles of housing associations as important social market institutions may be squeezed.

THE FOCUS OF THIS RESEARCH

This research seeks to answer the following questions:

- How prevalent is low pay and in-work poverty among social housing tenants?
- What factors affect the pay levels of social tenants? And, to what extent are labour market opportunities determined by tenure?
- What more could government and housing associations as important social market institutions do to improve employment and earnings prospects among social tenants?

In addressing these questions, Chapter 2 describes the purpose of social housing, the phenomenon of in-work poverty for social housing tenants and earnings levels in social housing. Chapter 3 explores the factors that explain poor labour market outcomes for social tenants. Chapter 4 examines how government and social landlords could respond.

METHODOLOGY

To address these questions we have sought to triangulate existing evidence, new findings from national datasets and our own discussions with social housing tenants. Throughout the research we draw on our analysis of:

- Quarterly Labour Force Survey, with data taken from April to June 2015.
- English Housing Survey aggregate data.

Later in the report we also draw on two discussion sessions we held with social housing tenants in autumn 2014. These explored the opportunities and challenges they faced in securing employment and increasing their earnings from work. For more detail please see Annex 1.

Definitions

In this paper we use two definitions of economic status:

- ‘low pay’ – as judged by being below two thirds of the median earnings across the economy
- ‘in-work poverty’ – as judged by being in work but having an equivalised household income below 60% of the median.

CHAPTER 2: SOCIAL HOUSING, POVERTY AND LOW PAY

This chapter describes the purpose of social housing, employment levels in social housing and the phenomenon of in-work poverty for social housing tenants. It goes on to assess the wages of social housing tenants and the prevalence of 'low pay'.

1. SOCIAL HOUSING AND EMPLOYMENT PROSPECTS

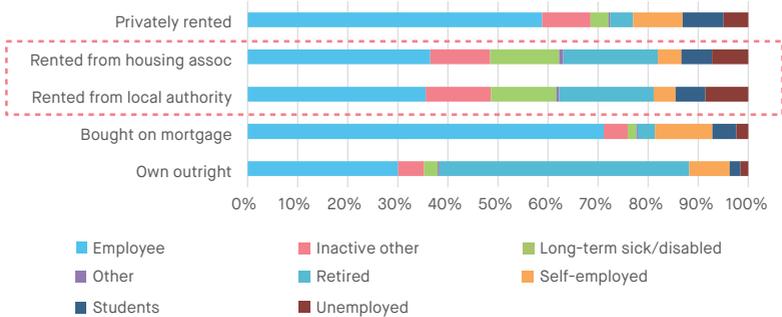
Social housing is owned and provided either by a local authority or by a housing association. Accommodation is provided to tenants at a subsidised rent. It comprises a spectrum of support from heavily-subsidised social rents, through to partly-subsidised 'intermediate' and 'affordable' rents through to full market rents. Tenants are allocated properties on the basis of need and enjoy certain rights once they move in.⁷ In 2014-15, there were 2.3 million properties let by housing associations and 1.6 million properties let by local authorities.⁸ The proportion of the population living in social housing has declined markedly since the 1970s when it provided homes for more than a third of all UK households.⁹ It now provides homes to around one in six.

John Hills' important report *Ends and Means*, published in 2007, found that the employment characteristics of social housing tenants had changed dramatically in the preceding 25 years. There had been a significant reduction in the proportion of tenants that were in work.¹⁰ Changing demographics was one contributing factor with the population in social housing older and dominated more by retirees than that of the private rented sector (PRS). In addition, social housing has, over time, been focused increasingly on providing accommodation to the poorest in society. In large part this is because the stock of social housing as a proportion of the total housing stock has declined; this, in turn, was a consequence of the selling off of council houses and in more recent times reduced capital expenditure on new social housing. Over time, social housing has 'sorted in' those who are furthest away from the labour market,¹¹ because these individuals are likely (by definition) to be earning sufficiently small sums from work to make

them eligible for the service. In a crude sense, this could be seen as a sign that the sector is doing its 'social' job by offering a safety net to the most vulnerable.

As Figure 1 illustrates, the broad picture sketched out by Hills in 2007 still holds. Data from 2015 show there is a far lower proportion of tenants categorised as 'employees' or 'self-employed' compared to other sectors. Noticeable is not only the large minority classified as 'unemployed', but also the significant proportions classified as 'long-term sick / disabled' and 'inactive other', this latter category including a number of circumstances, such as looking after family or home and being temporarily sick.

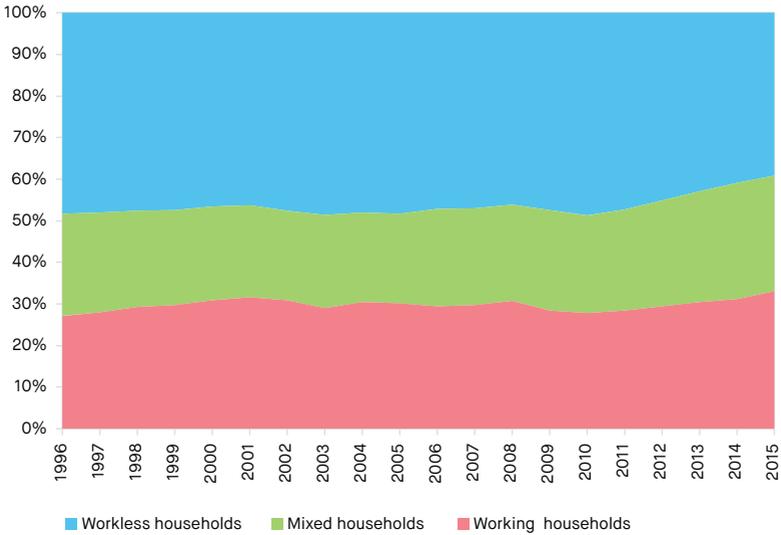
Figure 1: The economic activity of working age adults in social housing (England)



Source: SMF analysis of QLFS April to June 2015

Unemployment remains comparatively high when looking at all working age adults. However, at a household level, the evidence suggests that social sector households are now much more likely to have someone in work than in the past. The number of social rented households with someone in work has increased by 353,000 since 1996, whilst the number of households without anyone in work has reduced by 300,000. The change in distribution within the social housing sector can be seen in Figure 2. Growth of employment in the UK is likely to be a major factor behind this, although the Work Programme and welfare reforms may also be playing a part. This change runs counter to the prevailing media narrative of workless households in social housing.¹²

Figure 2: Proportions of social housing households by work status (UK), percentages



Source: ONS, *Households and the adults and children living in them, by household economic activity status (October 2015): Table D 'Households by housing tenure and combined economic activity status of household members'*. 'Workless households' are households with someone of working age (16-64) where no one is in work; 'Working households' are households where all adults of working age (16-64) are in work; 'Mixed households' are households that contain at least one person aged 16 to 64, where at least one person aged 16 and over is in employment and at least one other is either unemployed or inactive.

