

THE LINKS BETWEEN HOUSING AND POVERTY: AN EVIDENCE REVIEW

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This report analyses the past decade of UK evidence to explore the relationship between housing circumstances and the experience of poverty. It considers the relative importance of housing cost, quality and location in the impact of poverty on people's lives, and the role of housing in enabling people to increase their income from work.

Over the past two decades, the housing system has been asked to do more to tackle poverty and worklessness. Housing benefit changes are at the heart of the Coalition Government's welfare reform. However, the significance of the links between housing and poverty deserves greater recognition, from both those interested in housing and those interested in poverty.

The report sets out what the existing evidence tells us about the impact of poverty on housing circumstances, and the impact of housing circumstances on poverty and employment. It explores what the evidence says on key policy questions, including:

- Do bad housing conditions create poverty and unemployment?
- Do housing costs create poverty?
- Does housing equity prevent poverty?
- Does Housing Benefit reduce 'work incentives'?
- Does building homes create jobs?

Finally, it draws some conclusions for housing and poverty policy.

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EXECUTIVE SUMMARY

This report analyses the past decade of UK evidence to explore the relationship between housing circumstances and the experience of poverty, and the relative importance of housing cost, quality and location. We also investigate the impact of other poverty factors on people's lives, and the role of housing in enabling people to take up employment and increase income from work.

The link between poverty and housing circumstances

Most of the numerous definitions of poverty and material deprivation cannot be entirely separated from housing circumstances. Housing is a major charge on income, a source of income-like flows of benefits or even cash income itself, and it makes a big contribution to material living conditions.

The significance of the links between housing and poverty, and material deprivation deserves greater recognition from those with an interest in both subjects. The interaction between the two can have a big effect on the numbers of those defined as 'living in poverty', who they are and the implications for policy.

The impact of poverty on housing

The most widely used definition of poverty in the UK and across Europe describes individuals as experiencing poverty if their household income is below 60 per cent of the national median, after taking into account the number of adults and children in the household. Around a fifth of the UK population experience poverty in any given year, but around a tenth experience 'persistent poverty', defined as poverty incomes in at least three out of four years.

In a market economy, poverty and low wealth prevent access to many potential housing options, or make them hard to sustain. People living in poverty generally have less good, and less desirable, housing conditions than those with higher incomes, but they generally avoid bad housing conditions.

The housing system, with sub-market social housing, Housing Benefit and support for homeless people, acts as a 'buffer'. It has been suggested that the UK housing system does this more effectively than others across Europe (Bradshaw, *et al.*, 2008).

The impact of housing on poverty

In general, evidence that poverty affects housing circumstances is stronger than evidence that housing circumstances affect poverty. Nonetheless, it appears that low-cost, decent-quality housing, in an attractive job market could make a substantial contribution to increasing disposable income, preventing material deprivation and maintaining work incentives.

There is substantial evidence to show that poor housing conditions affect some aspects of child development and elements of adult health. The link between health, and income and employment is less established, although this is probably partly due to the complexity of proving cause in such a broad field.

Housing costs constitute the most important and most direct impact of housing on poverty and material deprivation. Overall, five per cent more of the UK population, or 3.1 million more people, experienced poverty in 2010/11 when the impact of housing costs on income is taken into account. Not taking housing costs into account means a significant underestimate of the risk of poverty and material deprivation for workless households, minority ethnic groups, single people and renters. For example, 18 per cent of private tenants are in poverty before housing costs are taken into account and 38 per cent are in poverty after housing costs are paid. This also means that the targets set in the Child Poverty Act 2010 (which are based on income before housing costs) overlook many children living in poverty.

The number of people in 'housing-cost-induced poverty' (not experiencing poverty until housing costs are taken into account) has increased over the past two decades.

Variations in housing costs between places have a substantial impact on total numbers of people defined as living in poverty, and the extent to which people in poverty experience material deprivation. Once housing costs are taken into account, the number of Londoners living in poverty almost doubles from just over one million to just over two million, and those in the South East of England are also affected. Variations between places have been overlooked in research on poverty and material deprivation.

Low rents, such as council and housing association rents, make an important contribution to reducing the degree of housing-cost-induced poverty and material deprivation among social tenants. Social housing is highly targeted on people with low incomes and has been shown to be the most 'pro-poor' and redistributive major aspect of the entire welfare state. Twenty-nine per cent of social housing renters are living in poverty before housing costs and, despite sub-market rents, 43 per cent are living in poverty after housing costs have been paid.

Housing Benefit for tenants makes a major contribution to reducing housing-cost-induced poverty and preventing material deprivation, and is second in importance only to housing costs themselves. However, many tenants do not realise that Housing Benefit is available to those in work, and only about a half of eligible working tenants receive the benefit. Welfare reform means that hundreds of thousands of social and private renters will see shortfalls between Housing Benefit and the rent they have to pay.

This is likely to increase poverty, however measured, and US and some UK evidence suggests it may lead to increased food insecurity.

It is not widely recognised that for over 20 years, home-owners have made up more than half of people living in poverty in the UK, before housing costs are considered. Over the past 20 years, the proportion of all people living in poverty who were social tenants fell from 41 per cent to 29 per cent, and the proportion in the private rented sector rose from 8 per cent to 19 per cent, reflecting the change in the size of the tenures.

Housing equity and equity release have little effect on poverty because owners on the lowest incomes have least equity and often cannot release it. Home-owners receive only two per cent of all state support for housing costs, and this support for home-owners who lose their jobs reaches too few to have much impact on poverty.

Owners in poverty are less likely to be living without essential items than tenants with the same income. After housing costs are taken into account, home-owners make up only 37 per cent of those in poverty, because many have paid off mortgages and have low or no housing costs. It is hard to say whether these differences are due to tenure itself or to differences in average incomes over the lifetime. If 'imputed rents' (the value home-owners get from their homes) were included in measures of household income, as they are in some national tax systems, income inequality would be reduced, and three-quarters of pensioner poverty and much of home-owner poverty would disappear.

Most social landlords provide some services intended to prevent poverty and increase employment, and many individual schemes appear effective, although gauging the total impact is difficult.

The impact of housing on employment

The principal 'financial work incentive' is the level of wages, rather than housing circumstances. However, low-cost housing, such as council and housing association housing, makes it easier to 'make work pay'.

While it has a positive impact on poverty and material living conditions, like some other benefits, Housing Benefit creates work disincentives and 'poverty traps'. Universal Credit is likely to make a small reduction to the poverty-trap effect, but interactions with other benefit changes may counteract this.

For any given set of low-paid job opportunities, housing stock and rents, there will be a trade-off between using Housing Benefit to prevent poverty, material deprivation and housing deprivation on the one hand, and avoiding a poverty trap on the other.

If regional location is seen as an attribute of housing, it is an important contributor to a 'housing effect' on employment, and potentially on poverty, since different labour markets offer very different opportunities. Evidence suggests that the ability to move home does have effects on employment, but the effects do not appear to be significant, and both social renters and home-owners may be affected.

Settled, secure housing is of value in itself, and for physical and mental health, but appears to remove only one of the barriers to employment and higher incomes for formerly homeless single people.

Building homes creates jobs, and may have a bigger effect on employment and poverty than many other kinds of other economic activity.

Implications for policy

Social policy should pay closer attention to the links between housing and poverty. Whatever the outcome of current reviews of the definitions and measures of poverty, those interested in the links between poverty and housing should measure income poverty using income after housing costs, at least as a supplement to income measured before housing costs. They should also pay attention to groups living in poverty because of high housing costs.

A housing policy to reduce poverty should consider:

- limits on housing costs, particularly for renters. Rent levels in the private rented sector are an increasingly important part of the picture;
- monitoring and maintaining good housing conditions for all households in all tenures, to maintain the near-universal good housing conditions we have achieved which may be threatened by lower incomes;
- monitoring the impact of Housing Benefit cuts on the residual incomes of claimant households, their material deprivation and location (relative to job opportunities);
- increasing take-up of Housing Benefit (and Universal Credit), particularly among those in work and living in private renting, and of Council Tax Support, particularly among home-owners, and Pension Credit, particularly among older people.

A housing policy to increase employment rates should consider:

- building homes to increase housing supply and to create jobs;
- building new affordable housing in areas with competitive job markets;
- measures to maintain low rents;
- prioritising lower-cost tenures for people commanding low wages;
- encouragement of increased 'in work' take-up and efficient administration of Housing Benefit/Universal Credit;
- extension of eligibility for Universal Credit to low-income working home-owners;
- continued attempts to try to reduce the extent of the Housing Benefit poverty trap, building on the Universal Credit reform;
- supporting local authorities in the design of Council Tax Support systems to limit work disincentives;
- greater understanding of how poverty and employment traps vary by area and by rent levels, and how they interact with local wages, and of which individuals are more likely to be able to respond to 'financial work incentives';
- continuing or expanding income and employment activities by social landlords and potentially extending them to private tenants.

The review methods and evidence

This report is based on a formal review of relevant empirical literature published in the UK since 2000, supplemented by additional searches. The search found a wealth of studies on housing and on poverty, but fewer that focused on the relationship between them. Relatively few sources focusing on housing give detail on incomes. Sources on poverty tend to report housing tenure, but not other potentially important aspects of housing. Sources that allowed us to explore causality, tracking housing and income over time, or using controls or comparison, were scarce.

1 INTRODUCTION

Consider two households both defined as ‘living in poverty’ because they have the same low incomes. One has a high-quality, secure home which is economical to run, in a convenient location, and at a cost that leaves a good share of income for other expenses. The other has poor-quality, insecure housing, which is expensive to run, and is in a bad location, and housing costs take up a high proportion of their low income.

Despite their identical incomes, the first household is clearly much better off in terms of living conditions and overall standard of living than the second household. They are less likely to be living without essential items (in ‘material deprivation’) than the second, and probably more likely to have better future life chances too.

How poverty and material deprivation are linked to housing circumstances

People’s experience of poverty, and material deprivation and their housing circumstances, are intertwined. This is because housing acts both as a charge on income and as a source of income-like flows of benefits, as well as a potential source of money income itself. Housing constitutes an important part of people’s material living conditions and makes a contribution to life chances. Homes – and the households within them – are also where individuals pool and share incomes and costs.

Most of the numerous concepts and measures of poverty and material deprivation cannot be entirely separated from housing circumstances. It is widely recognised that various different concepts and measures have their strengths and weaknesses. However, the significance of the links between housing, poverty and material deprivation deserves greater recognition, both from those interested in housing and from those interested in poverty. Conventional definitions and measures of income and poverty provide only one of the possible ways of interpreting the links. These links affect the

numbers defined as living in poverty, the type of people affected and the implications for policy.

Aims

This report aims to answer three key questions, as authoritatively and extensively as possible, using the existing evidence base:

- 1 What is the relationship between households' housing circumstances and their experience of poverty?
- 2 What is the relative importance of housing cost, quality and location (and other factors) in achieving a positive role for housing in alleviating the effects of poverty on people's lives?
- 3 What role does low-cost housing play in relation to work, particularly in incentivising work and facilitating insecure working patterns?

The review describes existing evidence on the relationship between a household's housing circumstances and the experience of poverty, and comments on the strength of the evidence.

Methods

The project began with a formal literature and evidence search, devised by Stephen Duffy, a specialist information scientist, in conjunction with the rest of the review team. This involved searching electronic databases with a focus on social care, social policy, economics and psychology, including academic books, academic peer-reviewed journal articles, and grey literature resources. The search terms were identified through discussion in the team, consultation with experts, though scanning background literature and by browsing database thesauri. We searched using the terms 'housing' and 'poverty', and a large number of synonyms and near synonyms. We also used terms relating to characteristics of housing, for example, names of tenures, and terms like 'overcrowding'. Results were limited to literature in English, relating to, or including, the UK or parts of the UK, and published between 2000 and 2012.

This search was supplemented by consultation with experts on additional and new sources, searches for international evidence, searches of selected websites and sources known to reviewers. Sources were subjected to a review of quality by members of the team, but not to the full formal quality assessment used in systematic reviews.¹

The evidence

Poverty and housing have been two of the main focuses of social research and social policy in the UK. A wealth of research describes concepts and measures of income, poverty, material deprivation, social exclusion and empirical evidence for them for the UK and constituent nations. Similarly, there is a generous supply of studies on housing conditions and circumstances. A wide range of disparate types of studies explore particular elements of both topics.

However, evidence focusing on the links between income and housing circumstances is surprisingly limited. While associations between housing

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disadvantage and material disadvantage are accepted, relatively few sources focusing on housing give detail on incomes or specifically, on people experiencing poverty. Sources on income and poverty often report housing tenure, but rarely report other potentially important aspects of housing. Sources that allow us to explore causality, tracking housing careers or income trajectories over time, including the use of controls or explicit comparison, are limited. Sources using controls or other methods to allow us to distinguish the effects of housing circumstances from the effects of the characteristics of people in them are also limited. These gaps are not unique to this field. However, these types of evidence are needed to assess the many long-established arguments about how poverty might affect housing circumstances and how housing circumstances might affect poverty. Yet these are the inter-relationships on which some welfare and housing policy, and some contemporary reforms have been based.

This report indicates the strengths and weaknesses of existing evidence, and the implications for policy.

The structure of the report

The first section sets out the recent and current housing and social security, and employment context, and discusses the arguments behind policy.

The second section defines poverty and material deprivation, and considers how they are linked to housing circumstances in concepts and measures. These are not only technical matters. They have major effects on the number and type of people deemed to be living in poverty, and for policy.

The third section explores the impact of poverty on housing circumstances, the extent to which the link between poverty and less desirable circumstances is broken by housing and welfare policies, and whether the UK is distinctive. It also considers whether housing plays a role in job creation.

The report considers whether poor housing conditions create poverty and unemployment, taking into account housing costs, the role of Housing Benefit for tenants, state support for home-owners, housing equity and home-ownership in general. It also examines the role of housing in offering 'work incentives' or creating unemployment and 'poverty traps'.

The final section highlights conclusions from the evidence and draws out implications for policy.

2 THE POLICY CONTEXT

Research and policy on poverty and housing circumstances have both been partly motivated by debates about the links between poverty and housing circumstances. Some argue that that poverty can affect housing circumstances. Others argue that housing circumstances and housing policy affect income, employment, poverty and material deprivation.

Debates on the relationships between housing circumstances and poverty, material deprivation and employment that have influenced policy

There are theories about how effects might be transmitted: through work incentives, tenure effects, cultural processes, problems of mobility, or neighbourhood effects. A wide range of housing ‘circumstances’ are implicated in these arguments: housing tenure, quality, location, cost and the nature of Housing Benefit.

Housing tenures – whether owner occupation, private renting or social renting – are referred to extensively in these debates and in policy. Housing tenure acts as a shorthand for the role that the market plays in determining who gets the housing, and for the typical characteristics of residents, which are likely to affect their income and employment. Many of the arguments predict that people in different tenures will have different incomes or employment rates, not only compared with those in other tenures, but also compared to what their individual characteristics might suggest. Many, but not all, predict more adverse outcomes for those in social housing and more advantageous outcomes for people in home-ownership. Several arguments apply to those in all rented tenures, all who receive Housing Benefit or who are in low-cost housing. It is notable that few arguments apply specifically to the private rented sector, an increasingly important part of the housing system, which provides a home to a substantial minority of all UK people

living in poverty. It is also important to acknowledge that these arguments do not predict substantial differences in outcomes for different tenures, compared with differences based on individual characteristics, or that the outcomes can be influenced by policy.

Arguments about causal relationships suggest that policies may be able to affect housing circumstances by altering individual poverty risk or overall poverty rates; and/or that policies may be able to affect individual poverty risk or overall poverty rates by altering housing circumstances. Policy-makers have drawn on these arguments about the relationship between income, employment and housing throughout the history of housing policy and welfare policy. For example, policy-makers have attempted to support the living standards of people on low incomes, including housing conditions, by providing supplementary income, encouraging employment and improving returns from employment. These policy innovations have provoked their own arguments about costs and unwanted side effects and further plans for policy reform. It should be noted that policies often have multiple goals, and may not be entirely focused on housing or poverty.

Current housing, income and employment policy

Current housing and welfare policy draws on some of the arguments about the relationship between housing, poverty and employment. The traditional role of housing policy has been to improve housing conditions. However, over the past twenty years, there has been growing concern among policy-makers about poverty and social exclusion. Policy-makers have become increasingly interested in the potential role that housing circumstances may play in causing or exacerbating low income and worklessness and, potentially, in helping people move out of poverty and into work.

The economic recession from 2008 onwards has resulted in stagnating average incomes and increasing unemployment, falling house prices and slow housing development.

The new government in 2010 introduced a regime of austerity for the public sector in order to reduce the nation's structural budget deficit. Although there are continuities between the Coalition Government and the preceding Labour government (e.g. Freud, 2007), the Coalition Government brought in many new policies, and this review was conducted during a period of intensive welfare and housing policy activity. Details of policies and their results are still unfolding at the time of writing.

Work as the route out of poverty

The Coalition Government maintains the goal set by the previous government of eradicating child poverty by 2020. However, it has sought to develop a new definition of 'poverty' to replace measures of income or material deprivation at any one point in time, to focus on factors that affect future life chances (Duncan Smith, 2012). Like the previous government, the Coalition Government sees work as the best route out of poverty. The focus on policy addressing the nature and motivation of potential employees rather than employers and jobs has continued, as has interest in using the social security system to encourage workless people into work, and to 'make work pay', to overcome 'unemployment traps' (DCLG, 2011). The Work Programme, offering personalised support to job seekers and partly delivered by private sector and voluntary organisations, has replaced previous welfare-to-work programmes, although it is operating in a more difficult climate (Newton, *et al.*, 2012).

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Welfare reform

There have been substantial reforms to social security, including Housing Benefit, and more are underway or planned. From April 2012 Housing Benefit for private renting tenants was restricted to the cost of the lowest-cost 30 per cent of homes in the local market area. This was motivated by the desire to cut the benefits bill, and to meet a new principle: that people claiming Housing Benefit due to low-paid or no work should not have more costly housing than others in employment who were not claiming the benefit. Under the Welfare Reform Act 2012, from April 2013, there will be a penalty on benefits payments for social tenants occupying more rooms than a standard based on household members' relationships, age and gender. Again, this was motivated by money-saving and the desire to make the most efficient use of the social housing stock (DWP, 2012d). A cap on total household benefits to £26,000 net per year is motivated by the desire to cut the benefits bill, and the principle that households claiming benefits should not have total income above that of the average family (DWP, 2012c). In each of these cases, claimants could opt to try to cope with lower income left after paying rent, to move to a cheaper area or home, or try to make up income through employment; thus each of these changes is intended to act as a work incentive. Uprating of benefits has been restricted, increasing a divergence between those claiming benefits and Tax Credits, and others. Further restrictions may be planned.

The Welfare Reform Act 2012 included outline provisions for a 'Universal Credit' to replace Working Tax Credits, Child Tax Credits, Housing Benefit, Income Support, and the income-related Jobseeker's Allowance, and Employment and Support Allowance, with the Universal Credit. These proposals represent the most significant changes to the welfare benefits regime since the introduction of means tested in-work benefits in the early 1970s (Pawson and Wilcox, 2012). The aim of Universal Credit is not to reduce the overall bill but to reduce work disincentives in the current system. However, benefit reform provides the government with annual savings totalling some £18 billion by 2014 (Brewer, *et al.*, 2011).

Benefits policies remain Great Britain or UK-wide, with one important exception. Support for low-income Council Tax payers has been devolved to the Scottish and Welsh governments, and in England, individual local authorities are to have responsibility for devising their own Council Tax Benefit schemes, within allocated budgets (Adam and Browne, 2012).

Housing policy

However, housing policies diverge to some extent across the UK. The Coalition Government wants to see higher rates of home building to improve affordability and also because it will create jobs, and has created a number of special funds to support this (DCLG, 2011). Similar schemes are underway in Scotland (Scottish Government, 2011) and Wales (Welsh Government, 2012). However, total funding available for affordable housing development has been curbed sharply as part of the attempt to reduce overall public expenditure and, because the government wants to ensure that planning decisions are made locally, it is not setting regional targets for development. The Coalition Government introduced a new 'affordable rent' tenure type in England, which would enable housing associations to charge up to 80 per cent of market rent levels (DCLG, 2011). The government has also allowed social landlords in England to use fixed-term tenancies more widely, linked to the idea that social housing should only offer a temporary safety net, and to address concerns about low mobility in the tenure (DCLG, 2011). These policies have not been introduced in Scotland and Wales.

Interest in economic disparities between areas and in urban regeneration is maintained, but there are few funded policies aimed to reduce them, particularly in England. In England the role is to be taken up by Local Economic Partnerships.

In both Scotland and Wales, the approach to housing policy is somewhat more focused on the role housing can play in reducing disadvantage than in policy made for England by the UK government. In Scotland, for example, the government has acted to strengthen homelessness legislation and to regulate the private rented sector. In Wales, the government plans to emphasise the prevention of homelessness through legislation, and also to regulate the private rented sector (Welsh Government, 2012).

3 KEY ISSUES IN DEFINING POVERTY AND MATERIAL DEPRIVATION

The dominant concepts and measures of poverty are based on money income. Income may come from employment, transfers from friends and family, from the state, or from borrowing, savings and assets. Thus income could include Housing Benefit, among other financial transfers from the state or family.

In 2010/11, the average household in the UK got 16 per cent of their income from state benefits, 71 per cent of their income from earnings, and a small amount from occupational pensions and investments. Those in the lowest income fifth had a very different mix: 56 per cent of their income came from state benefits and 32 per cent from earnings (DWP, 2012a). However, income can be thought of and measured in various ways, and the choice has important implications. This is discussed further below.

What is poverty?

The most widely used definition of poverty in the UK and across Europe describes individuals as experiencing poverty if their household income is below 60 per cent of the national median, after taking into account the number of adults and children in the household.

Using this definition, the proportion of individuals in the UK living in poverty rose from 13 per cent in 1979 to 22 per cent by 1991/92. Since then the proportion has reduced to 16 per cent in 2010/11 (DWP, 2012). Over the past ten years, child poverty and pensioner poverty have reduced, while poverty for working-age adults without children and older people

of working age has increased (Aldridge, *et al.*, 2011). In a marked departure from long-term trends, median real incomes fell from 2009/10–2010/11. People in all income quintiles experienced this change, but the result was a small reduction in the proportion living in poverty (DWP, 2012a). Nonetheless, the UK still has a relatively high rate of poverty compared with many other rich nations (Hills, *et al.*, 2010; HM Government, 2010). In addition, analysis by the Institute of Fiscal Studies suggests the changes to welfare benefits announced by the Coalition Government will result in an increase in poverty (Brewer, *et al.*, 2011). That estimate predated the decision in the 2012 Autumn Statement to restrict the uprating of most working-age benefits to just one per cent a year over the next three years.

Individuals and households at greater risk of poverty include (DWP, 2012a):

- self-employed people;
- households with one or more people not working;
- lone pensioners;
- lone parents;
- single adult households;
- cohabiting rather than married couples;
- children;
- disabled people and people of minority ethnicity.

Other variables known to be associated with poverty risk include migrant status (Ward, *et al.*, 2009), female gender, poorer educational achievement, poor health and non-Christian religion (Hills, *et al.*, 2010).

In 2006, the employment status of the household head accounted for about 17 per cent of UK income inequality, the proportion of all potential full-time employment actually achieved about 14 per cent, education of household heads explained about 12 per cent, household size about 7 per cent, and the age of household head about 3 per cent. Together these factors explained just over half of the variation (Ward, *et al.*, 2009).

Approximately one-fifth of the UK population experience poverty in any given year, but approximately one-tenth experience ‘persistent poverty’, defined as poverty incomes in at least three out of four years (DWP, 2012a). Persistent poverty is more difficult for people to deal with than one-off poverty, and may require different policies.

On the other hand, over a longer period many more are touched by poverty. In fact 45 per cent of individuals experienced poverty at least once in a nine-year stretch in the 1990s and 2000s (Jenkins, 2011). On average each year 8 per cent of non-poor people entered poverty, and 37 per cent of people in poverty left poverty from 1998–2005 (Jenkins, 2011). Jenkins found that of those living in poverty, after one year:

... 55 per cent remain poor. After two years, only around 35 per cent remain poor. The median spell length ... is between one and two years ... But ... around one in ten of those entering poverty are estimated to remain poor for at least eight years.
– Jenkins 2011, p. 226

The main event associated with moves into and moves out of poverty was a change in the circumstances of the main household earner (Jenkins, 2011). Variability in a household head’s earnings accounted for about half of the total variation in income. Therefore, employment and earnings are

a very important route both into and out of poverty. The number of other household members and their earnings contributed almost as much as the total variability in income (Jenkins, 2011).

Although they had lower rates of poverty and risk of poverty in any one year than adults of working age, children and pensioners were more likely to experience persistent low income than working-age adults who, when poor, had a higher chance of increasing income in the medium term, through a move into employment or into a better job (Jenkins, 2011; DWP, 2012a). Poverty entry rates in any one year were higher for pensioners and lone parents (16 per cent, 15 per cent, respectively) than others. Poverty exit rates were higher for couples, both with and without children (49 per cent, 46 per cent, respectively).

During the 1990s and 2000s, there was a sharp decline in poverty persistence, from 14 per cent in 1998–2001 to 9 per cent in 2005–2008 (DWP, 2012a). The change was marked for couple and lone-parent families with children and for single pensioners. This is likely to reflect improved job opportunities and extra benefit supports for pensioners.

What is material deprivation?

This report looks not only at poverty but also at material deprivation. People are ‘materially deprived’ when they want or need particular items or an overall minimum material standard of living but can’t afford them. As with income poverty, minimum standards have been defined in various ways and through various methods. The most widely used definitions use ‘consensual’ methods, to define ‘necessities’ by asking members of the public (e.g. Townsend, 1979; Gordon, *et al.*, 2000; Aldridge, *et al.*, 2012; Davis, *et al.*, 2012).

The Child Poverty Act 2010 requires that fewer than five per cent of children should be both materially deprived and in households with below 70 per cent median equivalised income (a different cut-off to the standard measure of poverty). The list of necessities used in the statutory monitoring of child poverty includes items such as having a warm winter coat, having fresh fruit and vegetables at least once a day, being able to afford to have a friend round for a snack once a fortnight, and having celebrations on special occasions, all of which more than half of people have defined as ‘necessary’ (DWP, 2012a). It has some housing-related items, such as a separate room for every child over the age of ten of a different gender, but is not a comprehensive measure of housing deprivation. Any child missing more than a certain number of these items (weighted according to how many other people have them) is defined as materially deprived. There are different lists of essential items for adults of working age and older people.

Many have argued that low income is only a proxy for the real concern: people who can’t afford practical necessities and have really low living standards (Townsend, 1987). This is partly because income, expenditure and living standards do not match up exactly. People may convert wealth into income, and may shift income through time by borrowing and saving; they may consume free or gifted goods, or goods which are particularly high cost in absolute or relative terms or transfer income to or share it with others (Jenkins, 2011). To keep the review manageable, this report does not investigate the relationship between housing and life chances, a broader and prospective measure of deprivation.

To whom should we attribute income – and does housing play a role?

Most assessments of income, poverty and material deprivation consider household, rather than individual, income. So assessment of individual-level income, poverty and deprivation cannot be separated from issues of household size, composition, and relationships. In turn, these are linked to the housing system and housing policy.

The key housing concept of the 'household' is defined in the UK as a group of individuals who share a home and pool resources to some extent, at least by sharing the living room and/or one meal a day. The usual assumption in poverty research is that incomes are shared within households not equally, but fairly, according to the varying needs of members. 'Equivalence scales' are used to model sharing and the extent to which an income is adequate for households of different composition. The standard scale used in UK poverty research is the Organisation for Economic Co-operation and Development (OECD) scale, which assumes that children of different ages incur similar costs (DWP, 2012a).

Berthoud, *et al.* (2004) found a weaker connection between low income and material deprivation for couple households than for single-person and lone-parent households, for younger children, and three or more children. This suggests that scales may underestimate the efficiencies people benefit from by sharing a household, although they may also underestimate the costs of older children (2004). In addition, research suggests that incomes are not in practice used 'fairly' within households. For example, low-income parents may prioritise their children more than equivalence scales recognise, potentially pushing adults in the household into or further into poverty (Farrell and O'Connor, 2003). Therefore, estimates of poverty numbers and composition that are based on equivalised scales may be inaccurate.

Whatever scales are used, individuals who are in poverty when sharing their income and expenses across a household may move out of poverty if the household splits, merges or gains or loses members, or vice versa. Twenty-one per cent of moves out of poverty by individuals, from one year to the next in Britain 1998–2004, were due to changes in the membership of households in which the individuals were living, rather than to changes in the income of respective household members (Jenkins, 2011). One-person households generally have higher rates of poverty than two-person households. This is partly because income cannot be pooled and risks shared (Ward, *et al.*, 2009). It may also be because one-person households have to bear the whole cost of setting up and running a household – including housing and other household costs. In fact, variations across the European Union (EU) in the extent to which children and older people face above-average poverty risks are largely due to variations in the kinds of households in which they live, and the opportunities for pooling with other household members (Ward, *et al.*, 2009). In nations such as the UK, where more children and older people live in small households – such as lone-parent and lone-pensioner households – poverty rates are higher for children and older people.

In addition, the nature of the housing system may be at least partially responsible for the way in which individuals assemble into households, and what opportunities there are to pool income and costs. Housing supply and housing costs have quite important effects on household formation and dissolution. For example, sudden local house-price increases reduced the risk of splits among council rent payer couples: price increases increased the

relative value of their sub-market rent, and increased the costs of the extra housing required by a household separation (Rainer and Smith, 2008).

Over the long term, with increasing housing supply and rising incomes, one of the most marked housing trends has been the rise of the one-person household. One-person households cannot benefit from pooling, whether equally, fairly or otherwise and, as noted, are at greater risk of poverty than others. Since the start of the recession one of the responses of British households to reduced income, relatively high housing costs and living costs has been to merge households – for example, by young people or young families moving back in with an older generation. However, housing size, design and landlord rules do not always allow this.

What should we count as ‘income’ – and should we include access to housing?

Concepts and measures of income cannot be separated from several dimensions of housing circumstances (Mullan, *et al.*, 2009). Income from employment generally arrives in money form, but can also include shares, cars, health insurance or other goods. It has been argued that in-kind payments in goods and services from all sources, not just from employment, should be considered as part of people’s incomes (OECD, 2011). So, the provision of social housing by governments, or free or cheap housing by family and friends, could be counted as income for those who benefit from them.

In fact, all access to, and use of, housing – whether through ownership, tenancy or other agreement – can be seen as providing a flow of benefits to residents, which means they avoid incurring other housing costs. In many cases, we can put a price on these benefits, and they can be seen as akin to income. For example, some people are partly paid by their employers in free or low-cost housing. The flow of benefits owner-occupiers get from living in their homes is described by economists as ‘imputed rent’ (the rent that would be charged and paid if owners and occupiers were separate entities). Imputed rents are included as national income in the UK national accounts, and in 2005 home-owners received benefits estimated at £74 billion from their homes (Richardson and Dolling, 2005). Until the 1970s, imputed rents were not only seen as a theoretical form of household income but taxed as such, under ‘Schedule A’ (Figari, *et al.*, 2012). Imputed rents are currently taxed in Greece and the Netherlands.

If imputed rents were included in calculations of household income, this would result in a nine per cent increase in disposable (post-tax) income for all owners, and as much as 18 per cent for outright owners with paid-off mortgages (Figari, *et al.*, 2012). The majority of studies across Europe suggest that if imputed rents were included in measures of household income, income inequality would be reduced, and it is likely that poverty rates would also fall (Mullan, *et al.*, 2009, Figari, *et al.*, 2012). In fact, although child poverty rates would be little changed, three-quarters of pensioner poverty would be removed by this change in the calculation of income.

Similarly, social housing residents and any others not paying full market rents could be described as receiving an imputed rent from the difference between their rent levels and market levels (Hills, 2007). In 2001, those in the bottom one-fifth of income (which overlaps with those living in poverty) received eight times the benefit from social housing of those in the top one-fifth (measured here as the difference between rent levels and landlord costs). This was by far the most ‘pro-poor’ and redistributive aspect of the

entire welfare state. For education, the ratio was 1.0, for health care as a whole; the ratio was 1.5, for non-residential care 1.3; and residential care 2.4. The ratio for the subsidy to the right to buy was just 1.5 times (Sefton, 2002).

Taking these in-kind benefits into account would have a marked effect on the numbers and type of people living in poverty, although it is difficult to predict the overall impact. However, those concerned about living conditions would argue that the quality of housing, as well as its imputed value, should be taken into account and that whatever in-kind value people get from their homes, we should be most interested in the money they have left over to pay for other necessities.

Should we consider only income available after essential costs – including housing costs – have been paid?

Not all 'income' households receive is available to them to use to maintain their standard of living and to avoid material deprivation. Some income must be spent in certain ways. For example, governments demand payments of taxes. Taxes may indirectly support the standard of living through public services, but most poverty definitions consider income only net of at least national income taxes. Many types of expenses are essential or almost essential, if not mandatory, and housing costs and related household expenses are among them. Economists distinguish between 'total' income, 'disposable' income (income after tax), and 'discretionary' income. 'Discretionary income' describes income remaining after the payment of taxes and expenditure on necessities, which could include a wide range of items, from food and clothing to housing costs such as rent and mortgages.

For households receiving it, Housing Benefit can form one of the biggest elements of income overall. By enabling recipients to afford housing, or more and better housing than would otherwise be possible, it makes an important contribution to their standard of living. However, it is a rather unusual kind of income which can only be spent on housing; it is 'hypothecated' (Berthoud, *et al.*, 2004). Research with tenants found that, '... many claimants felt Housing Benefit was very much labelled as "the rent" and, as such, was not their money' (Irvine, *et al.*, 2007, p.4).

In many cases, payment arrangements mean the money passes directly to landlords. However, current policy aims to increase the number of social and private rented tenants who handle their own Housing Benefit and pay their rent, through the 'direct payments' system (Wilson, 2012). The level of Housing Benefit 'income' tenants receive depends on the rent, which may vary widely by region, and is not always a good guide to the quality of home or neighbourhood and the contribution to standard of living the home will make.

It is also has been argued that all housing costs are different to other types of household expenditure, because they are large, and because penalties for non-payment or default, if not immediate, are severe (Stone, 2006). Overall, depending on the exact definition used, expenditure on 'housing' is often the largest item among these costs. In 2010 in the UK, for example, housing costs (including mortgages and rents but excluding the portion of rent paid via Housing Benefit) made up an average 18 per cent of expenditure, ahead of food and drinks, motoring and leisure (Horsfield, 2011). 'Wider housing costs', such as fuel and power, household goods and services, made up a further 37 per cent. Generally, housing costs make up a higher proportion of expenditure for poorer households. While households

For households receiving it, Housing Benefit can form one of the biggest elements of income overall.

in the highest income tenth spent nine per cent of their mean equivalised income (here excluding Housing Benefit) on housing, fuel and power in 2010, those in the bottom one-tenth spent 21 per cent – even where only rent net of Housing Benefit is included (authors' calculations from Horsfield, 2011). The widely used 'burden' measure says housing is 'unaffordable' when housing costs take up more than a certain percentage of income. The alternative 'residual' measure says housing is 'unaffordable' when people are left with less than a certain absolute amount to live on once housing costs have been paid (Stone, 2006; Tang, 2012).

Because of the issues raised by housing costs, income data and poverty measures in the UK (and in some other countries) are sometimes provided in two forms: first, based on income 'before housing costs' (BHC), including income like Housing Benefit that can only be spent on housing; and second, residual income 'after housing costs' (AHC) – including rent mortgage payments, buildings insurance, ground rent and service charges (e.g. Hills, 2010; DWP, 2012a). Most research and evidence in the UK (and used in this report, unless stated otherwise) uses the BHC measure. The Child Poverty Act 2010, prepared by the last government, sets targets for numbers of children 'in poverty' and also uses income BHC.

No measure of income is perfect. The definition of housing costs used in the UK does not include owner-occupier repairs or mortgage insurance costs, or their expenditures on mortgage capital repayments, or any repairs carried out by tenants. This means it is likely to somewhat underestimate the number of owners living in poverty and the share of people in poverty made up by owners. However, those concerned about living standards would argue that the BHC measure has more serious problems, and while we should be concerned about homelessness and very poor housing conditions, in terms of measuring income we should be most interested in the money left over after housing costs to pay for other necessities. Income BHC includes Housing Benefit income. This means that the income of those claiming Housing Benefit will generally rise if their rent rises, although they would experience no improvement in material living conditions or in discretionary income (Johnson and Webb, 1992).