Summary

While unemployment amongst social housing tenants is higher than in other tenures, there has been an increase in the proportion and number of working households.

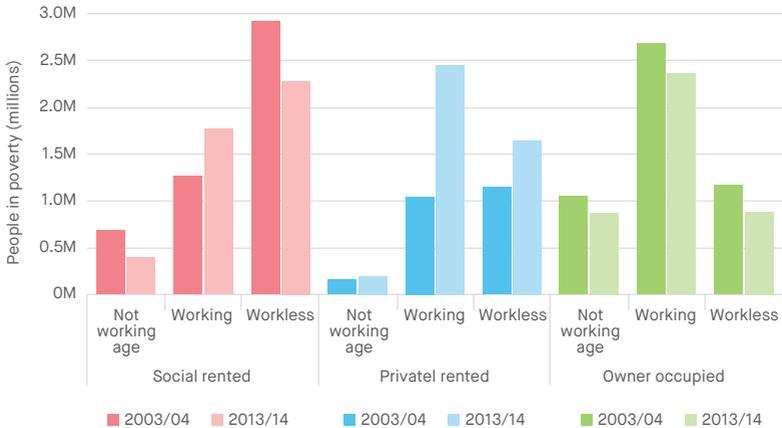
2. WORKING HOUSEHOLDS, IN-WORK POVERTY AND LOW PAY IN SOCIAL HOUSING

2.1 Low pay amongst social housing tenants

In-work poverty

The growth in working households is unquestionably good. Work can bring a range of benefits to a person's economic, social and health well-being. However, a large proportion of social-rented households are in work and still below the poverty line. Figure 3 shows that the number of people experiencing in-work poverty in social housing grew by half a million in the decade from 2003, whilst the number of people in poverty in workless households fell substantially.

Figure 3: Number of people in poverty in Great Britain by tenure and work status of household



Source: Tom MacInnes, Adam Tinson, Ceri Hughes, Theo Barry Born and Hannah Aldridge, *Monitoring poverty and social exclusion (JRF, 2015)*

2.2 Low pay amongst social housing tenants

Social tenants on average are paid less per hour than those in other tenures: median gross hourly wages (£7.78) are much lower than in the economy as a whole (£11.11).

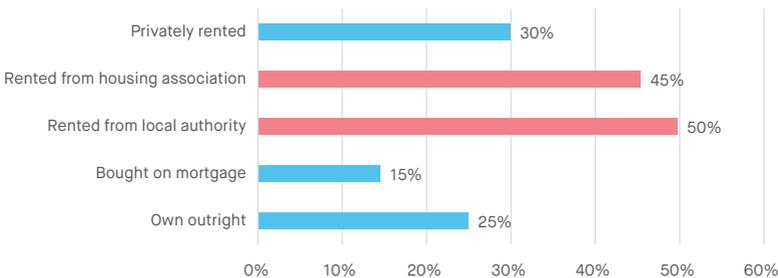
Figure 4: Median gross hourly wages of employees by tenure – all ages (England)



Source: SMF analysis of QLFS April to June 2015

A large proportion earn below the internationally-accepted low pay threshold (as measured by two thirds of the hourly median wage): half of those in local authority housing and 45% in housing association homes. This compares to nearer a fifth for the rest of the population (Figure 5).

Figure 5: Proportion on low pay (two thirds of median hourly pay or less) by tenure (England) – age 25+



Source: SMF analysis of QLFS April to June 2015

The evidence also suggests that being in a local authority dwelling increases the chances of being 'stuck' in low pay. Work by the Resolution Foundation – that tracked people's wages over a ten year period – showed that being in local authority housing was associated with a higher likelihood of being stuck in low pay, even when controlling for all other factors.¹³

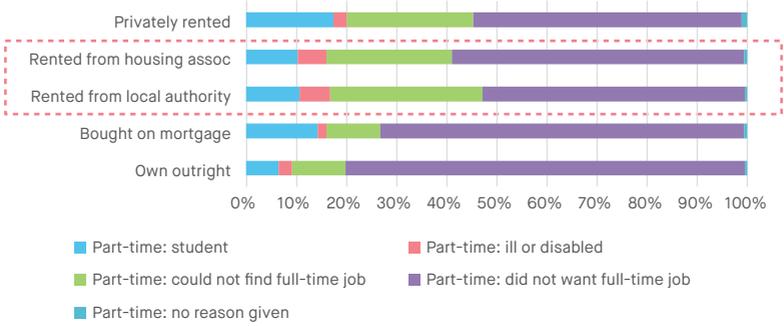
Low wages are also significantly correlated with in-work poverty. Analysis of the HBAI dataset shows for instance that in couple households with one person in full-time work, the median hourly pay is £7.44; in single person households where the person is working full-time, the median wage is £6.35 (2011-12 prices).¹⁴

2.3 Low hours

Not only do social housing tenants earn less per hour but they also work fewer hours relative to adults in other tenures. Of those in work, social housing tenants are less likely to work full-time: around 64%, compared to 78% of private renters. This trend towards part-time work has become more pronounced in social housing over time. Since 1999, the proportion of working people in full-time jobs has fallen sharply; and, the proportion of those in part-time work has risen markedly. The data for England shows that, in 1999, the ratio of full-time workers to part-time workers was 4:1; by 2013 this ratio had reduced to 2:1.¹⁵

The reasons why tenants work part-time is also noteworthy. A majority across all tenures who are working part-time are doing so because they do not want a full-time job. However, a large proportion of part-time workers in social housing (a quarter in housing association properties and 30% in council properties) report working part-time because they cannot find full-time work (green bars in Figure 6). This is borne out by qualitative research that illustrates under-employment as a significant phenomenon in social housing.¹⁶ It is also more common in social housing for people to work part-time because of sickness or disability than in other tenures.

Figure 6: Reasons for working part-time: as proportion of those in part-time work by tenure (England)



Source: SMF analysis of QLFS April to June 2015

Summary

The average wage for social housing tenants is significantly lower than that for people in other tenures. Almost half of employees are paid below the low pay threshold. More also needs to be done to enable tenants to increase the hours they work.