This is not just a technical issue. In 2010/11, the proportion of UK population living in poverty BHC was 16 per cent but the proportion in poverty AHC was 21 per cent. This affects 3.1 million people (DWP, 2012a). The types of people defined as living in poverty vary substantially as well, as do the policy implications. For example, pensioners make up 24 per cent of those in poverty before housing costs are considered (BHC), but only 14 per cent after housing costs (AHC). Home-owners make up more than half – 52 per cent – of those in poverty BHC but only 37 per cent of those in poverty AHC. Because the Child Poverty Act 2010 uses the BHC measure, it overlooks the extra one million children who are living in poverty once housing costs are paid.

4 THE IMPACT OF POVERTY ON HOUSING CIRCUMSTANCES

In nations where housing is largely distributed through the market, people with lower incomes, less wealth or less access to credit (typically due to worse employment positions) will have fewer housing choices. They typically have less desirable or poorer housing conditions than others, including homelessness; will find it harder to enter or be more likely to leave home-ownership; and are more likely to be found in rented tenures.

Do people living in poverty typically have less desirable and worse housing conditions than others?

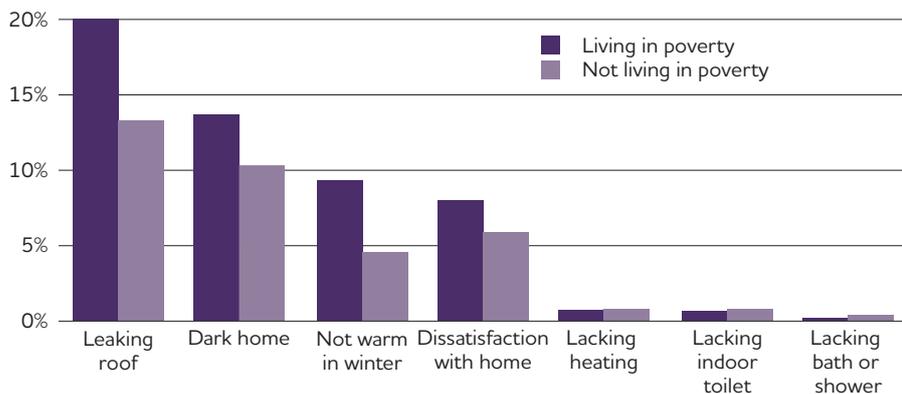
There is strong evidence for each part of the above argument. However, not all of those in poverty experience undesirable housing conditions; and yet some people not in poverty do experience undesirable housing conditions.

Poverty and housing conditions

Relatively few sources covering housing conditions focus on people experiencing poverty specifically. Available data suggests that people living in poverty are more likely to experience most of the forms of housing quality problems and neighbourhood problems than other people, but the differences were not always large (Figures 1 and 2). People not living in

poverty have a very slightly higher risk of lacking heating, indoor toilets and bath, or showers than people in poverty. The difference may be within sampling error and could be attributed to the near-universal achievements of these standards in the UK. The majority of people living in poverty did not experience these poor housing conditions, and some people on higher incomes did.

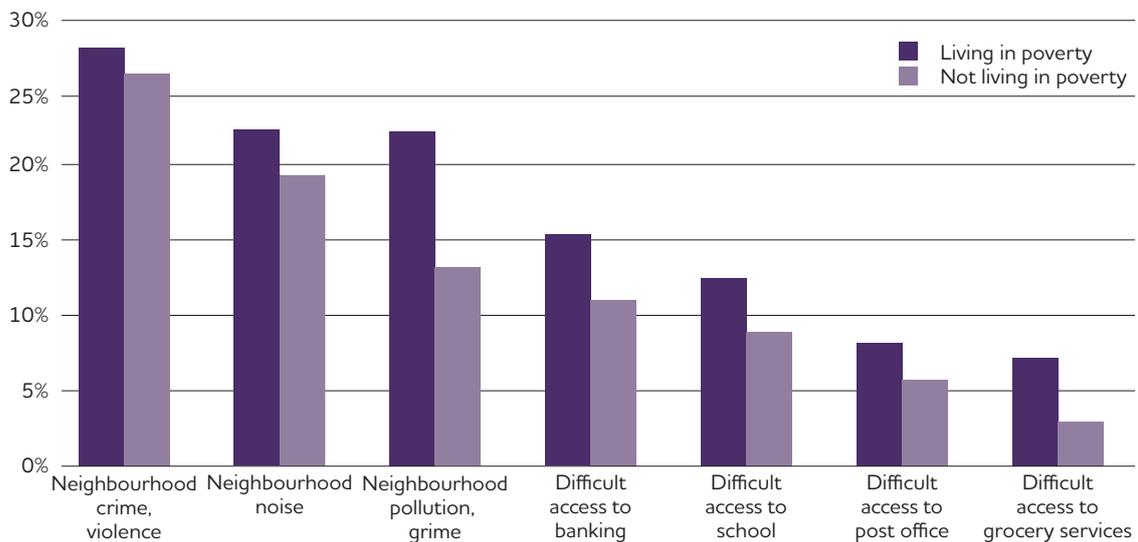
Figure 1: Housing quality problems of those living in poverty and not living in poverty, UK, 2007



Source: Lelkes and Zolyomi, 2009

In a separate study, Berthoud, *et al.* (2004) found that the housing quality problem most closely associated with low income was limited internal space.

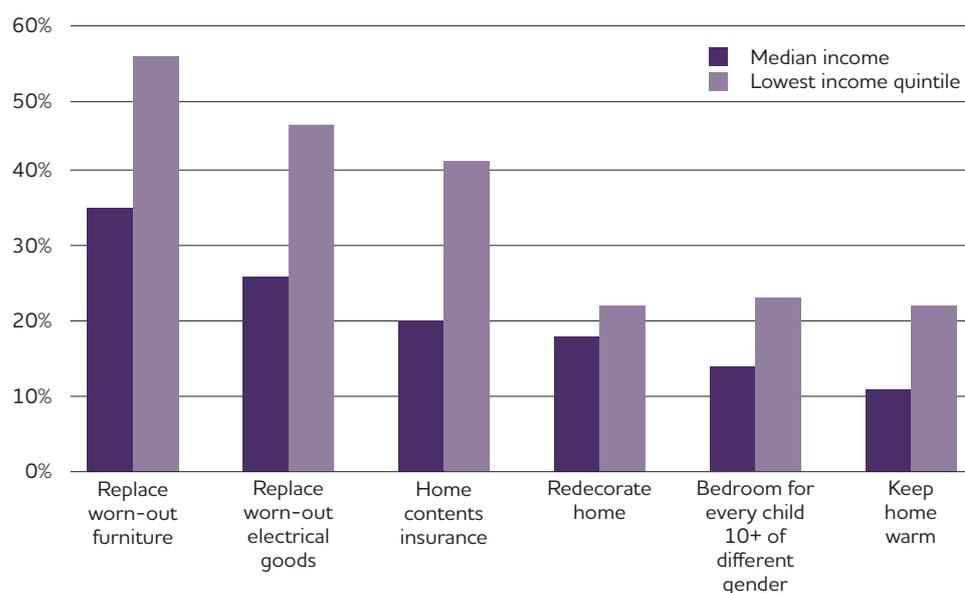
Figure 2: Neighbourhood quality problems of those living in poverty and not living in poverty, UK, 2007



Source: Lelkes and Zolyomi, 2009

The Department for Work and Pensions (DWP) data records the relationship between being in a household in the lowest income fifth (similar to having an income below 60 per cent median) and aspects of housing-related material deprivation for children specifically (Figure 3).

Figure 3: Inability to afford various wanted items among those living in poverty and not living in poverty, for households with children, UK, 2010/11



Source: DWP, 2012a

Children in households in the lowest income fifth are at greater risk of poor housing conditions on every measure, and many of the gaps between them and those not in poverty are quite substantial.

Legal sources provide another insight into the link between poverty and housing deprivation. Eligibility for legal aid is based on low income and wealth. People eligible for legal aid are more likely to have housing problems (such as problems with neighbours, problems with buying or selling, alterations to property, communal repairs, repossession, squatters, unsafe living conditions, problems over return of deposit, agreeing terms of lease or tenancy agreement, being threatened with eviction and harassment) (Buck, *et al.*, 2004). However, generally those in poverty are less likely to seek assistance and more likely to take no action about housing problems, even when they are eligible for legal aid (Genn, 1999; Pleasence, *et al.*, 2011).

Poverty and housing tenures

The main characteristic of housing reported in studies of income and poverty, and other large-scale surveys, is housing tenure. So, there is much more information on housing tenure than other housing circumstances.

Home-ownership is widely seen as more desirable than rented tenures, although views of the relative desirability of social renting and private renting vary. Those living in poverty have lower rates of home-ownership overall than those on higher incomes. They have markedly lower rates of mortgaged home-ownership, and markedly higher rates of social renting than those on higher incomes.

Social housing and disadvantage

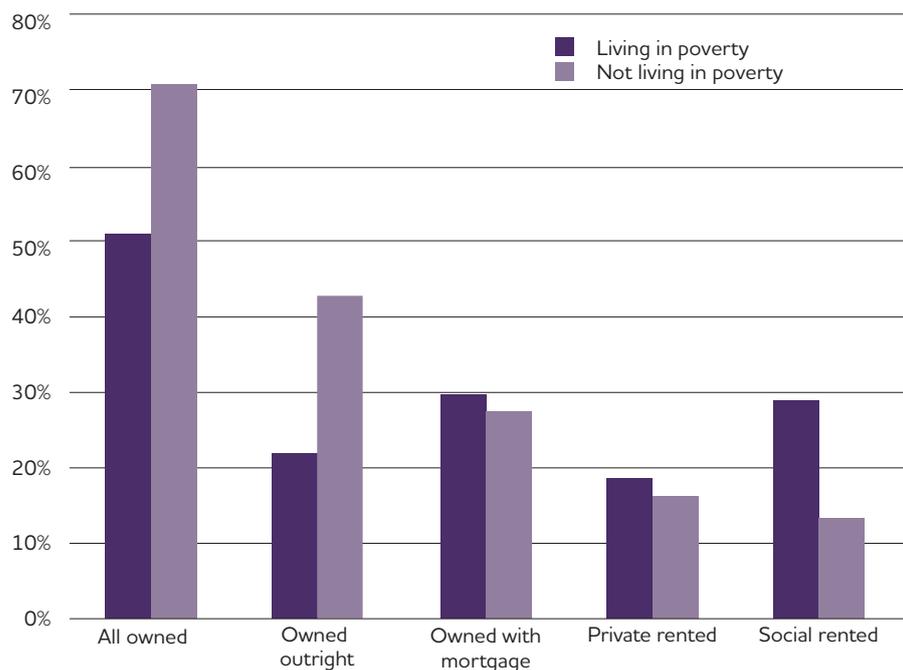
Since the 1980s, researchers have commented on the increasing proportion of social housing residents who were disadvantaged (e.g. Forrest and Murie, 1988; Tunstall, 2011). The relationship between social rented tenure or

rented tenures, and low income and deprivation is so strong that many broad social science studies, medical studies and even indices of deprivation have used tenure as an all-purpose indicator of disadvantage (e.g. Townsend, 1987).

Home ownership and poverty

However, as Figure 4 suggests, renting is neither necessary nor sufficient for identifying poverty: not all renters are living in poverty, and not all people in poverty are renters (Burrows, 2003). The shrinking size of social renting since 1981 has meant that it could not continue to account for a growing proportion of all disadvantaged people. Instead, the growing tenure of home-ownership has accounted for a growing proportion of all people on low incomes. The proportion of those in owner-occupier households in the lowest income tenth was 39 per cent (BHC) in 1979, but grew to reach half those living in poverty at 51 per cent by 1990/91, more than 20 years ago. Since then, 1990/91–2010/11, the proportion of those living in poverty who were home-owners rose from 51 per cent to 53 per cent (Table 1). Over the period 1990/91–2010/11, the proportion of all people living in poverty who were social tenants fell from 41 per cent to 29 per cent, and the proportion in the private rented sector rose from 8 per cent to 19 per cent (Pawson and Wilcox, 2012).

Figure 4: Housing tenure of those living in poverty and not living in poverty, UK, 2010/11



Source: DWP, 2012a

Tenure and poverty over time

Exploring associations between tenure and poverty over time for individuals and households may provide additional insights. Poverty is defined as 'persistent' when people experience income below 60 per cent of median (before housing costs) for three out of four years. In 2005–08 those living in social renting in Great Britain accounted for 36 per cent of all those experiencing persistent poverty, although comprising about a quarter of those living in poverty at any one time. In contrast, home-owners accounted

for 58 per cent experiencing persistent poverty, although comprising about half those living in poverty. Those living in the private rented sector accounted for just 5 per cent of all those in persistent poverty.

Those in social housing experience not only higher poverty rates and greater persistent poverty but also higher poverty entry rates and shorter median periods outside poverty (Table 1). Unlike other studies of the link between tenure and poverty reported so far, this study includes controls for several household characteristics.

Table 1: Modelled poverty experiences, by tenure

	Poverty rate	Poverty persistence rate from year to year (of those living in poverty)	Annual poverty entry rate (of those not living in poverty)	Median poverty spell duration	Median non-poverty spell duration
In social housing	23%	51%	15%	1.0 years	4.3 years
In any other tenure	12%	48%	7%	0.9 years	9.9 years

Note: Household includes married couple with one child aged 5–11; a man aged 40, working full-time, is the sole worker in household, has no A-levels. All of European origin.

Source: Jenkins, 2011, Table 11.4

The relationship between poverty and tenure

Some studies using controls have been able to demonstrate that poverty influences housing tenure. Hobcraft and Kiernan (2001) estimated that for people born in 1958, any experience of childhood poverty increased an individual's chances of being in social housing at the age of 33 by about 25 per cent, compared with people who were not in poverty at any time in childhood. Sigle-Rushton has demonstrated a similar pattern for those born in 1970 (2004). However, Jenkins (2011) found that tenure could predict poverty: social housing tenure was a predictive factor for falling into poverty over the next year, second only to minority ethnicity among variables tested, although numerous other social and demographic factors were also involved and some of these are themselves associated with housing tenure.

In contrast, the majority of the large number of home-owners living in poverty at any one time entered poverty after having entered the tenure (Burrows, 2003; Meadows and Rogger, 2005). They may have entered poverty by becoming ill, losing their job, experiencing relationship breakdown or following retirement. Mortgage market innovations from the 1990s, such as the development of adverse credit and self-certification loans reflecting greater risk, allowed households on lower incomes, potentially including some on poverty incomes, to enter home-ownership (Munro, *et al.*, 2010). As Townsend, the famous poverty researcher warned, '... too much importance is attached to categorisation by tenure and too little to the variations within each form of tenure ...' (1987, p.132).

While UK income inequality increased from 1997/99–2006/08, inequalities between tenures reduced slightly, and inequalities within tenures grew (Hills, *et al.*, 2010). Poverty rates vary between household types as much if not more than they do between tenures. For example, among social renters, children and adults of working age have higher poverty rates, at

52 per cent and 47 per cent AHC, respectively, but adults of pension age have poverty rates no different to the average for the population as a whole, at 20 per cent AHC. Children and adults of working age in private renting have higher poverty rates than those of pension age. However, the difference between age groups is less stark than in social renting, because pensioners in private renting still have above-average poverty rates AHC at 27 per cent. This pattern is repeated across the EU (Stephens, *et al.*, 2010; Stamsó, 2010; Norris and Fahey, 2011; Yates and Bradbury, 2010; Stephens and van Steen, 2011). However, the age effect is particularly important in the UK where the 'replacement rate' – that is, the proportion of former income that a basic state pension covers – is low in comparison with other countries: 34 per cent in the UK, compared with 81 per cent in the Netherlands (Toussaint and Elsinga, 2009).

Kemeny (1995) and Castles (2004) both argued that less generous welfare systems, including less generous pension systems, are associated with countries with higher rates of home-ownership. There is a positive relationship between the poverty rate and the home-ownership rate across eleven EU countries, and it has been suggested that home-ownership is being used as a supplement to state pensions (Watson and Webb, 2009). These writers imply that unequal incomes and high poverty rates caused high national home-ownership, although association does not necessarily imply causation.

Poverty and homelessness

Homelessness is the most extreme form of 'housing deprivation': homeless people have no settled, secure place to live. It seems likely that people in poverty are very much over-represented in homelessness, however defined.

The causes of homelessness have been researched extensively. The literature illustrates the complexity of establishing links between income and specific housing outcomes. Falls in income and low income can make it difficult for people to maintain secure housing, for a new household to get a home, or for a household that has lost its home to secure another. However, poverty is rarely cited as a sufficient, or even the main, cause of homelessness. Most people who are 'poor', however defined, do not become homeless.

However, Fitzpatrick, *et al.*, (2011) argued that there would be a clear link between low income and homelessness if it were not for Housing Benefit: '... social security systems, and especially housing allowances ... are what usually 'breaks the link' between losing a job or persistent low income and homelessness' (p.19).

In addition, the UK's homelessness legalisation provides housing rights to certain households (those that are accepted as unintentionally homeless, in priority need and eligible for assistance), which ensures that they will be provided with at least temporary housing, alongside housing allowances.

The relationship between poverty and homelessness is complex, and appears likely to be influenced by housing supply, cost and other factors. The causes of homelessness have been debated and researched for decades (e.g. Busch-Geertsema, *et al.*, 2010; Fitzpatrick, *et al.*, 2009; Jones and Pleace, 2010), and more attention has been devoted to this subject than to the causes of other forms of housing deprivation or other more positive housing circumstances. It is now widely accepted that homelessness is caused by a complex interaction of factors, both structural (such as poverty rates, unemployment and housing market conditions) and individual (e.g. mental ill health and/or substance misuse, and, generally only by implication,

Poverty is rarely cited as a sufficient, or even the main, cause of homelessness.

individual poverty) (Fitzpatrick, 2005; Neale, 1997; Pleace, 2000; Fitzpatrick, *et al.*, 2011). Structural explanations of homelessness came to dominate in the 1960s and 1970s when researchers and housing pressure groups increasingly emphasised the role of factors such as high unemployment, housing shortages and poverty. This view was supported by evidence suggesting that many homeless men living in shelters had no support needs, and that their primary problem was that they could not afford housing (Macgregor Wood, 1976; Drake, *et al.*, 1982). Nevertheless, since that time, almost every piece of research on homeless people, including families, has found that *some* homeless people suffer compound disadvantage; they experience social and economic marginalisation coupled with high support needs, which may make them more vulnerable to homelessness and can make it difficult for them to leave homelessness and to resettle when they are re-housed.

Less well understood is *how* these factors interact to cause homelessness, and why some people who may experience one or more of these structural or individual factors do not become homeless. As Koegel notes:

... the factors that explain contemporary homelessness are so complex and intertwined ... 'cause' can refer to many things – distal (more distant, though no less important) versus proximal (more immediate) conditions, for instance, or predisposing factors versus precipitating adverse events, or individual cases versus aggregate trends.

– Koegel, 2007, p. 245

Similarly, Fitzpatrick, *et al.* (2011) have noted that theoretical, historical and international perspectives all indicate that the causation of homelessness is complex. There is no single trigger that causes homelessness. Structural, individual and interpersonal factors all play a role and interact with each other, and the balance of causes differs over time, across countries and between demographic groups.

Pleace (2000) has argued that people with personal problems are more vulnerable to adverse social and economic conditions than other people and, therefore, the high concentration of people with support needs in the homeless population can be explained by their susceptibility to structural forces, in particular housing market trends and policies, which appear to have the most direct impact on levels of homelessness (Fitzpatrick, *et al.*, 2011). Fitzpatrick (2005) suggests that a variety of risk factors can combine in various ways to heighten the risk of homelessness. The more someone exhibits individual risk factors and/or is exposed to structural risk, the greater the risk that they will become homeless.

Surveys of homelessness

There have been few large-scale studies of homelessness in the UK, and monitoring data from homelessness service providers is patchy (Jones and Pleace, 2010). The last major survey of single homeless people was conducted in 1991 (Anderson, *et al.*, 1993). A major national survey of family homelessness in England was conducted in the mid–late 2000s (Pleace, *et al.*, 2008) and, more recently, a major quantitative study was conducted of Multiple Exclusion Homelessness (MEH) a sub-group of homeless people who have also experienced institutional care, substance misuse or begging, sex work or 'survival' shoplifting (Fitzpatrick, *et al.*, 2011).

Local authorities record the reasons why they accept a household as homeless but it is recognised that these recorded reasons may often obscure a complex chain of events that preceded the episode of

homelessness. Further, the causes of homelessness can be exacerbated by overcrowding, living in deprived areas, racism and discrimination. It is recognised (although it is difficult to estimate the numbers involved) that there is an increasingly large group of families who are very difficult to help. These households experience recurrent episodes of homelessness, may be involved with social services, in domestic violence, and may be financially poor or in debt. However, as Fitzpatrick and Pleace (2009) stress, while there is a group of families with complex support issues relating to substance misuse and mental health, they are in the minority and cannot account for the majority of statutory homelessness among families.

In percentage terms, the immediate homelessness triggers for families and vulnerable single people housed by local authorities in England have remained fairly consistent over the last 20 years. The main cause of homelessness among those accepted as unintentionally homeless, in priority need and eligible for assistance, since 1991, has been eviction by parents, relatives or friends (34 per cent in 2011/12). Family breakdown has also been a significant cause of homelessness over the last 20 years (18 per cent in 2011/12 – with almost 70 per cent of these cases involving violence). Overall, however, relatively little is known about the personal, social and economic circumstances of homeless families and other vulnerable people accepted as homeless by local authorities.

A more detailed survey of family homelessness in England (Pleace, *et al.*, 2008) found similar immediate reasons for applying as homeless among households accepted as statutorily homeless; that is, relationship breakdown (38 per cent), eviction/tenancy ended (26 per cent) and overcrowding (20 per cent). Only seven per cent of households reported problems with paying the rent or mortgage. However, relationship problems may be triggered or exacerbated by financial problems. As noted, two-thirds of these families were workless and almost all were dependent on means-tested benefits or Tax Credits. The cause of homelessness among young people and single homeless people is also generally regarded to be the result of a complex interaction between individual circumstances and structural factors. These may include relationship breakdown, having spent time in institutional care, violence, eviction and disadvantaged or poor backgrounds, all of which are associated with low income (Pleace, *et al.*, 2008; Quilgars, *et al.*, 2008). It is also sometimes the case that homeless people have support needs or 'risky behaviours' (such as substance misuse or anti-social behaviour). These behaviours are themselves rooted in the pressures associated with disadvantage, poverty and exclusion (Fitzpatrick, *et al.*, 2011; Jones, *et al.*, 2002, 2006). Fitzpatrick, *et al.* also make the point that:

... 'anchor' social relationships which can act as a primary 'buffer' to homelessness can be put under considerable strain by stressful economic circumstance.
– Fitzpatrick, *et al.*, 2011, p.5

The MEH study found that just over one-fifth (21 per cent) of MEH reported that they had grown up in workless households and 15 per cent reported there was sometimes not enough to eat at home. As adults, 6 per cent had experienced bankruptcy and 6 per cent had their home repossessed. Statistical analysis showed that factors associated with more complex MEH experiences included having been welfare dependent for most of one's adult life.

Do housing policies partly break the link between lower incomes and worse housing conditions?

A widely held perspective asserts that intervention in the market through housing policies (such as the provision of housing at below-market rents/ prices targeted on those with lower incomes; housing allowances, like Housing Benefit, to help tenants on low incomes to pay their rent; support for those without secure housing via homelessness legislation; and regulation of housing standards) partly breaks the link between lower incomes and/ or worse labour-market positions and poorer housing conditions, so that people with lower incomes have better housing than they otherwise would have.

The evidence outlined above provides some support for this argument. Not all of those in poverty experience undesirable housing conditions, but some of those who are not in poverty do experience undesirable housing conditions. The strength of the link varies between different aspects of housing and neighbourhood quality.

How the housing system can prevent poverty

Using data from the UK and the Netherlands, Stephens and van Steen (2011) suggest that housing systems do not automatically reproduce inequalities generated by the labour markets and welfare systems. Instead, 'the housing system can do much to "correct" for ... poverty' (Stephens, *et al.*, 2010, p. 4). The key issues are not whether or not this is true but to what extent it is true. We should ask how much greater is the risk of worse housing circumstances for people living in poverty, and whether any others also experience bad circumstances, and to what extent the most direct link between income and worse circumstances is broken. An extension of the above argument says that the nature of the UK housing system partly compensates for relatively high levels of poverty and unemployment, and a relatively ungenerous social security system, compared with some other countries (Bradshaw, *et al.*, 2008). So, the UK housing system may be the 'saving grace' of the British welfare state, preventing poverty and material deprivation that would otherwise occur. Stephens, *et al.* made a similar argument (2010). The UK welfare state is usually categorised as a 'liberal' one, sharing features with the USA and Ireland (Esping-Andersen, 1990). It has '... a social insurance system with weak or absent earnings-related elements and benefit levels that are often set below social assistance rates' (Stephens, *et al.*, 2010, p.19).

The combination of the UK's welfare regime, and its labour market and economy, result in relatively high employment rates, alongside relatively high income poverty (Ward, *et al.*, 2009; Stephen, *et al.*, 2010, HM Government, 2010).

The uniqueness of the UK housing system

Three elements make the UK housing system stand out when compared with others in Europe. First, Housing Benefit in the UK makes up a relatively high proportion of gross domestic product (GDP), reaches high proportions of the population, makes up a high proportion of the income of non-working households (often a higher proportion than unemployment benefit), is relatively effective at reaching households living in poverty (with a high proportion of all households living in poverty in receipt) and is relatively efficient at doing so (with relatively few people not living in poverty in receipt) (Kemp, 2007). This makes it relatively costly, and current policy aims to try to reduce overall expenditure. Taxation and pensions make a

'The housing system can do much to "correct" for ... poverty.'

Stephens, *et al.*, 2010

fairly limited contribution to reducing inequality in incomes derived from employment, but other benefits – including Housing Benefit – make a particularly large contribution to reducing inequality (and therefore relative poverty) measured after housing costs (Ward, *et al.*, 2009). Second, UK social housing is particularly closely targeted on households on low incomes. It is a relatively large tenure and reaches a high proportion of these households. Given rents and allowances, it is relatively affordable and is relatively good quality. Third, the UK housing system provides a particularly strong system of housing rights to selected households with low assets and often with low incomes (Fitzpatrick, *et al.*, 2011).

The saving grace argument has not been articulated in detail, but could include three comparisons to measure the extent of the ‘buffer’ effect:

- 1** the gap between people in poverty and others in terms of housing deprivation compared with other types of deprivation;
- 2** the gap in terms of housing deprivation in comparison with other countries;
- 3** the gap in comparison with those found in other parts of the UK welfare state.

There is some evidence to support the first two of these comparisons, but more data is needed to assess the idea fully.

On the first comparison, people experiencing poverty in London in the late 1970s experienced less housing deprivation than people experiencing poverty in Paris (Madge and Willmott, 1981). Berthoud, *et al.* found an ‘exceptionally weak underlying relationship’ (2004, p.92) between income and their measures of housing deprivation, in marked contrast to the strong link between income and other aspects of material deprivation. The mixed results seen in Figures 1 and 2 suggest a weak relationship between income and housing deprivation (measured by house and neighbourhood features). The UK has among the highest satisfaction with housing among 27 EU member states, and it also has the smallest gap between people in poverty and other people in satisfaction (Lelkes and Zolyomi, 2009). Gaps in other measures are also generally smaller, although this is not true for perceived space, rot, damp and leaks. It should be noted that the 27 member states include some with low GDP per person, compared with that of the UK.

Overall, the saving grace argument is a provocative one, but evidence is not strong enough to declare it proven or disproven. This highlights the overall conceptual and evidence difficulties in describing exactly to what extent the link between poverty and housing circumstances is broken by housing and welfare policy, families, employers and borrowing.

5 THE IMPACT OF HOUSING CIRCUMSTANCES ON POVERTY AND MATERIAL DEPRIVATION

A frequently heard argument is that poor physical housing conditions or insecure housing affect child development and damage the physical and mental health of adults. They are a preoccupying priority for affected people that can affect the ability to gain employment and higher earnings.

Do poor housing conditions create poverty and unemployment?

There is a substantial body of evidence, mostly with a medical focus, showing that poor housing conditions affect some aspects of child development or elements of adult health. Evidence to support the next step of the argument is less convincing, although this is probably partly due to the complexity of establishing causation in such a broad field.

After more than a century's research in the field, housing circumstances have been shown to be important for health. These include: overcrowding (linked to infectious/respiratory disease); damp and mould (linked to respiratory disease, eczema, asthma and rhinitis); indoor pollutants and infestation (linked to asthma); low temperature (linked to respiratory infection, hypothermia, bronchospasm and heart disease); homelessness (linked to a range of conditions); and unpopular, stigmatised or poor housing and neighbourhood conditions (linked to poor mental health) (Marsh, *et al.*, 2000). Studies of people born in 1958 and 1970 demonstrate sharp

reductions, within generations and between generations, in the incidence of many of these health-threatening housing circumstances, such as lack of sole use of hot water, toilets and bathrooms, and overcrowding (Marsh, *et al.* 2000, Lupton, *et al.* 2009). It seems likely that improvements in housing conditions played a role in improvements in health during the 20th century. Other studies, which do not take housing into account directly, demonstrate a link between improved child and adult mental and physical health, and higher rates of employment and earnings (Currie, 2009, Minton, *et al.*, 2012).

An authoritative Cochrane review of evidence noted that few studies of housing improvements and health meet the very highest methodological standards (Thomson, *et al.*, 2001).² In addition, while the steps in the argument are plausible, no studies appear to have linked physical housing conditions all the way to income and employment. Nevertheless, the authoritative Marmot Review Team summarised the position by saying that poor-quality or insecure housing may create the risk of poverty or exacerbate the effects of poverty on living standards and life chances (Marmot Review Team, 2011).

Do housing costs create poverty and material deprivation?

A well-known perspective is that direct housing costs, such as rent and mortgages, and other costs of setting up and running a home, take up a large proportion of household budgets. This means that people on low incomes (especially if paying market housing costs and not receiving Housing Benefit) have less income available after paying for housing, and are more likely to experience poverty after housing costs (AHC) and/or to experience material deprivation than other people on low incomes.

There is strong evidence to support this argument. The difference that housing costs make to discretionary income, and therefore, potentially, to all aspects of living standards and material deprivation other than housing, is discussed above. Among those who have housing and are not homeless, housing costs constitute the most important and most direct impact of housing on poverty and material deprivation. Not taking housing costs into account means we significantly underestimate the risk of low discretionary income and material deprivation overall and particularly for workless households, people in London and the South East, minority ethnic groups, single people and renters. It means that the targets set in the Child Poverty Act 2010 may overlook many children living in poverty.

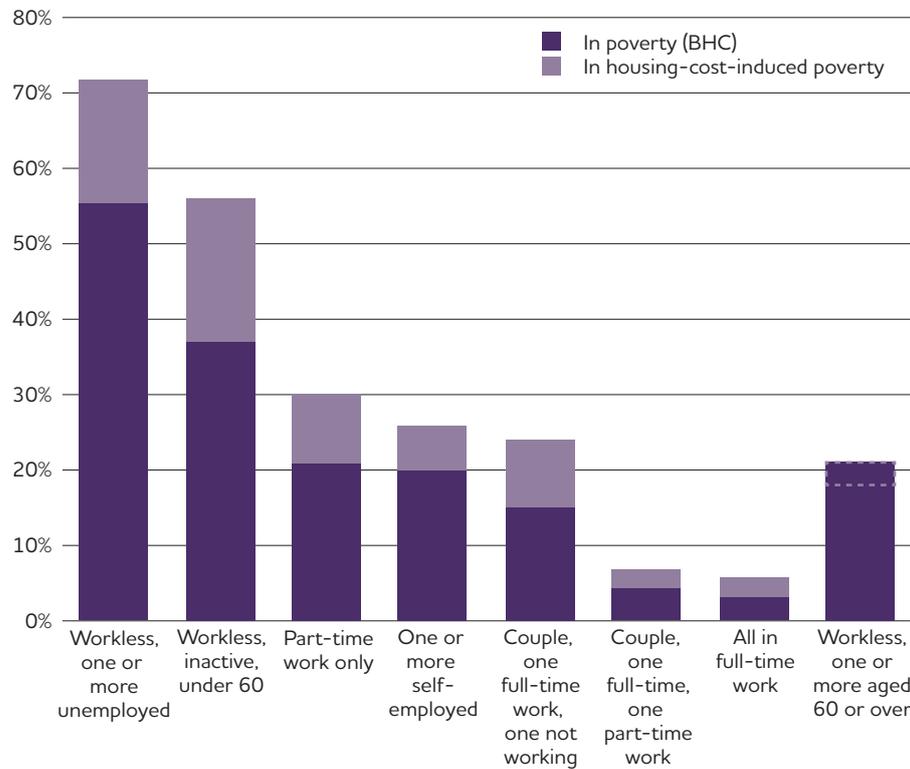
Overall, five per cent more of the UK population, or 3.1 million people, experienced poverty incomes AHC than living in poverty BHC. This is because incomes are more unequal AHC and wider spread from the median than BHC (DWP, 2012a), and also because, as conventionally measured, incomes BHC include Housing Benefit, which is targeted on people with low incomes and so has a redistributory effect (Ward, *et al.*, 2009).

Households not living in poverty BHC but living in poverty AHC have been described as being in 'housing-cost-induced poverty' (Stephens, *et al.*, 2010, see also Stone, 2006; Tang, 2012). Housing costs make a bigger difference to discretionary incomes than fuel or other costs. Nevertheless, the concept of housing-cost-induced poverty is much less recognised than 'fuel poverty'; and unlike fuel poverty, it has not been subject to any explicit policy attention.

Poor-quality or insecure housing may create the risk of poverty or exacerbate the effects of poverty on living standards and life chances.

The nature of people defined as in poverty and their housing circumstances also changes substantially if we ignore the effect of Housing Benefit as income and focus on discretionary income remaining AHC. Figure 5 shows the difference between poverty rates BHC and AHC for various groups, and demonstrates the extent of housing-cost-induced poverty.

Figure 5: Poverty BHC and housing-cost-induced poverty by household employment status, UK, 2010/11



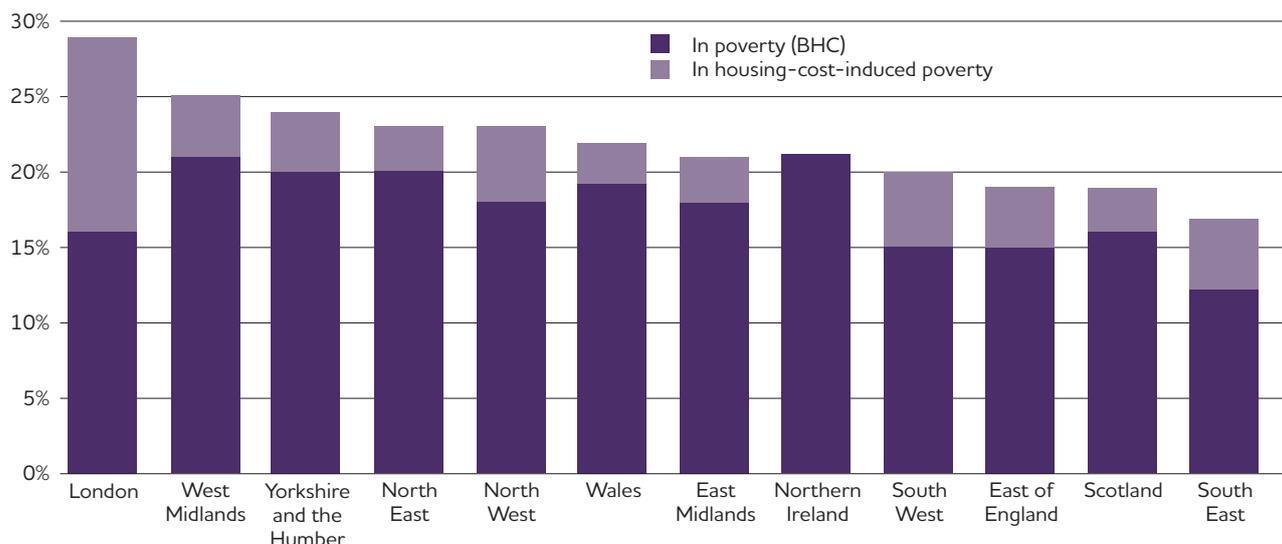
Source: DWP, 2012a

Workless households (whether members are unemployed or economically inactive) face much higher poverty rates than households with at least one member working. However, they are also particularly likely to experience housing-cost-induced poverty. Households with at least one full-time employee have very low poverty rates, but these are approximately doubled once housing costs are taken into account.