CHAPTER 3: WHY SOCIAL HOUSING TENANTS EARN LESS

Chapter 2 demonstrated that social housing tenants are not only less likely to be in work but also have, on average, much lower hourly wages and work fewer hours. From here, our analysis explores the factors that affect employment outcomes in social housing. It starts by identifying barriers to better employment outcomes that are prevalent within social housing but not particular to it. It goes on to examine barriers to better employment outcomes specific to social housing.

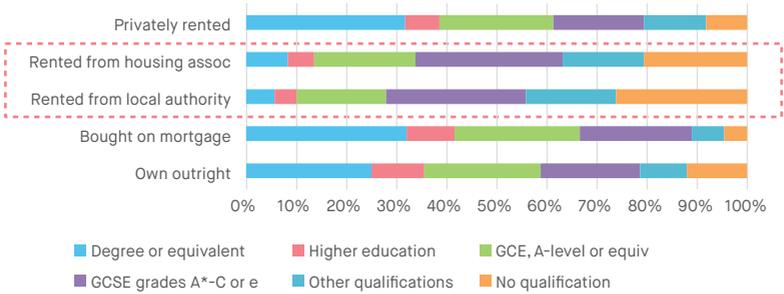
1. FACTORS ASSOCIATED WITH LABOUR MARKET DISADVANTAGE

Many of the factors that typically contribute to worse job outcomes are more common among social housing tenants, such as low skills levels, coming from an ethnic minority group, being a lone parent, and having long-term health problems or a disability.

1.1 Low skills levels

There is strong evidence showing that those with higher skills tend to get better-paid jobs. As Figure 7 shows, social housing tenants are much less likely to have degrees and much more likely to have no qualifications than individuals in other tenures. Indeed, some 45% of local authority tenants have no recognised qualification.

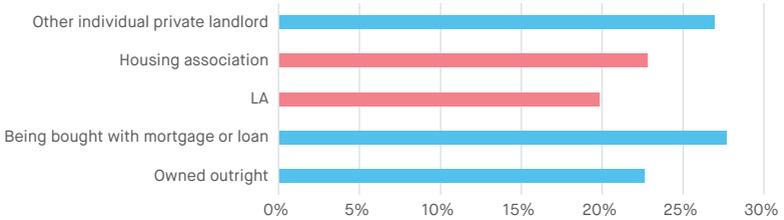
Figure 7: Highest qualification level of individuals by tenure



Source: SMF analysis of QLFS April to June 2015

Despite having lower skills than those in other tenures, social housing tenants are also less likely to receive training at work than the general population.

Figure 8: Proportion receiving job-related training in last 3 months (of those in work)



Source: SMF analysis of QLFS April to June 2015

1.2 Ethnicity

Other factors typically associated with poorer employment outcomes are also visible among social housing tenants.¹⁷ They are more likely to come from an ethnic minority, especially when compared to owner-occupiers. Research has repeatedly shown a disadvantage in relation to unemployment for those from ethnic minority compared with the White British majority group. Recent work has also found that mid-skilled occupations are often under-represented among ethnic minority groups.¹⁸

1.3 Household composition

Social housing tenants are also far more likely to be lone parents with dependent children. The English Housing Survey finds that the proportion of lone parent households was 17% in the social rented sector, 12% in the private rented sector and 3% among owner occupiers.¹⁹

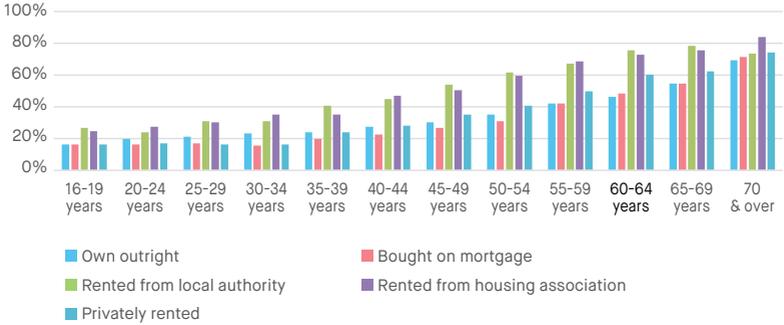
Single parents often find themselves at a disadvantage in the labour market, in large part due to caring responsibilities. While the employment rate of single parents has grown over time, they still perform poorly on a range of employment indicators, including being more likely to be in low skilled work, lower paid and less secure work.²⁰

1.4 Sickness, ill health and disabilities

Disability and ill-health are likely to have significant effects as well. Long-term ill-health may damage wage prospects and employment outcomes through at least three routes. First, such incidents may interrupt a person's career thus reducing progression opportunities; they may also inflict scarring effects. Second, long-term ill-health in a family member may put a care burden on other household members thus leading to the latter trading off higher wages for more convenient hours. Third, caring responsibilities may drive part-time working, which may lead to lower wage levels.

Data show that prevalence of health conditions varies markedly across tenures. In the PRS and among mortgage-holders, around one in four (26%) have a long term health condition, but the proportion is twice as high in social housing and among owner occupiers. Once you look within specific age groups, social housing tenants have higher rates of long-term health conditions across the board compared to other tenures. The high proportion of individuals with long-term ill health amongst owner occupiers is, therefore, explained by having an older age profile. Figure 9 shows that almost half of social tenants aged 40 to 50 have a long-term health condition.²¹

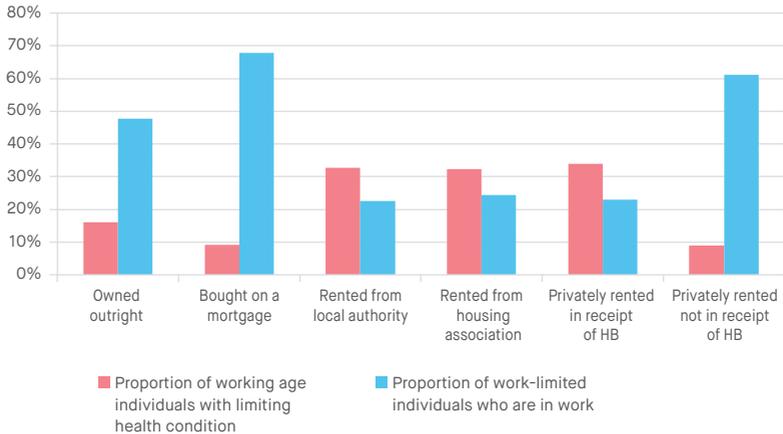
Figure 9: Proportion of adults with a long term health condition lasting 12 months or more



Source: SMF analysis of QLFS April to June 2015

The data set out above records prevalence of long-term ill-health at an individual level. On the more specific measure of a ‘work-limiting’ health condition, social tenants also display significant disadvantage. Social tenants, in common with those private rented sector tenants that receive housing benefit, are much more likely to report having a ‘work limiting’ health condition. One in three working adults in social housing report having a work-limiting health condition, compared to one in six of mortgage-holders and one in eleven of those who own their home outright. In addition, among private renters in receipt of housing benefit and social housing tenants that have a work-limiting health condition only a quarter are in work – a far lower proportion than those in other tenures. The Government’s policy ambition to halve the disability employment gap therefore could have real significance for social tenants.

Figure 10: Proportion of working age adults with a work limiting health condition and proportion of this group in work



Source: SMF analysis of QLFS

Summary

The composition of social housing means that tenants are more likely to display characteristics associated with poorer employment outcomes, including low levels of skills, caring responsibilities including lone parenthood and have a higher likelihood of having a long-term health condition or a disability. Chapter 4 describes what policymakers and social landlords could do to help overcome these barriers.

2. FACTORS THAT MAY AFFECT SOCIAL HOUSING TENANTS PARTICULARLY

2.1. Is there a social housing wage penalty?

Many of the factors associated with poorer job outcomes are, therefore, more common among social housing tenants than among the general population. Together, these factors are likely to go a significant way to explaining the low wages of those in social housing.

Below, however, we explore the extent to which these features explain the low rates of pay in social housing. At a theoretical level, social housing should enable individuals to live closer to good labour markets than they would otherwise be able to afford by subsidising their housing costs. Incentives to earn higher wages should also be more pronounced among social tenants since they are less likely to be in receipt of housing benefit than tenants in the private rented sector and therefore not subject to its withdrawal rate.²² Therefore, we might expect, all other things being equal, that a similar individual in social housing should be paid better than an individual in the private rented sector.

In his analysis, Professor John Hills argued that ‘for any given number of overlapping disadvantages, those in social housing have lower employment rates’.²³ Using regression analysis, we focus on the wage gap between those in social housing and those in other tenures, by controlling for a range of factors that existing evidence suggests are associated with worse employment outcomes. Our analysis controls for the following factors: qualification, age, gender, region, ethnicity, long-term ill-health, having dependent children under 5, marital status, partner’s employment status, years in the labour market and union status.

Table 1 summarises the results, with all figures in white boxes being statistically significant (5% level). The table shows that an individual with the same observable characteristics is likely to have lower wages if they live in social housing: 15% less per hour than a similar person in a property that is owned outright and 9% less than someone in the private rented sector. Other points are also notable. First, the annual pay penalty is more significant than the hourly pay detriment, suggesting that social tenants are also more likely to be on lower hours. Second, the hourly pay penalty is less strong for part-time work – this may be explained by the fact that there is generally less variation in pay for those in part-time work.

At the very least, the high prevalence of factors associated with labour market disadvantage and the frequent coincidence of these suggests that those in social housing are likely to require specific tailored support to help them prosper in work. As will be discussed in Chapter 4, this type of tailored support is often not available in our current employment support programmes.

Table 1: Outcomes of regression analysis: pay by tenure compared to employees in owned outright

Tenure – wage gap compared to owning outright	Hourly pay	Annual pay	Hourly pay – full time only	Hourly pay – part time only
Bought on mortgage	9%	19%	8%	1%
Rented from local authority	-15%	-16%	-17%	-15%
Rented from housing association	-15%	-16%	-17%	-15%
Privately rented	-6%	1%	-6%	-14%

Source: SMF analysis of the LFS. Jul-Oct 2014 to Apr Jun 2015 merged.

Summary

Our analysis indicates that other factors apart from observable characteristics such as skills levels, caring responsibilities and long-term ill health may also contribute to lower wages among social housing tenants. This may be because of the way that these factors interact, other unobservable characteristics or features of social housing as a tenure.

2.2 Mobility constraints in social housing

A frequently-cited potential disadvantage associated with social housing is restricted opportunity for mobility. Given that social housing is a rationed good and allocated on the basis of need, a tenant who increases his or her income and then moves to a different area may be judged a lower priority for social housing than those with more severe needs. The perception that they may be giving up the advantages of a secure tenure and subsidised rent may thus discourage tenants from moving area for a higher wage.

Although the evidence is mixed, UK and US research suggests that living in social housing (as well as in some cases being an owner-occupier) is associated with poorer employment outcomes, including lower wages and moving to re-enter work, when compared with private renters all other things being equal.²⁴ This is intuitive given that social housing tenants

and owner occupiers face significant risks and costs when moving home. Certainly, those in social housing are less geographically mobile than those in other tenures. Only one in ten households has been in their property less than twelve months. Of those who do move home, those who start off in social housing are far less likely than those who start off in other tenures to cite 'job related reasons' as a factor in their decision to move (4% compared to 16% in the PRS and 9% among owner occupiers).²⁵

However, it remains unclear whether immobility is driven by a lack of alternative accommodation or a lack of desire to move. Qualitative studies and surveys suggest a lack of demand arising in part because tenants tend to work in low paid and insecure jobs, which means that the incentive to move for work-related reasons is likely to remain weak.²⁶ Factors motivating tenants to move are more typically associated with suitability of current property (e.g. size), proximity of family and changes in family make-up (e.g. separation). Our discussion groups supported this thesis. Participants reported their readiness to move. When obstacles to moving were noted these were not particular to social housing but reflected the general difficulties and costs associated with moving and the negative effects that could arise from losing support networks, such as on childcare arrangements.²⁷

What Circle Housing tenants say: Attitudes to moving home

'If I was offered a job I would move anywhere. Knowing that this move would be a step ahead in my life.'

Female participant, working as a volunteer, mother of two children

'When you do move around the help and support isn't always there.'

Female participant, single parent with two children, in training

'[You need to] sit back and think of the process of moving. How much will it cost? How much help will I get?... I won't be able to cope during the transition period [whilst accommodation gets sorted out in new area]'

Woman, single parent with 2 children, unpaid volunteer and job-seeker

Overall, the evidence suggests that the nature of social housing is a minor constraint on labour mobility, though policies to assist those who would like to move may still be beneficial.