Poverty rates vary by region, but the impact of housing costs is very marked. Before housing costs are considered, poverty rates in London are the lowest for any region except the South East. However, poverty rates almost double in London when poverty induced by housing cost is considered. One million of the total 3.1 million people affected by housing-cost-induced poverty were in London, reflecting high housing costs in the city (Aldridge, *et al.*, 2011). Nearly half of housing association tenants in London are in poverty AHC, despite their below-market rents (Tang, 2012). The difference between poverty rates BHC and AHC is also marked in the South East. Northern Ireland is an exceptional case, as the only area where housing costs do not add to poverty rates, largely due to high home-ownership rates.

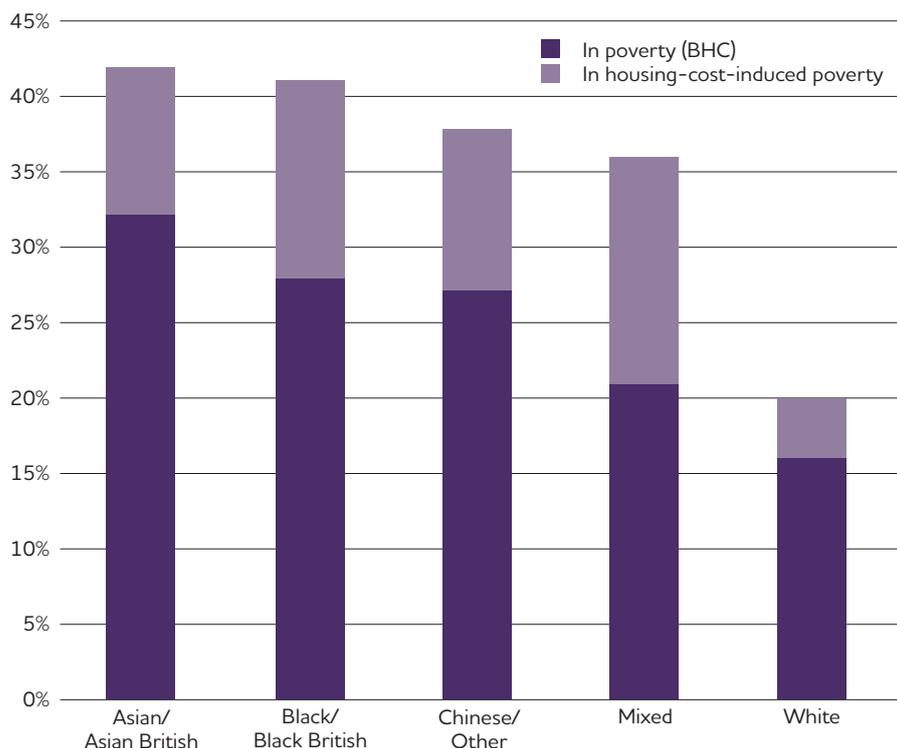
Minority ethnic groups face higher poverty rates than white people, but are also particularly likely to experience housing-cost-induced poverty.

Figure 6: Poverty BHC and housing-cost-induced poverty by region, UK, 2010/11



Source: DWP, 2012a

Figure 7: Poverty BHC and housing-cost-induced poverty by ethnicity, UK, 2010/11

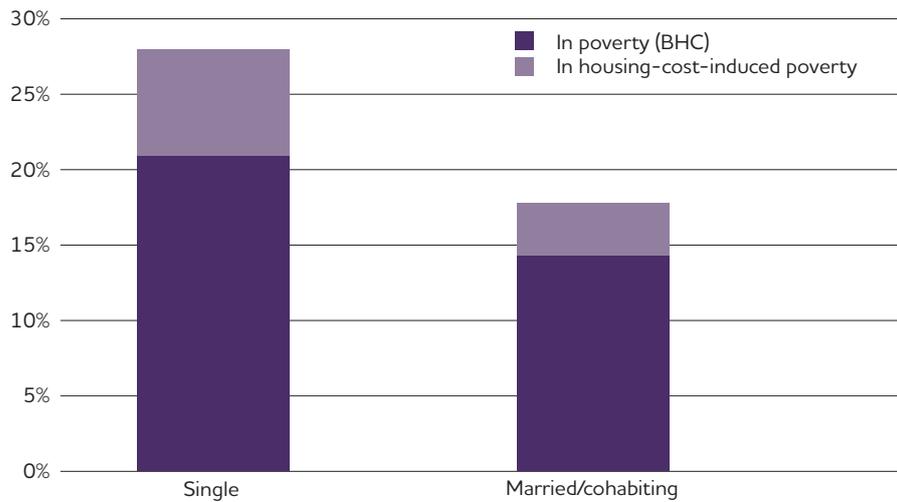


Source: DWP, 2012a

The proportionate impact is particularly significant for those of mixed ethnicity. This may be partly because minority ethnic populations are more concentrated in higher-cost housing areas such as London, and include higher proportions of renters and children than white groups. Nevertheless, this suggests that housing-cost-induced poverty creates ethnic inequalities.

Housing-cost-induced poverty creates ethnic inequalities.

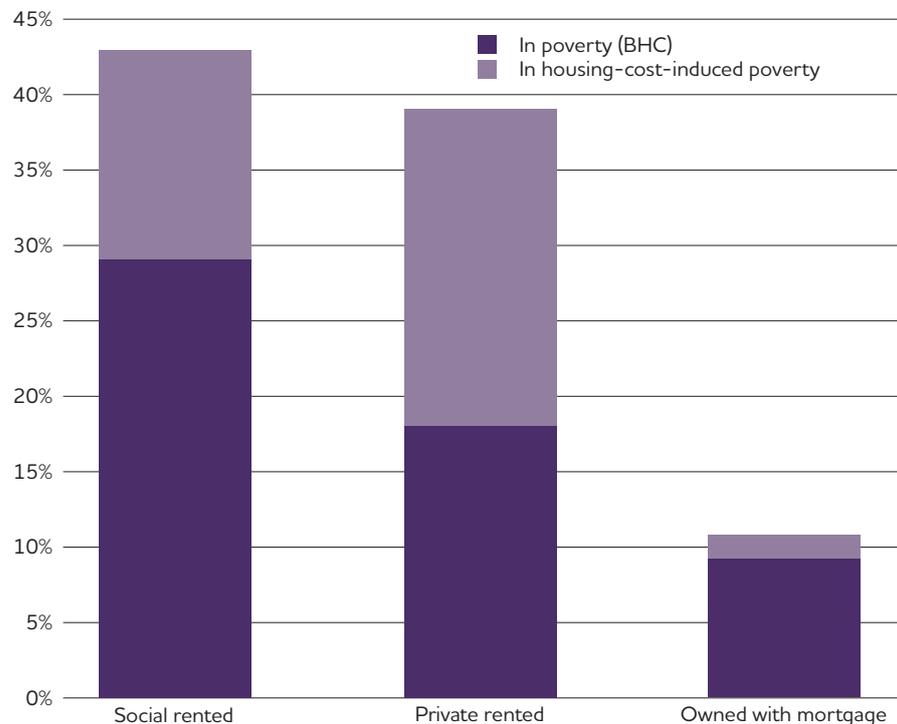
Figure 8: Poverty BHC and housing-cost-induced poverty by marital status, UK, 2010/11



Source: DWP, 2012a

Single people face higher poverty rates than people who are married or cohabiting, but are also particularly likely to experience housing-cost-induced poverty. This may be partly because of differences in household size.

Figure 9: Poverty BHC and housing-cost-induced poverty by housing tenure, UK 2010/11



Source: DWP, 2012a

People in rented tenures face higher poverty rates than home-owners before and after housing costs. However, they are also particularly likely to experience housing-cost-induced poverty. Measuring income AHC means

that almost half of all social renters are living in poverty. The proportion of private renters living in poverty more than doubles, from 18 per cent to 39 per cent, once their housing costs are taken into account. In contrast, housing costs make little difference to the poverty rates of home-owners with mortgages.

Therefore, the housing system, including Housing Benefit, housing costs and tenure, all play a very important part in the level of income remaining after housing costs, particularly for workless households, people in London and the South East, minority ethnic people, single people and renters. This housing-cost-induced poverty has an impact on people's standard of living. Berthoud, *et al.* (2004) found that after controlling for income (BHC) – and also for income sources, age, qualifications and housing tenure – material deprivation was 'substantially' higher in London, and lower in the North East of England, than in other regions, apparently because higher housing and other costs mean income (BHC) goes less far in London. So the housing system plays an important role in material deprivation. If we are concerned about reducing material deprivation, we should take account of income AHC, and pay more attention to the issue of housing-cost-induced poverty and groups affected by it.

The number of people in housing-cost-induced poverty has increased over the past two decades (DWP, 2012a). This is likely to be due to rising rents and rising Housing Benefit costs, as higher proportions of renters were found in the private rented sector and social rents rose (Davis, *et al.*, 2012). Current housing policy in England is moving towards greater convergence between social and private rents. However, any further rises in rents, and increasing numbers of people affected by a shortfall between Housing Benefit and rent, would increase housing-cost-induced poverty further.

In an historically unusual development, median real incomes fell between 2009/10 and 2010/11 (DWP, 2012a). The fall in incomes AHC was generally more than the fall BHC, except for those in the lowest income fifth (DWP, 2012a). Therefore, their housing costs and benefits were protecting them more than other groups against this short-term income change.

Does low-cost housing prevent poverty and material deprivation?

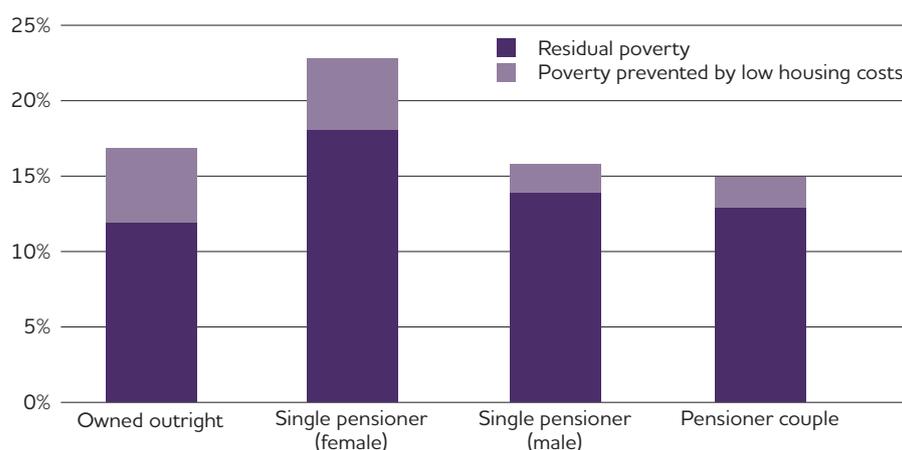
There is substantial evidence to support the idea that low-cost housing prevents poverty and material deprivation.

Groups with low or no housing costs

Surprisingly large proportions of the population (considering individuals rather than households) either have no rent or mortgage to pay, or have housing costs below market levels. This includes: people who have paid off mortgages or inherited their homes (17 million); social renters (10 million); children and adults living in homes provided cheap or rent free – for example, by family and friends or employers; people in low-cost home-ownership and shared ownership; and squatters and people who are roofless. In total, these groups probably account for more than half the population. Those claiming Housing Benefit have housing costs that are partly or fully met for them (as discussed above). Some of these people may have other housing costs: for example, those who have paid off mortgages will definitely still need to pay for home maintenance. However, this evidence challenges the idea that housing for individuals – as opposed to housing for households – is mainly distributed through the market.

Figures 5–9 demonstrated how housing costs increase the risk of living in poverty for some groups. However, for some groups with low or no housing costs (those who have paid off their mortgage, for example) the reverse is true: the risk of poverty is lower for income AHC than BHC. The result is a significant change in the number and composition of those living in poverty, and at risk of material deprivation AHC. Figure 10 indicates the extent of poverty prevented by low housing costs. Notably, a significant proportion of poverty among the potentially overlapping groups of outright home-owners and older people, particularly single female pensioners, disappears if incomes AHC are calculated.

Figure 10: Poverty prevented by low housing costs (poverty BHC minus poverty AHC) for different groups, UK, 2010/11



Source: DWP, 2012a

This is evidence that home-ownership might prevent poverty for a minority of poorer home-owners, in one sense. However, only a controlled study can indicate whether it is tenure itself or variations between people in different tenures which might be the real explanation for the differences in material deprivation. Housing tenure, particularly in later life, may act as a better indication of medium-term or lifetime income than current income. Older home-owners may have acquired material goods in the past when incomes were higher. As such, no firm conclusion can be drawn. This is important to note, as the argument that home-ownership might actually create higher income in later life rather than redistributing income through the life course, protecting people from poverty in old age, has been among the arguments for supporting the growth of the tenure. The distinct question of whether equity can be released to reduce poverty risk is dealt with later.

Cash benefits

Research conducted across the 34 member countries of the OECD showed that cash benefits (including Housing Benefit) had the biggest impact on the reduction of overall income inequalities. However, in-kind government services, including social housing, also reduced inequality and therefore were likely to reduce relative income poverty. Social housing had less overall impact than some other services, largely because it usually served relatively small parts of the population, but it made 'a great difference to beneficiaries' (OECD 2011, p. 312).

A UK study, almost 80 years old, carried out in a period with no Housing Benefit, showed that moves from poor-quality private rented housing to new

council housing were associated with worse diets and higher child mortality, because the council rents were higher and led to a reduction in residual income AHC (or an increase in housing-cost-induced poverty) (McGonigle and Kirby, 1936). US research also provides useful recent evidence, as US housing allowance coverage is fragmentary. Harkness and Newman (2005) compared child outcomes in US metropolitan areas with different housing costs and affordability. After numerous controls, children from areas where housing was more affordable had better behaviour, physical and emotional health, and school engagement and performance, and there appeared to be a cumulative effect for older children. The authors attributed the difference to greater residual household income AHC. Fletcher, *et al.* (2009) showed that rent increases, up to the equivalent of £30 a month at 2010 prices, were associated with a modest increase of three per cent in renters living in poverty and also experiencing food insecurity ('difficulty providing sufficient food for all household members at some point in the past year due to lack of resources'). This level of rent increase is smaller than the Housing Benefit shortfalls experienced by many UK private rented tenants in 2011 (Beatty, *et al.*, 2012). This suggests that UK private tenants may also be at increased risk of food insecurity.

Children from areas where housing was more affordable had better behaviour, physical and emotional health, and school engagement and performance.

Low rents

US public housing tenants (almost necessarily below the US 'poverty line' due to entry restrictions) generally pay a fixed 30 per cent of their income on rent, and because they tend to have very low incomes, this means rents are well below market levels. Several studies appear to show a positive public housing 'tenure effect' on material deprivation, due to the higher residual income AHC and lower rates of housing-cost-induced poverty for public tenants, compared with private tenants. Families in public housing spent a lower proportion of their income on rent than did other families living in poverty. Although no difference was found in height and weight between the two groups of children, 19 per cent of those in public housing were anaemic, compared with 30 per cent in higher-cost housing (Currie and Yelowitz, 2000). Meyers, *et al.* (2005) compared children aged up to three in public housing with those in other tenures. About a fifth of both groups were 'food insecure', but a smaller fraction of those in public housing were underweight, even after controlling for socio-economic factors and the receipt of welfare payments. The authors warned, 'decreases in housing subsidies may further compromise the nutritional status of low-income children' (p. 553). After controls, Frank, *et al.* (2006) found that children living in poverty in households that had received an intervention to improve home energy efficiency – a means to increase residual income after wider housing costs – were less likely to be underweight and to experience hospitalisations than those from other households.

No UK studies appear to have examined the extent to which housing subsidy and sub-market rents (separate from housing allowances) contribute to reduced poverty or material deprivation. In part, this may be because in cash terms those subsidies are relatively low, and even negative for the council housing sectors in England and Wales (Pawson and Wilcox, forthcoming, 2013). Those cash figures, however, reflect the benefits of landlords' historic cost accounting, and the implicit economic subsidies from sub-market rents continue to have a high value. For the social housing sector in England as a whole, those subsidies were estimated at a value of some £6.7 billion in 2007/08 (Wilcox, 2009).

Rising social rents

It is important to note that relative housing costs have changed over time, and vary by place. In 1980, private rents were 10 per cent of average weekly earnings but in 2009 the proportion was 24 per cent. Council rents grew from 7 per cent to 11 per cent and housing association rents grew from 11 per cent to 13 per cent of average weekly earnings (Pawson and Wilcox, 2012). Current 'affordable rent' policy allows social landlords to increase rents on some homes to 80 per cent of market levels and, in some regions and neighbourhoods, social rents are already close to private rents. Davis, *et al.* (2012) noted that 'the rising cost of social housing ... can have huge effects on minimum household spending requirements' (p. 27).

Does variation in housing costs between areas affect poverty and material deprivation?

Regional and local variation in housing costs, other living costs and incomes have a substantial impact on total numbers of people defined as living in poverty, their location and characteristics, and the extent to which people in poverty experience material deprivation. One million extra Londoners are poor once housing costs are taken into account. Variation between places has been overlooked in research on poverty and material deprivation.

Regional variations in incomes and costs

Income from wages, housing costs and other living costs vary substantially by region and neighbourhood across the UK. Average incomes vary markedly across the regions of the UK, because although income from benefits is standard nationwide, income from wages varies distinctly. People living in the northern and Midlands regions of England, in inner London, Wales or Northern Ireland (DWP, 2012a), and in deprived neighbourhoods (Hills, *et al.*, 2010) are at higher risk of absolute poverty in terms of any set absolute poverty line, and relative poverty in terms of national median incomes. The 'median income' used in defining poverty in the UK and other countries is usually the median national income. However, world, regional, labour or housing market or social group medians might also be appropriate. For example, in the USA, metropolitan area median incomes are used to determine what level of rent is 'affordable' to people in that area and to set public housing rents (Currie and Yelowitz, 2000). If regional median incomes were used to define poverty in the UK, a greater proportion of national poverty would be identified in higher-income areas such as the South East of England and suburban areas.