2.3 An aspiration gap?

Some have also argued that there is a 'neighbourhood effect', with social housing bringing together low-skilled and unemployed individuals and households thus fuelling a culture of worklessness and low aspiration.²⁸ A recent review of the literature found a growing body of evidence attesting to some 'neighbourhood effects' which may explain 'a small part of variations in income and employment between areas'.²⁹ Typically, this argument is made to explain low levels of employment. However, our wage analysis set out above implies that any effect that culture has on social housing tenants may go beyond the 'unemployment effect' also to a 'low wage effect'.³⁰

It is more likely, therefore, that these neighbourhood effects stem as much from weaker networks open to these tenants as from a culture of 'worklessness' per se. This is reinforced by qualitative research. Participants in our discussion groups did not reflect a lack of aspiration. In fact, they displayed strong motivation to work, even when it made little or no difference to their incomes because of the loss of benefits. Although many viewed work as stressful and exhausting, people also viewed it very positively – as a means of fulfilment, as a route to social connections and as being the right thing to do.

What Circle Housing tenants say: Attitudes to work

'I would love to get a job for myself. Getting the satisfaction ... show my kids, this is how you do things'.

'A lot of it [work] is the satisfying pleasure of being more sufficient and just saying, I'm not choosing to live on the poverty line but I've not got it sweet but I'm surviving.'

'You prioritise your work over your family even though you don't want to. I just think you are given no choice.'

'I work every day, 40 hours a week, sometimes more, to earn the same as someone who doesn't want to work.'

2.4 Location of social housing

It is a simplification to suggest that those who live in social housing suffer from poor labour market opportunities. Indeed, at a regional level, there are significant numbers of social homes across the UK including London and the South East, which contain the strongest employment opportunities in the country. However, the geographic distribution of social housing has traditionally been closely correlated with high levels of deprivation (as measured by the standard IMD).³¹ It is likely therefore that those in social housing may have poorer access to employment opportunities than those in other tenures. This may partly explain why those from social housing are more likely than those from other tenures to report working part-time because they could not find full-time work (see Figure 6 above). This may also be associated with poorer access to services, transport connections and infrastructure.

Summary

A wide range of factors contribute to low earnings amongst social housing tenants. Average skills levels are very low and remain a significant barrier to higher wages amongst many social tenants. Caring responsibilities, ill health and disability reduce the number of hours that tenants can work.

Beyond these, policymakers and social landlords should consider how constraints particular to social housing can be overcome. These include access to good job opportunities whether this is through transport connections, the location of new social housing or through making it easier for tenants to move.

Finally, social rented households often face a broader range of challenges than people in other tenures, making it all the more important that any interventions are tailored and informed by a deep understanding of their needs and capabilities.

CHAPTER 4: BOOSTING EMPLOYMENT AND PAY PROSPECTS

The previous chapter set out a series of factors that contribute to explaining the low wages experienced by those in social housing. This chapter seeks to understand how best to respond. Housing associations are in many respects uniquely well-placed to provide support to their tenants: they have a deep understanding of their residents' needs; they are often trusted by their tenants; as part of the 'social' market they have complementary social and commercial reasons for supporting their tenants; as large employers and with significant supply chains they can provide employment opportunities; and, they may have economies of scale or scale in working with tenants given the geography of social housing not open to other providers.

1. WORK INCENTIVES, WELFARE REFORM AND WAGE REGULATION

1.1 Better off in work?

Our discussion groups revealed strong sentiments that incomes when in work were little or no higher than when on out-of-work benefits.

What Circle Housing tenants say: Work incentives

'I'd be better off on benefits. But it is not just that. Because when you are working your costs are much higher. When you're working you've got to pay for your travel to work and food at work.'

'I work every day, 40 hours a week, sometimes more, to earn the same as someone who doesn't want to work.'

'People find it easier if they just work 16 hours and get their housing benefit paid and their council tax benefit paid', tax credits, child benefit – they think that is the best option rather than working full-time because when you are working full time you don't get any help from the government.'

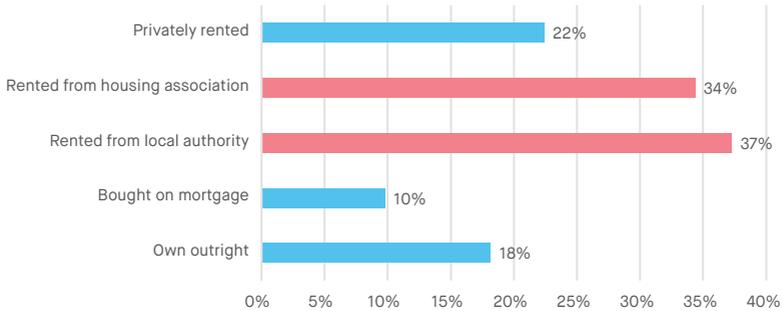
'If I'm on £7 an hour it is the same as if I was on benefits. It doesn't seem fair at all.'

Many of these failures – such as insufficient financial incentives to work and risks associated with moving off benefits and into insecure work – are now widely-accepted amongst policymakers. Evidence is mixed as to whether existing welfare policies – such as the benefits cap – may be sharpening work incentives.³² As it is rolled out during this parliament, Universal Credit is likely to reduce the risks that individuals face when they move into and out of insecure and low paid work, which has previously been a significant source of problem debt and of anxiety.³³ Whilst having varied effects across different family types, Universal Credit will have a positive impact on work incentives overall.³⁴

1.2. The impact of the ‘National Living Wage’ on social housing tenants

The National Living Wage (NLW) came into force in April 2016 and applies to all employees aged over 25 and is set initially at £7.20 rising to 60% of median earnings by 2020 (around £9).³⁵ The NLW is set to have a significant effect on social housing tenants. Figure 11 sets out the proportion of workers whose wages are below the stated 2020 ambition of a regulated wage floor of 60% of median hourly pay. These individuals will be directly affected. Our analysis suggests that more than a third of employees aged over 25 in the social rented sector will see a wage increase by 2020 as a direct consequence of the Government’s new policy. An additional (and potentially large) number of tenants who are paid at or around the NLW rate may also feel the indirect spill-over effects of the higher regulated wage and receive a pay rise.³⁶

Figure 11: Proportion of employees (age 25+) paid at or below 60% of the median hourly pay who will be directly affected by the National Living Wage



Source: SMF analysis of QLFS April to June 2015

At the same time as introducing this higher wage, the Government is reducing working age benefits available through Universal Credit (despite the Chancellor cancelling the proposed changes to tax credits in the Autumn Statement). The work allowance (or the amount of earnings that a household can earn before they start to have benefits withdrawn) is being significantly reduced. Table 2 below shows that in nominal terms some social tenants will gain from the combination of the NLW whilst others will lose out.

Higher up the earnings spectrum, the ‘Pay to Stay’ policy will mean that households with taxable incomes above £31,000 (or £40,000 in London) may have to pay market rather than social rents. The Housing and Planning Act 2016 has made the scheme mandatory among local authorities and voluntary for housing associations. The Government has confirmed that the charge will be tapered in at 15p for each additional £1 of income above the threshold and that households in receipt of Housing Benefit and Universal Credit will be exempt.³⁷

Summary

More than a third of employees in the social rented sector will see a wage increase by 2020 as a direct consequence of the Government's new policy to create a National Living Wage for those aged over 25.

Factoring in changes to Universal Credit alongside increases in regulated wages, work incentives will be improved for some groups but worsened for others.

2. REFORMS TO SOCIAL HOUSING AND HOW TO BUILD THE WIDER ROLE OF HOUSING ASSOCIATIONS

In the July 2015 Budget, the Government announced that social rents will be cut by 1% per annum for four successive years equating to a 12% reduction in average rents by the end of the decade compared with previous forecasts. This reform will reduce rental costs for tenants to the value of £0.7 billion. In addition, all other things equal, there should be fewer tenants exposed to Housing Benefit and its harsh withdrawal rates. However, the other effect will be to directly reduce social landlords' rental income. The IFS estimates their income will fall by £1.7bn.³⁸ As a consequence, the Office for Budget Responsibility notes that the policy will reduce social landlords' financing for, and returns to, investment in new house building.³⁹ The National Housing Federation estimates that this will lead to at least 27,000 fewer affordable homes by 2020.⁴⁰ The Autumn Statement also announced that local caps that limit housing benefit in the private sector will be extended to (new) social tenancies. This will cut housing benefit by £223m by 2020-21.

The cumulative effect of these reforms will be to reduce the incomes of housing associations and to put pressure on their ability to fulfil their broader roles as social market institutions, beyond their role as accommodation providers. In this context, there may be opportunities for the Government and social landlords to strike a deal on housing benefit payments. Trials suggest that the move to benefit payments to tenants will result in significant increases to arrears.⁴¹ Previous estimates by the NHF have put

the costs of moving to paying housing benefits to tenants rather than to the landlord at £320m.

One option would be for the Government to allow social tenants to opt to have their rental payments made direct to their landlord. In return for this greater certainty of income, housing associations could agree to allocate a portion of this revenue to a fund to help increase work incentives or to fund employability schemes (see below).

Recommendation: The reductions to revenues from rent for housing associations mean that the Government should look to innovative ways to help landlords continue to play a broad role in the lives of their tenants, such as making a deal whereby tenants can opt to have their rent paid direct to their landlord in return for housing associations committing a portion of the safeguarded revenue on employment-enhancing schemes for tenants.

3. INCREASING SKILLS AND EMPLOYABILITY

Given the lack of qualifications amongst many in social housing, more must be done through training and employability initiatives. Survey evidence suggests that the majority of housing associations already provide help, advice, apprenticeship schemes, services or work opportunities to residents.⁴² A 2014 survey by Ipsos MORI found that 39% of housing associations currently offer employment skills support and a further 28% plan to do so in the future. The spread of activities is significant: working with Jobcentre Plus, with DWP contractors, with colleges and training providers, with civil society organisations, with councils and with employers. Of these interventions, housing associations considered apprenticeships, provision of training and skills and work experience placements to be the most effective interventions.⁴³ Interviews indicate that many workless tenants have received employment support from their landlord and that the help was viewed overwhelmingly positively.⁴⁴

Case Study: Circle Housing and apprenticeships

Apprenticeships are an important method of enabling someone to enter work and build their skills in the workplace. By writing requirements to take on apprenticeships into its contracts with its suppliers, Circle Housing has managed to increase the opportunities for development. Every contractor providing repairs and maintenance services to Circle now provide an apprenticeship opportunity for every £500,000 of expenditure. This is expected to create 233 new apprenticeships over the decade.⁴⁵ Contractors are also expected to offer 77 graduate placements or internships, 309 work experience placements, and 166 volunteering opportunities.

3.1 Designing the Work and Health Programme

The Work Programme – a payments-by-results employment support scheme to get the long-term unemployed into work – will be replaced by the Work and Health Programme.⁴⁶ The aim of the programme will be to ‘provide specialist support for the long-term unemployed and claimants with health conditions and disabilities’. The opportunity should be taken to learn lessons from the experiences of the Work Programme.

Social housing tenants were predicted to comprise more than a quarter of all referrals to the Work Programme.⁴⁷ Despite this, engagement from social landlords has been lower than originally anticipated. In part, this stemmed from the structure of the programme and the desire to contract the scheme in large geographic areas with significant levels of outcome risk passed down to each prime contractor. This led to large private sector organisations taking on the prime contractors’ role. Even within the supply chain, research from CESI has suggested that only a small proportion of landlords are operating in the supply chain. Concern amongst RSLs has centred on the lack of certainty over referral volumes.⁴⁸ Another factor holding back engagement of social landlords is the geography of delivery. Currently, Contract Package Areas cover large geographies and include competition between two providers. This has advantages for applying competitive pressure in between contracting rounds and providing clarity

on provider performance within the same broad economic conditions. The downside is that clients are randomly allocated to different providers and thus economies of scope may be lost. Specific collaborative models may be more appropriate in areas of high concentration of social housing, worklessness and low paid work.

Recommendation: housing associations and local authorities should be encouraged to bid for contracts in the Work and Health Programme and act either as prime contractors or as subcontractors in a true mixed market approach.

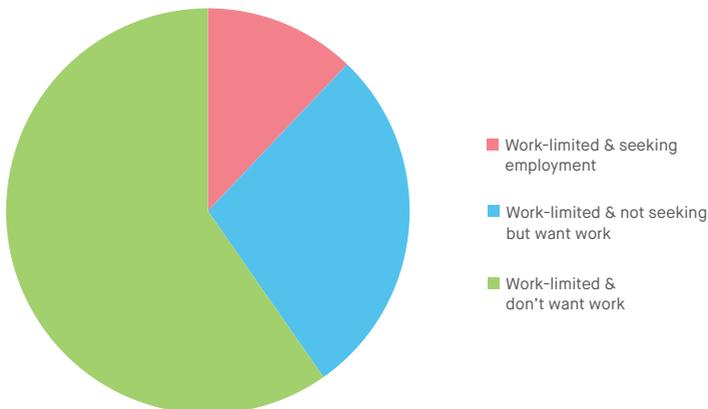
A flaw of the Work Programme has been that those furthest away from the labour market receive insufficient support.⁴⁹ Many ESA claimants face multiple barriers in their journey to sustained employment – these may include health conditions, caring responsibilities, out-of-date skills sets and other factors. As a study by CESI showed, the characteristics of social housing tenants seeking work is very varied and specific groups need very tailored programmes and support.⁵⁰ Groups that are most in need of help include those with health problems, long-term workless mothers with health conditions, those with low qualifications who have been out of work a long time and older people with poor mental health. Many in social housing will require integrated support that includes not only their employability but also caring responsibilities and health challenges.