The relationship between incomes and costs

An income that might be adequate for all necessities in one area may result in material deprivation in a high-cost area. Regions with low average incomes tend to have lower typical housing costs, although London combines high average incomes and high living and housing costs with a substantial population of people on incomes low even by national standards. Prices and the general cost of living vary by area, so each pound of income has different purchasing power in different places. Considering housing-linked costs, the UK cost of water varies between regional water companies, and this variation is not reflected in any statutory forms of support (Snell and Bradshaw, 2009). Similarly, the proportion of dwellings found to be highly energy inefficient, and which create the risk of fuel poverty, varies from seven per cent in urban areas to 50 per cent in the most rural areas

(Palmer, 2009). Berthoud, *et al.* (2004) found that after controlling for income BHC, as well as for income sources, age, qualifications and housing tenure, material deprivation was substantially higher than average in London, and substantially lower in the North East of England, where costs were low.

Variations in housing costs and Housing Benefit

Housing costs are not only a substantial part of household budgets, but one of the elements that varies most substantially by region and neighbourhood (e.g. Davis, *et al.*, 2012). For example, in 2010/11, average weekly council rents for homes of all sizes varied across England from £56 in the North East to £83 in London (Pawson and Wilcox, 2012). Eligibility for Housing Benefit and Housing Benefit 'income' varies according to housing costs. Not all households reliant on benefits or living in poverty are eligible for Housing Benefit. Households living in poverty in the private rented sector are likely to be eligible for Housing Benefit in all regions, as average private rents are higher than social rents in all regions, and markedly higher in many (DWP, 2012a).

For those renters eligible for benefits, while income from other welfare benefits is the same level across the country and regardless of housing, 'income' from Housing Benefit can vary substantially by region and neighbourhood (DWP, 2012a; Davis, *et al.*, 2012). For example, average weekly Housing Benefit payments for tenants in all tenures in 2011 were £71 in the cheapest area of Britain (Yorkshire and Humberside) but £132 in the most expensive (London) (Pawson and Wilcox, 2012). High rents in more expensive regions and neighbourhoods can push income BHC of those claiming benefits, including Housing Benefit, above the 60 per cent national median income poverty threshold. The high rents and high Housing Benefit costs seen in extreme cases, such as desirable parts of London, have been an important part of recent arguments for caps on Housing Benefit and benefits in general. Although residents of these homes may live in attractive regions and neighbourhoods, they may not experience housing conditions – or overall living standards – that are any better than people in other areas; it is entirely possible that they experience worse conditions.

Differences in housing costs and Housing Benefit 'income' mean there are substantial regional differences between incomes and the number of people living in poverty BHC and AHC (Hills, *et al.*, 2010). In 2010/11, 1 million Londoners were not in poverty when income BHC (for some, including Housing Benefit) was considered, but were in poverty in terms of income AHC (after relatively high private and social rents and mortgages had been paid).

In addition to variations in housing costs such as mortgages, there are also marked regional variations in the equity held in owner-occupied housing and its overall value (Appleyard and Rowlingson, 2010; Hills, *et al.*, 2010; Pawson and Wilcox, 2012). While access to home-ownership is more difficult in higher-price areas, and likely to be impossible for those living in poverty, once in the tenure, home-owners in these areas have more potential to create and extract equity. Potentially, they can supplement or substitute it for income, and to avoid poverty in their own household or elsewhere in their extended family. However, with the exception of London, the regions with higher prices are the regions with lower levels of poverty. In contrast, the northern regions of the UK and Northern Ireland have been subject to greater negative equity, resulting from lower incomes and lower equity before price falls. More than a fifth of borrowers whose

loans originated close to the market peak in 2007 were in negative equity in Northern Ireland, Yorkshire and Humber, and the North East of England (Purdey, 2011).

Does Housing Benefit prevent poverty and material deprivation?

There is relatively little policy and research argument about the impact of Housing Benefit on poverty and material deprivation. However, Housing Benefit makes a major contribution to reducing housing-cost-induced poverty and preventing material deprivation, and is second in importance only to housing costs themselves.

Availability of Housing Benefit

Housing Benefit is available to all tenants on low incomes. Water rates and some service charges are not included, and since the introduction of 'Local Reference Rent' limits in 1996 some high rents have not been covered. However, until recently Housing Benefit generally covered 100 per cent of the rent of those on out-of-work benefits. The distinctive accessibility and generosity of Housing Benefit compared with housing allowances in other countries has constituted one part of the saving grace argument, which suggests that the UK's housing system partly compensates for its relatively ungenerous welfare state (Bradshaw, *et al.*, 2008).

Housing Benefit enables people to obtain and live in housing that they would not otherwise be able to afford. This is likely to reduce the numbers affected by housing deprivation, and to allow income to be used to reduce the chances of material deprivation. Fitzpatrick, *et al.* (2011) argue that there would be a much clearer link between low income and homelessness were it not for Housing Benefit: 'social security systems, and especially housing allowances ... are what usually 'breaks the link' between losing a job or persistent low income and homelessness' (p.19).

Does Housing Benefit prevent poverty?

Receipt of Housing Benefit, even full Housing Benefit that covers the whole rent payable, does not necessarily prevent poverty either BHC or AHC. In addition, a few who receive full or partial Housing Benefit are not in poverty before or after housing costs. However, Housing Benefit that adds to income BHC and meets or helps to meet housing costs can and does prevent poverty, for some claimants, both BHC and AHC, and reduces the severity of poverty for others. In addition, if those who currently receive Housing Benefit were no longer eligible for all or part of the support, they would face increased risk of poverty, material deprivation and housing deprivation. OECD research examining the UK and 26 other countries found that cash transfers, including Housing Benefit, contributed to reducing income inequality and poverty (2008). However, without additional analysis separating Housing Benefit from other income BHC it is not possible to calculate the number of people for whom Housing Benefit prevents poverty.

It is worth noting that not all households living in poverty, whether BHC or AHC, are eligible for Housing Benefit. Housing Benefit is not available to home-owners and thus cannot reach a large proportion of all people living in poverty. Among tenants, eligibility varies with rent levels, which vary widely by tenure and region. In addition, not all households eligible for Housing Benefit take it up. In particular, many tenants do not realise that Housing Benefit is available to those in work, and only about a half of eligible working

tenants receive the benefit (DWP, 2012b). In addition, private tenants have lower claim rates than social tenants. Incomplete take-up of Housing Benefit may result in higher poverty rates, and higher take-up could reduce poverty.

Housing Benefit changes

Housing Benefit changes have an effect on the numbers of people living in poverty BHC and to the extent of housing-cost-induced poverty. From 2012, private rented tenants were able to claim a maximum Housing Benefit (or 'Local Housing Allowance', LHA) set at the lowest 30 per cent of rents for the relevant home size in their broad rental market area, even if their actual rent was higher. An interim report found that some landlords were willing to set the rent payment at the LHA rate. However, 67 per cent of claimants were receiving less Housing Benefit than the rent payable and 79 per cent of more recent claimants had shortfalls (Beatty, *et al.*, 2012). Thus a majority of private renting claimants are either at increased risk of poverty or experiencing more severe poverty. Unless people with shortfalls can raise their income or move, shortfalls will necessarily have an impact on other expenditure, and on standard of living. Beatty, *et al.* found that as a consequence of shortfalls, recipients were spending less on household essentials (42 per cent of recipients), or borrowing money from friends or family (36 per cent). Few had moved, although 18 per cent had looked at lower-rent properties. Housing Benefit is changing further, with a size criterion in the social rented sector and overall benefits cap, which are likely to add to numbers experiencing shortfalls, and the introduction of Universal Credit. These changes are discussed later.

Shortfalls affect income BHC and AHC, and, other things being equal, will result in increased rates of poverty overall and further concentration of renters, and renters in high-cost areas, among those living in poverty. The outturn impacts of these welfare reform measures will also depend on the behavioural responses of both landlords and tenants, and the extent to which local authorities use their budgets for discretionary housing payments to ameliorate their impact. However, the much more fragmentary access of people on low incomes in the USA to housing allowances provides insights into the effects of Housing Benefit in the UK, and the potential effects of reducing eligibility and payments. Looking at a range of welfare benefits, March, *et al.* found that, compared with children in low-income families receiving no benefits, children in households receiving perinatal health and nutrition support, food stamps and a housing subsidy, were more likely to be 'well', less likely to have been hospitalised since birth and less likely to be at risk for developmental delays: 'in short, these programs help protect young children against the worst impacts of multiple hardships' (March, *et al.*, 2009, p.1).

As a consequence of [Housing Benefit] shortfalls, recipients were spending less on household essentials (42 per cent of recipients).

Does state support for home-owners prevent poverty?

State support for home-owners who lose their jobs is limited and while it may reach some people living in poverty, it is unlikely to have a substantial impact on poverty overall.

The welfare 'safety net' for owner-occupiers' mortgage costs has always been more limited than that for social rented tenants' and private rented tenants' rental costs (Ford and Quilgars, 2001). As noted, home-owners do not have access to housing allowances, so poverty rates for home-owners with mortgages are very similar for income BHC and AHC (Figure 9). Burrows and Wilcox (2000) noted that while half those experiencing poverty

were home-owners, 92 per cent of the state's help with housing costs went to tenants. By 2011/12 this figure had increased to 98 per cent (Pawson and Wilcox, 2012).

The main state support for home-owners unable to meet their mortgage payments is Support for Mortgage Interest (SMI), which is payable if people are in receipt of qualifying benefits. Just over half, 53 per cent, of SMI recipients are in receipt of Pension Credit, 32 per cent receive Income Support and 15 per cent Jobseeker's Allowance (DWP, 2011). Many of these recipients are likely to be living in poverty BHC and AHC. In 1995 a waiting period of 39 weeks before SMI would be paid was imposed, with the expectation that borrowers would self-insure against accident, sickness and unemployment for the intervening period, although in practice this did not occur. Those households at greatest risk of income shocks were the least likely to be covered by private insurance (Ford, *et al.*, 2004). In addition, home-owners with a loss of income currently face the maximum possible marginal effective tax rate, as 100 per cent of support is withdrawn when they work over 16 hours per week.

In response to the rapid market downturn in 2008, government decreased the waiting period for SMI from 39 to 13 weeks from early 2009. Evaluations found this amendment to SMI successful in terms of preventing home loss (Munro, *et al.*, 2010). It may have been a buffer against poverty for some. However, other changes, such as limiting the benefit to two years for job seekers, were anticipated to produce greater arrears, exits from home-ownership and/or repossessions (Ford, *et al.*, 2011).

The main focus of research on this issue is on the relative risk of home repossession. Hunter and Nixon (1998) suggested that the weaker safety net contributes to worse outcomes to possession cases for owners. Losing the family home may in itself be a route into poverty, especially for women who can be left with the debt burden after relationship breakdown (Nettleton, *et al.*, 1999).

Finally, there is a strong relationship between housing tenure and benefit take-up, and again, home-owners are disadvantaged. Council Tax Benefit take-up rates are much lower for owners than renters, at an estimated 36–41 per cent, compared with 77–89 per cent for private renters and 87–94 per cent for social renters. Council Tax Benefit due to owners makes up 90 per cent of all unclaimed benefit, totalling £1.8 billion in 2009/10 (Pawson and Wilcox, 2012). Owners are also less likely to claim Pension Credit (DWP, 2012b). A minority of owners constitute a large proportion of all people in poverty; were they to claim all benefits due to them, it is likely that they could be lifted above the poverty threshold.

Does housing equity prevent poverty?

A widely known argument runs as follows:

- Being a home-owner provides people with equity that they can use to replace income, meet essential costs or for discretionary purposes.
- This allows some to prevent poverty in their own household, or elsewhere in their extended family.

There is some evidence to show that home-ownership provides some people with equity, which can be used to supplement or replace income, particularly in retirement. However, this appears to be of little help to people living in poverty.

Housing equity does not prevent poverty

Home-owners' homes are undoubtedly repositories of great wealth, estimated to be worth £2.8 trillion by 2010 (Pawson and Wilcox, 2012). Housing wealth is the most evenly distributed asset class (Rowlingson and Mackay, 2005), and there is substantial evidence of equity withdrawal and equity release. However, wealth is distributed 'far more unequally' than income (Hills, *et al.*, 2010, p. 205). There is little evidence that those who have, and release, housing equity in this way use it to supplement their own incomes, and few of those living in poverty or at risk of poverty have equity that could help them escape it.

First, housing equity cannot prevent poverty for those who do not have it. Renter households make up a majority of those living in poverty AHC and nearly half BHC. Second, housing equity tends to be associated with higher income. Part of the rationale for subsidising entry to home-ownership and supporting low-cost home-ownership has been to give households on lower incomes (if not those living in poverty) with the opportunity to accumulate housing wealth (HM Government, 2005). However, the performance of local housing markets leads to significant disparities. In the 1980s and 1990s, affluent home-owners made the most gains from equity growth (Hamnett, 1999). The northern regions of England and Northern Ireland had weaker housing markets and were subject to greater negative equity, with mortgaged borrowers losing the most (Purdey, 2011). In the USA, Belsky, *et al.* (2005) found that low-income home-owners accumulated wealth more slowly than others, due to worse interest rates and less benefit from tax breaks, as well as shorter stays in the tenure.

Despite increasing home-ownership and a reduction of wealth inequalities during the period 1995–2005, when debts are taken into account, the least wealthy (who are likely to overlap substantially with those living in poverty) gained little equity of practical use. While the property wealth of the least wealthy tenth tripled from 1995–2005, it reached only £1,000 on average by 2005 (Karagiannaki, 2011). The property assets of the third least wealthy tenth of the population (likely to be dominated by tenants) grew from an average £1,000 to £26,000. This offers some potential to supplement or replace income as a type of 'asset-based welfare', but only for those for whom remortgaging, equity release or downsizing are feasible and affordable; it could not make a substantial contribution to income over several years (Holmans, 2008).

Equity release

Equity withdrawal and remortgaging became a substantial part of the mortgage market prior to the financial crisis. Equity release customers are typically middle income 'younger older' people (aged under 75), with homes of average value, rather than those living in poverty (Overton, 2010). Equity release depends on the products available and may involve its own risks (Wallace, *et al.*, 2009; Ford, *et al.*, 2010). Slow growth in the equity release sector in comparison to demand in the UK suggests that 'equity release is, at best, only a partial solution to the pressures being faced by older households' (Williams, 2008, p. 3). Only half of customers considered their equity release plan to be value for money and nearly half were uncertain whether they would repeat their purchase decision were they considering an equity release plan again (Overton, 2010). Alongside lower incomes, younger age and unemployment, borrowing against the equity in the home increases the risk of repossession (Searle, 2012). Half of mortgage rescue applicants in 2009/10 had additional charges on their home other than their first mortgage (Wilcox, *et al.*, 2010).

Research focusing on older people has found that equity release products could lift at most a small minority of older people above an acceptable income standard in retirement (Hancock, 1998a; 1998b; Sodha, 2005). For those with extra rooms, again generally likely to be older people, housing equity can also be released by downsizing to a smaller property. In Britain 11.2 per cent of older home-owners moved in any five-year period; 8.7 per cent remained home-owners compared with 2.5 per cent who became renters or moved in with family (Banks, *et al.*, 2010). However, lower-income older home-owners appear to downsize less frequently, perhaps because their homes were smaller and less valuable. Evidence also suggests that while the 'younger older' home-owners have a greater appetite to spend their equity (Rowlingson and McKay, 2005), older home-owners are reluctant to spend the equity in their home, preferring to leave bequests to relatives.

Inheritance

A further mechanism through which home-ownership may overcome income poverty is through gifts and interest-free loans, typically to younger family members through inheritance. Saunders suggested two decades ago that the UK was set to become a 'nation of inheritors' (1990), but as the cohorts that entered home-ownership in large numbers in the 1980s are still alive, bequests have yet to materialise (Holmans, 2008). Moreover, although the number and value of bequests of housing assets has grown slightly over recent years, few people receive substantial sums, and most of those who do are already wealthy (Karagiannaki, 2011). In these circumstances housing bequests have increased, rather than decreased, wealth inequalities, thereby doing little to contribute to reducing poverty.

Does home-ownership protect people from material deprivation?

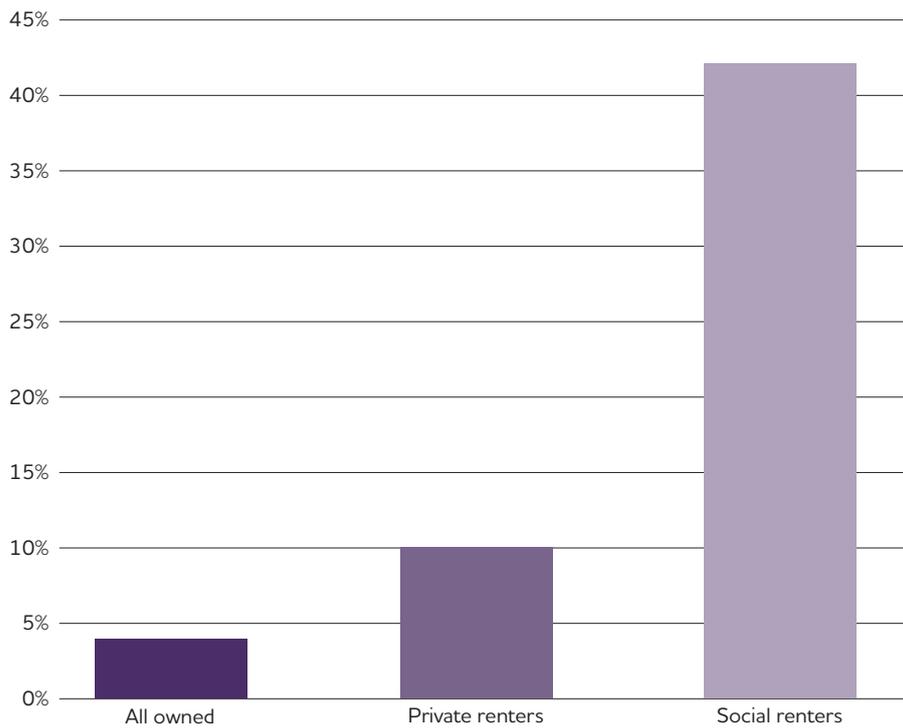
Home-owners living in poverty face a lower risk of material deprivation (having to do without necessities) than those in poverty in other tenures. However, we cannot be sure it is the tenure itself that is responsible.