Recommendation: To ensure that employment support interventions and associated funding streams are targeted appropriately at those with the greatest needs, a segmentation tool should be introduced to identify the relative difficulty a given individual might have in finding work because of the barriers they face.

The Government has a major policy ambition to increase employment amongst those with a disability or health condition. It is committed to halving the disability employment gap – the difference between the employment rate among those who have a disability and the employment among the rest of the population. The new Secretary of State has described the current gap as ‘simply unacceptable’.⁵¹

The policy could have a particularly dramatic effect among social housing tenants: one in three working age social tenants has a work limiting health condition or disability; of this group, fewer than one in four are working. As Figure 12 below shows, a majority among this group are not seeking work and do not currently want work. These proportions are similar across all tenures and there are likely to be good reasons for this overall breakdown of engagement with the labour market. Some disabled people will be temporarily or permanently unable to work, others will have caring responsibilities that preclude work and others may not need to work for financial reasons. However, the prevalence of work-limiting health conditions and the detachment from the labour market reveal the scale of the challenge among social housing tenants.

Figure 12: Proportion of work-limited, non-employed individuals who are seeking / wanting / not wanting work – housing association tenants



Source: SMF analysis of QLFS.

Recent SMF research on disability employment has argued for: the Government to set a practical, realistic target for 2020; a commitment to consult and test out what practices could help people into work; an initial focus on supporting those who want to get into work; and, a financial incentive for people to participate with employment support.⁵²

3.2 In-work support

The opportunity

Under Universal Credit, the Government will introduce 'In-work conditionality'. With some exceptions for single parents and second earners with young dependent children, everyone in work will be required to earn the equivalent of 35 hours at the National Minimum Wage otherwise their benefits will be subject to conditionality. The policy aims to encourage such individuals to increase their hours, boost their earnings or take on an additional job. As the DWP has argued, 'by design, the system will for the first time provide support and encouragement to help people increase their earnings once in work.'⁵³ Policy development here is at an early stage. The DWP is carrying out a randomised control trial to test the effect of providing claimants with a Work Coach throughout their claim.⁵⁴

'In-work conditionality' should be viewed as both an opportunity and a risk. An opportunity because the scheme could put support in place to help households that are in-work but still struggling, thus lifting their earnings. The potential gains to the Treasury of increasing earnings are also sizeable. Modelling shows that if each in-work tax credit claimant earned just £30 a week extra, the Exchequer would save over £4bn a year. This would be equivalent to each claimant working less than an hour extra a day at the national minimum wage.⁵⁵ The policy also brings risks because many of those affected have complex responsibilities and needs that are unlikely to be conducive to standardised or mechanical rules. Precarious work, caring responsibilities and health conditions may all affect the ability of people to take on more hours or earn more at work, let alone switch jobs. These factors suggest that any IWC scheme must be tailored to the specific needs and opportunities of different claimants, something the DWP has acknowledged.⁵⁶

A skills offer

As Chapter 3 illustrated, low skills levels are a significant barrier to higher pay levels in social housing and a significant driver of in-work poverty. Participants in our discussion groups reinforced this message. However, while training was viewed very positively, there was low awareness of training opportunities and a belief that the support available to unemployed individuals should also be available to those on low wages. For instance, individuals typically have to pay for Level 2 qualifications (there are exceptions including English and Maths) unless they are on out-of-work benefits or required to undertake training as part of their Universal Credit claim.⁵⁷

This distinction is unhelpful given the circumstances of those on low pay and the support they may need. It is also unjustifiable on a point of principle. Typically, if the state has imposed conditions on an individual to take up work, then the individual has been eligible for support. For instance, the unemployed claimants of Job Seekers Allowance are currently eligible for free Level 2 training, the employed are not (although there are some exceptions for English and Maths).

As conditionality is extended, the Government has an opportunity to simplify the rules and extend funding for training to all claimants covered by conditionality – both those who are out-of-work and in-work. More should also be done to signpost claimants to training opportunities through Universal Credit and Job Centres.

Recommendation: The Government should make training and skills available to working social tenants affected by ‘In work conditionality’ on the same basis as the unemployed.

Piloting new programmes

The role of housing associations could also be expanded to make the most of their connections to their tenants. This could function as a risk-sharing model on a payment-by-results basis between the Treasury and a housing association. In return for supporting low-paid tenants into better paid worker or longer hours, the housing association would be rewarded by the Treasury (from increased tax take and reduced benefit bills). The housing

association could put in place a range of support measures to help workers, including training, apprenticeships, advice or job matching. This would be a natural fit for many social landlords given their broader social mission as well as their commercial interest in boosting the financial resilience of their tenants is likely to result in less certainty over rental income.

Recommendation: The DWP should pilot a programme for claimants who have been on a low wage for two years and enter a risk-sharing arrangement with housing associations to improve their earnings.

Providing childcare

There are a large number of households with caring responsibilities relating to childcare among social housing tenants. Social tenants report the costs and availability of childcare as a significant constraint on their ability to work or work more hours. The Government is doubling free childcare for all working parents of 3 and 4 year olds from 15 to 30 hours a week, with provision introduced from September 2016. This policy has significant potential to boost the affordability of childcare and help parents of young children re-enter work or increase their hours. However, the challenge of childcare for older, school-age children and during school holidays was cited as a limiting factor on the jobs that tenants could take on.

What Circle Housing tenants say: Caring responsibilities

'Who gives you a job from ten to three? Not a lot of people.'

'I think that's what cripples a lot parents – being an electrician or whatever – you've got six weeks of holiday and you have to pay childminders which is extortionate.'

More could be done by housing associations in their own capacity and in combination with other local agencies such as Jobcentre Plus and local authorities to consider how under-utilised physical space could be used to promote affordable childcare.