There is less information on the links between housing circumstances and material deprivation than housing circumstances and income, and the main information available is on housing tenure. Renters are at greater risk of material deprivation than owners. In 2000, for example, 57 per cent of housing association tenants and 61 per cent of council tenants were materially deprived (missing items from a list of 'necessities'), compared with 33 per cent of private renters, 19 per cent of owners with a mortgage and 15 per cent of outright owners (Gordon, *et al.*, 2000). However, evidence suggests that home-owner households are at lower risk of material deprivation than income poverty. In contrast, social renters are at high risk of both. Figures 11 and 12 show recent data for children and older people.

Gordon, *et al.* (2000) found that social rented tenure remained a significant predictor of having to do without necessities even after controlling for income (as well as numerous other factors). Similarly, Berthoud, *et al.* (2004) found a relationship between housing tenure and material deprivation for all age groups that persisted after controls. Outright home-owners were less likely to be materially deprived than tenants even when controlling for income (and other factors), and also for income sources, family structure, and age, educational qualifications and region. In addition, Watson and Webb (2009) found that, across 11 countries in Europe, home-owners were less likely than tenants to report that they felt 'poor', even when their incomes meant they were living in poverty.

Home-owners living in poverty face a lower risk of material deprivation [...] than those in poverty in other tenures.

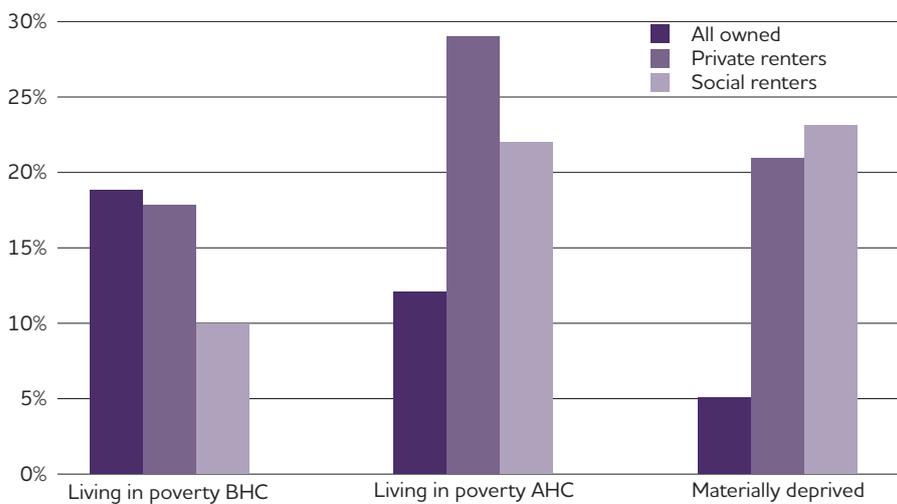
Figure 11: Material deprivation by housing tenure, for children, UK, 2010/11



Note: Data for other age groups was not available.
Source: DWP, 2012a

The results of Berthoud, *et al.* (2004) are partly explained by their use of income measured BHC. Recent data for adults of pension age (without any controls) shows a similar pattern, both for income BHC and, more markedly, for income AHC (Figure 12).

Figure 12: Poverty and material deprivation by housing tenure, for adults of pension age, UK, 2010/11



Note: Data for other age groups was not available.
Source: DWP, 2012a

So, owner-occupation appears to 'protect' some people who are living on poverty incomes from material deprivation. Social housing, on the other hand, appears to 'expose' people to material deprivation. However, Berthoud, *et al.* thought they might have failed to control for all important variations between people in different tenures, which might be the real explanation for the differences in material deprivation. Housing tenure, particularly in later life, may act as a better indication of medium-term or lifetime income than current income, and older home-owners may have acquired material goods during a time when incomes were higher. Therefore, as in the case of income, no firm conclusion can be drawn.

6 THE IMPACT OF HOUSING CIRCUMSTANCES ON EMPLOYMENT

A commonly held view is that Housing Benefit for tenants and support for home-owners who lose their jobs (while it may have beneficial effects as set out above) reduces ‘financial work incentives’ and creates unemployment and poverty traps. It means higher unemployment rates and lower incomes among recipient tenants than might otherwise be the case.

This effect is particularly marked in the UK because the availability of Housing Benefit to all tenants on low incomes, combined with its technical features (‘earnings disregards’ and ‘taper rate’), mean that the unemployment and poverty traps are both wider and deeper, and affect more people than in some other European countries.

Does Housing Benefit reduce financial work incentives or create unemployment and poverty traps?

There is strong evidence that, as well as preventing homelessness, poverty and material deprivation as we have seen above, Housing Benefit reduces financial work incentives, and creates unemployment and poverty traps. These traps are likely to affect employment rates for some people, but they are likely to have little effect on overall income and material deprivation.

Financial work incentives

Financial work incentives are the net extra financial benefits gained from working rather than not working, or from working extra hours. They

are presumed to provide people with an incentive to seek work, higher-paid work or extra hours. Work incentives depend on wage rates, wage inequalities, and household structures. Benefits – including Housing Benefit – also play a role. Depending on the rules governing benefits – and how they affect different-sized households – higher out-of-work benefits and higher housing costs may both reduce financial work incentives.

Looking across society, financial work incentives rose in the 1980s and 1990s but fell in the 2000s (Adam, *et al.*, 2006b). Wage growth increased the average difference between in-work and out-of-work income. By the 2000s, on average, out-of-work income for working-age adults in the UK was 50–60 per cent of in-work income, and on average, 30–40 per cent of gross earned income was lost through taxes or reduced benefits. However, over the 1980s and 1990s variation in work incentives between individuals increased, because the strongest incentives grew stronger. By the 2000s, lone parents faced not only high poverty rates, but also weak financial work incentives, and it was difficult for them to increase their incomes and move out of poverty through work. Single adults faced stronger financial work incentives, because of the relatively low level of benefits they received (Adam, *et al.*, 2006b).

The limitations of financial work incentives

However, the term financial work incentives is a technical one and does not necessarily translate into a real incentive to get work or increase hours. First, financial work incentives do not take account of the financial and non-financial costs of working. Childcare and travel costs, for example, can reduce the gains from employment. Second, many people do not fully understand the implications of work and extra hours, given the complexity of taxes and benefits. A study in Yorkshire and Northern Ireland found that even when people seeking work were aware of the possibility of receiving in-work Housing Benefit, which would have made work more financially beneficial, they had no idea of how much they might receive, and at best regarded it as a possible bonus (McLaughlin, *et al.*, 1989). Conversely, some people work where there are no, or even negative, work incentives (Beatty, *et al.*, 2010). Finally, of course, even where people perceive and act on an incentive, efforts to find a job or increase hours or wages may not be successful.

Where there is no difference between net income in work and out of work, there is no financial work incentive, and people are said to be in the ‘unemployment trap’ (Adam, *et al.*, 2006b). Where people cannot gain income by increasing skills or working more hours, they are said to be in the ‘poverty trap’.

Housing Benefit as a disincentive to work

In 2005, the DWP stated that despite attempts at reform, ‘the current structure and operation of Housing Benefit can still be a disincentive to work’ (DWP, 2005, p. 29). The Institute for Fiscal Studies authors commented, ‘tackling this remains one of the key issues for the government if it is serious about strengthening financial work incentives as a means to alleviating poverty’ (Adam, *et al.*, 2006a, p. 52). Housing Benefit is particularly important to the overall patterns of work incentives, owing to its important role in incomes BHC of many households, and because of potential ‘poverty traps’ (Adam, *et al.*, 2006b).

The formal structure of the Housing Benefit poverty trap is a consequence of two characteristics of the benefit. The first is the ‘earnings disregard’, the level of earnings households are permitted to keep while claiming the benefit. The second is the taper rate at which benefit

Even where people perceive and act on [a financial work] incentive, efforts to find a job or increase hours or wages may not be successful.

entitlement is reduced as households' earned incomes rise above the disregard. As part of the rent rebate and allowance schemes introduced in the early 1970s, earnings disregards were set by a quasi-independent body and were intended to cover travel and other costs of working. Disregards have been frozen over several decades, and now stand at minimal levels – £5 a week for a single person, £10 for couples (with or without children), and £25 for lone parents. Costs of working include travel, clothing and equipment, food at work, and childcare. There appear to be no recent UK figures, but Crilly, *et al.* (2012) found that in 2004/05 the costs of working were 135 euros a week for childless people in Ireland, and more for those with children. However, since 2009 the earnings disregard has been supplemented by the disregard of Child Benefit. This has significantly enhanced the incomes family households can retain before the Housing Benefit taper is applied. The taper rate is currently applied at 65 per cent to incomes after Income Tax and National Insurance contributions, and including Tax Credits. So, households retain 35 pence for every additional pound of gross earnings. This constrains financial work incentives significantly, and makes it more difficult to make work pay when taken together with the extra costs incurred by working.

However, if households receive multiple benefits – Housing Benefit, Tax Credits and Council Tax Benefits – these benefits and their taper rates interact to create much greater clawbacks. Figure 13 illustrates the case of a couple with two children and a rent of £80 per week, typical for social tenants (Pawson and Wilcox, 2012), at 2012/13 tax and benefit rates, claiming Housing Benefit, Tax Credits and Council Tax Benefit. For this household, it is only when gross earnings reach over £380 per week – over 60 hours at minimum wage rates – that disposable income starts to increase significantly. They can face an effective taper rate of 96 per cent and be left with just four pence from every additional pound of gross earnings (see Table 2). In this case, the effects of the taper and clawback for Tax Credits would continue until gross household earnings reached over £610 per week (about the national average). If the case-study household had a higher rent, for example, because they were in the private rented sector, the problems would be greater. In 2009, average private rents were £146 a week (Pawson and Wilcox, 2012). Therefore, the design of Housing Benefit and other benefit has a substantial impact on financial work incentives.

Tax Credit reform

After 1997, there were several reforms to the structure of Tax Credits, and increases in their value, but at no time was any attempt made to reform the structure of the relationship between the Tax Credit and Housing Benefit tapers. Increases in the value of Tax Credits did result in a reduced incidence in the numbers of households subject to very high rates of marginal deductions from earnings as a consequence of overlapping taper rates. Policy-makers face a trade-off between reducing the severity of the high marginal tax rates and the numbers affected – the breadth and the depth of the poverty trap. Modelling showed that reducing the taper from 65 per cent to 36 per cent reduced the number of people facing very high marginal tax rates, and had a greater impact than all other proposed reforms they assessed, and helped claimants in poverty most (Adam, *et al.* 2006a). However, the numbers facing fairly high rates grew and outweighed those facing lower rates. So, although different households might be affected, the overall effect on work incentives and presumably on employment and incomes would be limited. The designers of the housing element in the new Universal Credit face similar challenges.

However, this incentive structure only applies where tenant households who are working or considering working actually apply for Housing Benefit. As noted, take-up is incomplete, and only about half of eligible working tenants claim Housing Benefit (DWP, 2012b).

Working tenants receiving Housing Benefit

There has been a very recent substantial increase in the numbers of working tenants in receipt of Housing Benefit (Pattison, 2012). It is not yet clear how far this is solely a consequence of changing housing and labour-market circumstances, or whether it may also reflect an increase in take-up rates. It does mean, however, more working households are facing the high effective marginal tax rates of the Housing Benefit poverty trap.

Table 2: The structure of the Housing Benefit poverty trap

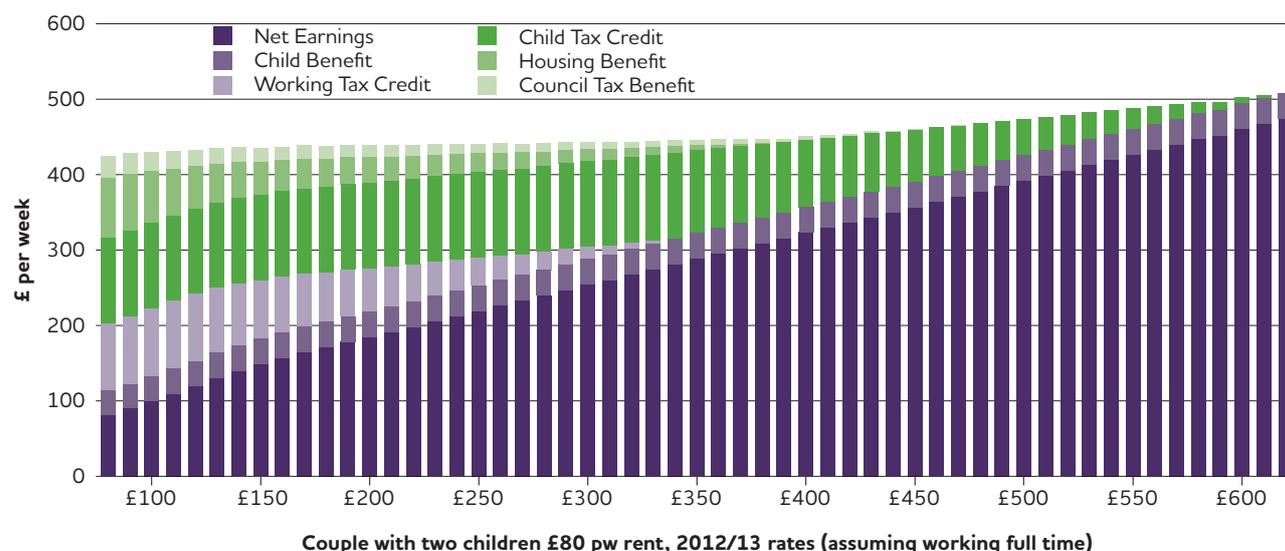
Form and rate of deduction	No Tax Credits	With Tax Credits
Income Tax (20%)	20p	20p
National Insurance	11p	11p
Tax Credits	–	39p
<i>Net earnings/credits</i>	69p	30p
Housing Benefit (65%)	45p	20p
Council Tax Benefit (20%)	14p	6p
Total net disposable income	10p	4p

Note: Some households may experience additional concurrent traps relating to other benefits.

Source: Authors' calculations, HM Revenue and Customs, and DWP notes on structure of taxes and benefits

Working tenants who do not or cannot claim Housing Benefit have work incentives that are in effect the same as those for home-owners, for whom there is very limited in-work benefit to help with mortgage costs (Figure 13). For these households there is an unemployment trap. This means the net

Figure 13: The poverty trap due to Housing Benefit and other benefits, UK, 2012/13



Note: Based on couple with two children, one member working full time, rent at £80 per week

Source: Authors' calculations from DWP, 2012f

income from a low-paid job, after adding in any Tax Credit entitlements, and deducting housing costs, may actually be less than the disposable income available to claimants in receipt of welfare benefits such as Income Support and Jobseeker's Allowance. As noted, people do not always have an accurate view of the overall impact of employment.

From 2013, Universal Credit, including a housing element to replace Housing Benefit, will create a single integrated welfare scheme for working-age households in and out of work. This will not get rid of the employment and poverty traps, but will change their shapes and impact. This is discussed further below.

Evidence of negative work incentives

Concerns about negative work incentives from housing allowances are particularly evident in the UK. This reflects the much greater proportionate role of Housing Benefit within the wider welfare and insurance benefit regimes in the UK, compared with other countries. Many European countries have more generous levels of basic welfare benefits than the UK, and/or have levels of insurance benefits that provide support at significantly higher levels than UK welfare benefits, which are used to pay all or part of their housing costs. Those countries typically have housing allowance schemes accessible only to those not claiming benefits, and which only provide limited support with housing costs. The much more limited scope of those schemes, and their structure, provides less of a basis for concerns about any perverse incentives in respect of either work or housing consumption.

Do rent levels affect financial work incentives and unemployment and poverty traps for tenants?

A less commonly held perspective asserts:

- High housing costs (including unsubsidised market costs, and places and times with higher costs) reduce financial work incentives and enlarge poverty traps.
- These will result in lower employment rates and incomes than might otherwise be the case.

There is very strong evidence that rent levels affect financial work incentives and unemployment and poverty traps for tenants.

Rent levels

Rent levels determine eligibility for Housing Benefit, and shape financial work incentives, unemployment traps and poverty traps (Adam, *et al.*, 2006b).

Figure 14 shows how higher rent levels extend the impact of the overlap in Tax Credit and Housing Benefit tapers across a wider range of earned incomes, deferring the point at which households begin to see an acceleration in the rate at which their disposable incomes improve, for the same household as shown in Figure 13. For this household, each £10 per week in higher rent (whether through rent increases or a move to a more costly tenure or home), the household needs to earn some £50 more per week gross before they see an increase in net disposable income. Conversely, for each £10 per week lower rent level the family secure, the break-even point can be reached at some £50 less gross earnings.