4. BUILDING HOMES AND IMPROVING LINKS TO JOBS

As argued in Chapter 4, there are a range of constraints to mobility, although these do not appear to centre predominantly on the nature of social tenancies. Past initiatives have improved options for tenants hoping to move. In 2011, the Government introduced its HomeSwap Direct which seeks to provide information on properties available for exchange across the whole country. In 2012-13, 19,000 council lettings were made through mutual exchange schemes.⁵⁸ There are now a number of schemes operating across the social housing sector, such as Housing Exchange.

Case Study: Circle Housing, House Exchange and Speed dating

Circle Housing set up House Exchange as a tool for their tenants to swap their accommodation with other social housing tenants allowing them to find more suitable accommodation or a home in a different area.

The 'mutual exchange' website comprises a database of information on properties provided by tenants that want to move. Those looking for a new home can instantly find out whether any properties match their requirements. Users can also register for email alerts we can let you know as soon as a new match registers. Swaps can be done locally or in different regions; swaps can also involve more than two people such as via a three-way house exchange.

The service has allowed individuals to move closer to their jobs, cutting down on commuting time and transport costs and reducing stress.⁵⁹

There are more than 230,000 properties on the system and people can find pictures and detailed information at the click of a button. Eight out of ten people who use House Exchange find a match less than six months.⁶⁰

Circle Housing has also experimented with 'speed dating' for homes. At these events, attendees wear a badge showing the kind of property they are seeking and hope to find a match.

Subsequently, the government has introduced a 'right to move', which will give priority in allocating housing to those who move to take up work (above others who do not have a connection to the local area).⁶¹

4.1 Building new homes near jobs

Building more homes remains a paramount policy priority given the rising costs of rent and house prices, as well as the immediate economic context.

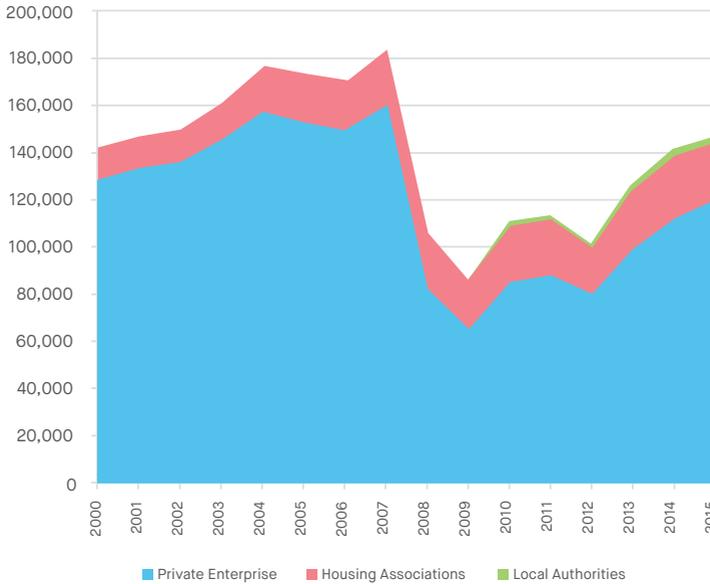
In 2015, the Government set itself a target for an additional one million new homes by the end of the parliament. While this is an ambitious goal in the context of comparatively low levels of house building since the financial crisis, it still remains significantly behind the forecast growth in demand for new households.

The conditions for public investment in housing have rarely been stronger. First, immediate economic uncertainties following the referendum vote threaten to push the UK economy towards recession. A recent Markit survey of purchasers and suppliers revealed a significant drop off in orders;⁶² the numbers of vacancies advertised dropped dramatically after the vote.⁶³ Boosting business confidence through stimulus measures could help rebuff these uncertainties and boost the economy, jobs and wages.

Second, the case for stimulating the economy through house building is particularly strong. Construction itself can boost local employment opportunities.⁶⁴ House building creates construction and housing-related jobs (such as legal services and housing management). Construction has also relatively high labour intensity and requires large numbers of lower skilled workers. The Department for Communities and Local Government has estimated that for each new home built two jobs are created.⁶⁵

Third, the rate of new housing development undertaken by private developers is likely to fall. The Royal Institute of Chartered Surveyors reported a significant drop in new buyer inquiries – falling to its lowest rate since 2008.⁶⁶ Meanwhile, a number of private developers and construction firms suffered significant reductions to the value of their businesses in the aftermath of the vote. As Figure 13 below shows, during the last downturn, overall housing starts dropped dramatically due to a significant fall in homes being built by private enterprise – but housing associations actually increased the rate at which they built.

Figure 13: House building – permanent dwellings started, by tenure



The National Housing Federation has argued that the sector is ready to expand supply if government funding or finance guarantees are provided with increased flexibility, such as the ability to build affordable homes to rent as well as for new homebuyers.⁶⁷ With the new Prime Minister abandoning the Government's surplus target for the end of the parliament, there may be additional scope for direct public investment in housing or for finance guarantees.

Recommendation: With private development likely to fall back post-referendum, the Government should look to stimulate the building of more affordable homes potentially by re-opening the Affordable Housing Guarantee Scheme, which enabled cheaper finance for housing associations.

In addition, *where* new homes are built also matters fundamentally. This is likely to be affected significantly by how new policies incorporated in the Housing and Planning Act are administered, such as the 'Right to Buy' for housing association tenants and the divestment of 'higher vale' council properties. The historical record on replacing homes sold under right to buy is mixed – though the commitment to replace stock sold through right to buy is now in the statute.⁶⁸

However, an implicit danger in both policies is that the new affordable housing that replaces this stock will have poorer access to good labour markets. Historically, the social housing stock has been situated in more deprived areas where employment opportunities are weaker.⁶⁹ The divestment of higher value properties and selling-off of housing association properties to tenants may remove some of the stock closer to good jobs. Will new social homes be located in more or less favourable labour market conditions? There is no provision in the new law that replacement houses must be 'like for like'. The Government should actively monitor the types of homes available for social rent and their access to labour markets.

Recommendation: The Government should monitor and publish information not only on the replacement rate of homes sold under 'Right to Buy' but should assess whether new homes have the same or better employment opportunities (for instance through job vacancy data).

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Moving Up

Higher wages for social housing tenants

The new Prime Minister Theresa May has pledged to create ‘an economy that works for everyone’. This research looks at the employment challenges among a group in society for whom the economy has too often not worked: social housing tenants. In particular it looks at challenges of low pay and ‘in-work poverty’.

It comes in the context of the introduction of important measures affecting wages, housing policy, benefits and work incentives, as well broader concerns about immediate economic uncertainties following the decision to leave the European Union. In addressing these issues, this report speaks also to a wider agenda – the social role of housing associations and the steps that landlords can take through housing and beyond to help their tenants.

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