However, rent levels are not the only factor to take into account. For a couple with two children, gross earnings of £122 per week would provide

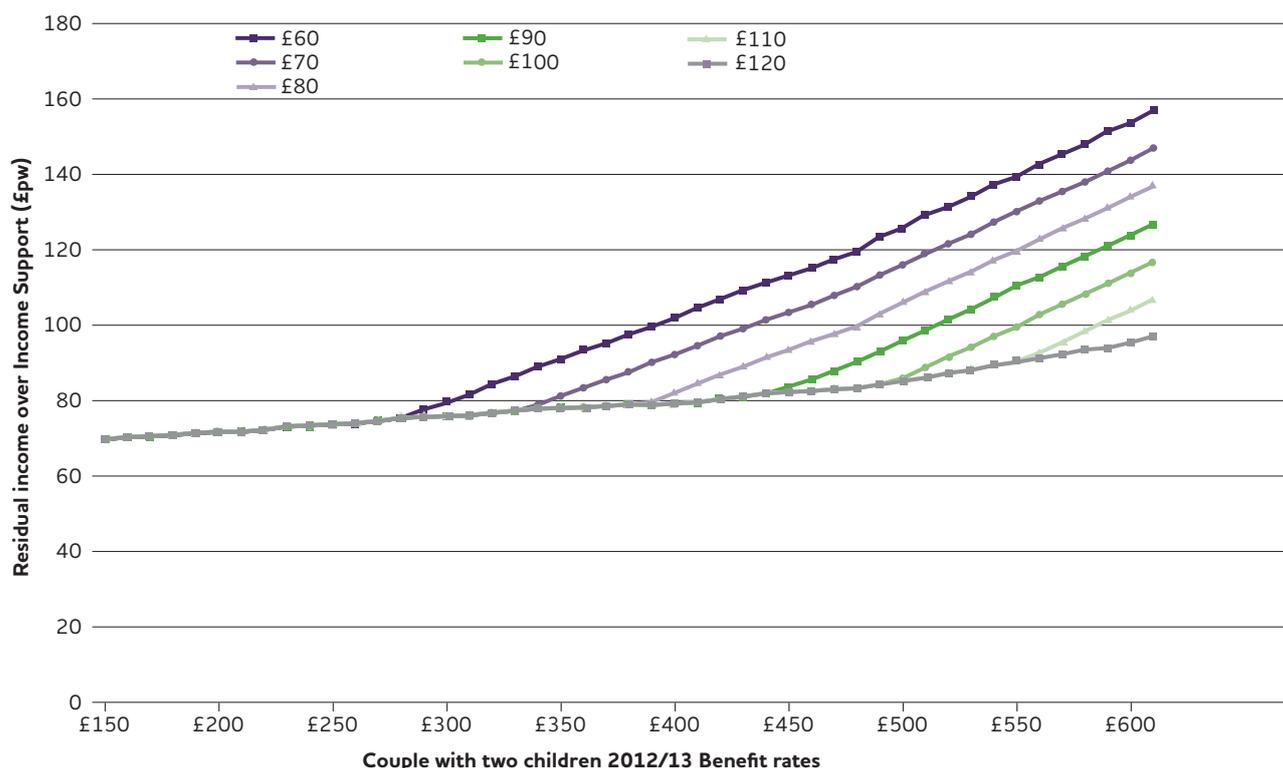
them with the same disposable income as out-of-work benefits if their rent was £80 per week (with Council Tax at £25 per week). However, this makes no allowance for either loss of 'passport' benefits, or any costs associated with working such as transport, subsistence or child care. With rent at £100 a week, the equivalent minimum earning requirement to avoid the unemployment trap associated with losing other benefits in addition to Housing Benefit would be £167 per week, and with a rent at £120 a week the equivalent minimum earnings requirement would be £234 per week.

Are below-market rents a financial work incentive?

A previously popular perspective, which has had a lower profile in recent years, holds that:

- The provision of social housing at below-market rents acts as a financial work incentive.
- This means that people in this kind of housing are more likely to seek and take up employment and extra hours than they would otherwise.
- This will result in lower employment rates and incomes than might otherwise be the case.

Figure 14: The impact of rent levels on the wage levels affected by the poverty trap, UK, 2012/13



Source: Authors' calculations from DWP, 2012f

As noted, for each £10 per week in higher rent, a household needs to earn some £50 more per week gross before they see an increase in net disposable income. In 2009, median social rents in England stood at £66 a week, 11 per cent of average weekly household earnings. Housing association rents were ten pounds higher at £76 or 13 per cent of average earnings. Private rents were markedly higher at £146 a week or 24 per

cent of average earnings (Pawson and Wilcox, 2012). Social housing rents tend to be lower than monthly mortgage costs for similar homes (although actual mortgage costs vary widely between places, periods and households (Ferrari and Rae, 2011). So, for any household type and at any particular wage level offered, social renters necessarily have greater financial work incentives at any particular wage rate than private renters and many owners, and the 'unemployment' and poverty traps they face are less wide. As noted, since 1980 rents have grown as a proportion of incomes, and this has had a general impact on work incentives for tenants.

However, formal work incentives do not always translate into higher employment rates and higher incomes. In fact, social renters have markedly lower employment rates than private renters and home-owners, as Hills noted (2007). Hills drew attention to the dramatic drop in employment rates for social housing head of households, from 47 per cent in 1981 to 32 per cent in 2006 (Hills, 2007). However, this was more likely to be due to reduced manual work opportunities, and increased older people and lone parents among tenants, rather than any change in work incentives, although rents did increase over the same period. Social tenant employment rates have now been steady for ten years (Aldridge, *et al.*, 2012).

The differences in private and social renting

There are significant differences in typical household types between private renting and social renting. Hills found the gaps in employment rates between the tenures remained after controlling for the number of disadvantages individuals had (2007). However, he commented that further controls of the extent of disadvantage would have been desirable. Fletcher, *et al.* (2008) found social housing tenants generally committed to the work ethic, and appreciated a secure tenancy at a sub-market rent. However, this was frequently not enough to overcome the poverty trap and other barriers to securing employment, such as low skills, caring responsibilities or health problems. The perceived risk to income stability from coming off benefits is also an issue (McLaughlin, *et al.*, 1989; Ford, *et al.*, 1995a). The critical question appears to be whether a similar household would be more or less willing or able to find and accept a particular wage as a social renter or as a private renter (with different rents). There is no data yet to answer this.

It should be noted that UK social housing has a stronger focus on disadvantaged and vulnerable tenants than social housing in other European countries. This plays a greater role in maintaining housing affordability (and, possibly, work incentives) for more of the income spectrum (Whitehead and Scanlon, 2007, 2010).

Finally, it is often argued that high housing costs create problems for employers of lower-paid workers, as well as for employees, particularly in certain regions (e.g. Wallace, *et al.*, 2009). It is possible that high housing costs may actually restrict the growth of lower-paid job opportunities in such areas, creating a barrier to employment on the 'demand' or employer side rather than the 'supply' or potential employee side.

Does home-ownership provide 'non-financial work incentives'?

A widely held view asserts:

- Being a home-owner affects people's attitudes and behaviour (for example in planning for the future, self-reliance, community activity and

work ethic) and/or provides non-financial work incentives (because drops in income can result in the loss of the home).

- This results in higher rates of employment and income than would be expected from their individual education, skills and employment history.

There is little UK evidence to support this argument, and none which suggests that this might benefit owners at risk of poverty.

Sherraden (1991, cited in Rowlingson and McKay, 2012, p. 6) argues that 'income only maintains consumption, but assets change the way people think about the world'. Assets are said to induce attitudinal and behavioural change which might be beneficial to avoiding or overcoming poverty, by encouraging financial planning, stimulating human capital, increasing personal efficacy, focus on a life path, improving status, increasing political participation and enhancing welfare of children (Rowlingson and McKay, 2012). However, as Herbert and Belsky (2006) commented, 'Often the benefits of home-ownership are taken to be ... self-evident ... empirical validation of these benefits is less robust than one would suppose.' (p. 118). In addition, most research on this issue has not focused on those with low incomes.

US literature has extensively considered whether home-ownership is associated with outcomes that might link to employment and income, including education, wealth accumulation, self-esteem, citizenship, political participation, and repair and maintenance activities. Overall, the results are not conclusive, and there are questions about the transferability of evidence to the UK. In England and Scotland, parental home-ownership has been shown to contribute to a child's school attainment, and to be as important as parental educational attainment. Home-ownership has a greater positive effect at the secondary school level than at the primary and the micro-neighbourhood level. The authors concluded that home-ownership did have some effects, but the transmission mechanism was uncertain and it was not possible to be sure that it was tenure itself that was causing these effects (Bramley and Karley, 2005, 2007). Kearns, *et al.* (2000) and Hiscock, *et al.* (2001) found no tenure effects on sense of autonomy and status, once controls for neighbourhood and housing type had been used.

Home-owners with mortgages face financial and non-financial incentives to maintain regular mortgage payments, and avoid home loss. Unemployed mortgagors can claim SMI, which is much more limited than Housing Benefit. This means owners face a poverty trap, like renters, but it is much less wide and deep. However, owners, like tenants, still face a potential 'employment trap', as taking up low-paid work may affect other benefits.

One motivation behind the recent proposed changes to SMI has been that the benefit reduces the work incentive (DWP, 2011c). This is true in a theoretical sense, but there is no evidence that it affects behaviour. Both Ford, *et al.* (1995a) and Munro, *et al.* (2010) found that unemployed home-owners were keen to find work again, even at a lower grade or income. Fletcher, *et al.* (2008), found social housing tenants fully committed to the work ethic but Ford, *et al.* (1995) found evidence of a greater work commitment among home-owner than tenant households, who thought any job was a stepping stone to better pay. Given the typical skills and education differences between owners and renters (e.g. Hills, *et al.*, 2010; Tunstall, 2011), the likelihood of making work pay and achieving career progression may be higher for owners. This reflects the important role that wage rates play in work incentives.

Do social landlords provide services that prevent poverty and increase employment?

Most social landlords provide some services intended to prevent poverty and increase employment. Social tenants have more access to such services than others. There is evidence of positive impacts from individual schemes, although gauging the total impact is difficult.

Social housing providers have provided 'financial inclusion' activities for over 100 years, from the earliest days of social housing to the present. More recently, they have become involved in training and employment provision or brokering. They are in a key position for targeting support as 'social' agencies with financial relationships with large proportions of all people living in poverty and without work (Gardiner and Simmonds, 2012). In 2008, 80 per cent offered money advice and debt prevention assistance to tenants (CIH, 2009). Financial inclusion and debt support is provided partly for financial self-interest, due to the cost of arrears, evictions, tenancy abandonment and turnover, and the effect of income risk on the ability to borrow. Landlord preparations for welfare reform include additional advice and support for tenants on maximising and managing incomes, and gaining employment (Gardiner and Simmonds, 2012).

Debt advice can be effective and cost effective. Sixty-two per cent of advice recipients in a 2010 survey experienced a reduction in debt – which they attributed to advice – with a return of 1:2 on costs (Evans and McAteer, 2011). However, there is no evidence of any overall impact on poverty rates. Social tenant employment rates ceased to fall and levelled off over the past ten years, Employment support may have played a role, although the overall economic growth and jobs growth are likely to have been more important (Tunstall, 2011).

Does settled, secure housing have effects on employment for ex-homeless people?

A frequently heard argument holds that:

- homeless people have low rates of employment;
- homelessness itself is a barrier to finding and sustaining employment;
- provision of settled, secure housing is a necessary, if not sufficient, step to gaining employment.

Evidence suggests that settled housing is a necessary prerequisite for seeking and sustaining employment, independently of any question of financial work incentives, but not a sufficient one. The majority of ex-homeless single people have difficulties finding sustained work.

Housing policy has increasingly stressed the importance of employment as a route out of both homelessness and poverty (Jones and Pleace, 2005). Services for homeless people have developed employment, education and training schemes for homeless people, to assist tenancy sustainment, and as an end in itself. A radical new service model called 'Housing First' has been developed in the USA, with pilots in the UK (Johnsen and Teixeira, 2010; Pleace, 2012). These models offer long-term homeless people secure, independent housing straight from the street or night shelter, without the need to 'prepare' for moving on or to abstain from substance use. The idea is that this will speed development in employment and other areas.

There is evidence that services can help people move towards skills and secure housing which may both and in combination plausibly increase their chances of gaining work (Jones, *et al.*, 2001; Jones, *et al.*, 2006). However, there is little robust evidence from any model of support to homeless people that secure housing does indeed assist in employment and preventing poverty. Some studies (Fitzpatrick, *et al.*, 2010; Warnes, *et al.*, 2010) have found that some formerly homeless single people are better off financially following re-housing, if not necessarily moving out of poverty, whether or not they are in paid work. In some cases, re-housed people will have received support and advice to help maximise their welfare benefits, to manage money and to minimise debts, or they may have more money because they have reduced expenditure on alcohol or drugs.

However, many studies have highlighted the problems and barriers homeless and ex-homeless people face in securing employment, even once they have got secure and established homes (Communities Scotland, 2004; Jones and Pleace, 2005; Lownsborough and Hacker, 2005; Blake, *et al.*, 2008; St Mungo's, 2010; Simon Community, undated). Barriers include low educational attainment, little or no work experience, discrimination, a history of offending and a lack of confidence and self-esteem. This is especially the case for those with ongoing support needs, such as health, mental health and substance misuse problems, and older people (Boswell 2010; Busch-Geertsema, 2005; Pleace and Minton, 2009). Evidence on formerly homeless people's financial and employment situation following re-housing is scarce but a research study of formerly homeless single men resettled from Glasgow hostels (Fitzpatrick, *et al.*, 2010) found that only three per cent of ex-residents were in paid employment.

However, some studies have found that some ex-homeless people take on work despite poverty traps, resulting in lower income and potentially greater material deprivation (Jones and Pleace, 2010; Pleace, 2009; Warnes, *et al.*, 2010).

Does the location of housing have effects on employment and incomes?

A widely held view asserts:

- Neighbourhoods with low employment rates and low incomes (including at least some of those dominated by social renters) have social networks that are less likely to provide job opportunities and/or cultures; these are less likely to support job seeking and/or have poor reputations among employers and/or are located in labour markets with fewer opportunities.
- People who live in such neighbourhoods have lower employment rates and incomes than would be expected from their individual education, skills and employment history. (This is known as 'neighbourhood effects' or 'area effects' theory).

A slightly less commonly held perspective asserts:

- Regions with low employment rates and low incomes offer fewer opportunities.
- People who live in such regions have lower employment rates and incomes than would be expected from their individual education, skills and employment history.

If regional location is seen as an attribute of housing, then it is potentially a very important contributor to the effects of housing on poverty and employment. Different regions and labour markets offer markedly different employment and income opportunities to people with the same individual characteristics. The evidence for the role of neighbourhood location is not as strong.

There is substantial evidence demonstrating that the supply of employment, the quality of jobs, competition for work and employment rates vary by region and neighbourhood (e.g. Hills, *et al.*, 2010; Tunstall, *et al.*, 2012).

A substantial amount of research has focused on the extent to which neighbourhood characteristics, whether due to population mix or other factors, might disadvantage residents through a wide range of processes (Galster, 2007) and affect outcomes in terms of income, and employment. A growing body of evidence attests to some 'neighbourhood effects' which might explain a small part of variations in income and employment between areas (Tunstall, *et al.*, 2011a, b), although some studies have produced equivocal results (e.g. Fletcher, *et al.* 2008). Researchers have suggested that part of apparent 'tenure effects', including those on income and employment, may really be neighbourhood effects – although, again, to date, the evidence is not strong.

Less research has examined the implications of spatial location at labour market or regional scale (Taylor, *et al.*, 2012; Wilson, *et al.*, 2012). Ironically, this may be partly because it is well established that different regions and labour markets offer markedly different employment and income opportunities to people with the same individual characteristics. Research on variations in employment rates between different ethnic groups tends to control for region and/or labour market (e.g. Berthoud, 2000; Berthoud and Blekesaune, 2006), on the assumption that location plays a role in employment rates for all ethnic groups. Part of what appears to be an 'ethnic penalty' on employment rates of members of minority ethnic groups is actually a location effect, due to concentration of minorities in economically weaker regions and labour markets (e.g. Fieldhouse and Gould, 1998). Similarly, it is standard practice for research into employment and earnings around 'returns on education and skills' to control for regional location, on the assumption that people with the same education will have different employment rates and earnings in different areas (e.g. Kirby and Riley, 2008).

Local Housing Allowance and benefit cap reforms will reduce the numbers of low-income households able to access rented homes in the highest-cost areas, which also have good job opportunities (DWP, 2010b; DWP, 2012c). Initially, those who move are likely to go to the periphery of the same labour market, but over time some may move to areas that offer fewer job opportunities (Fenton, 2011).

Different regions and labour markets offer markedly different employment and income opportunities to people with the same individual characteristics.

Does the ability to move home affect employment?

A widely held belief asserts that:

- Social tenants move home less often and/or less far and/or less for employment-related reasons than those in other tenures.
- This is at least partly due to their tenure (low supply of social rented homes to move to, particularly in areas with good job opportunities and/

or mobility limited by bureaucracy and/or switching to another tenure to aid a move appears expensive).

- This affects their ability to pursue job opportunities and affects typical employment rates and earnings, compared with other tenures.

A less commonly held argument asserts that:

- Owner-occupiers move less often than those in other tenures.
- This is at least partly due to their tenure (with high 'transaction costs' of moving due to estate agents and legal fees and stamp duty and/or the need for two jobs to sustain costs).
- This affects both their ability to pursue job opportunities and typical employment rates and earnings, compared with what would be expected from their individual education, skills and employment history.
- Societies with high rates of owner-occupation have lower rates of housing mobility than others.
- This affects typical employment rates and earnings, compared with what would be expected from their individual education, skills and employment history.

Evidence suggests that the ability to move home does have effects on employment, but the effects do not appear to be significant, and both social renters and home-owners may be affected. Current Housing Benefit reforms provide financial incentives for affected social and private tenants to move to smaller homes and cheaper areas, but there is no evidence to suggest that this might improve their employment position.

As noted above, job opportunities vary by region. For any one person, many opportunities for employment or higher wages will only be accessible if the individual and the rest of their household is willing and able to move. It has been argued that some aspects of housing might constrain the ability to move and to take up these opportunities, affecting income. However, while reducing barriers to mobility might have other beneficial effects, there is little evidence that it would help those on the lowest incomes to gain employment.

The cost of moving

Studies of constraints on mobility and their implications for employment have focused on the transaction costs of moving, such as the costs of stamp duty, professional fees, temporary accommodation, moving vans, rent deposits, and new furniture, and on how these vary by tenure. It is usually assumed that home-owners face the highest absolute moving costs, and the greatest deterrent to employment-motivated housing mobility. Oswald (1999) argues on this basis that 'the housing market lies at the heart of the European unemployment problem'. However, other labour economists contest the strength of this view. It is important to note that those in other tenures also face moving costs, and for those on low incomes even low absolute financial costs and non-financial costs may be significant, as the growth of rent deposit schemes demonstrates (Darian, 2011).

Mobility rates

Raw mobility rates show that home-owners do indeed move somewhat less often than social renters, with private renters being by far the most mobile. In 2005/6 only four per cent of social housing tenants who had moved in the last year did so for employment-related reasons, compared with 18 per

cent of moves within the private rented sector (Hills, 2007). However, this data is a poor guide to the impact of mobility constraints on income and employment opportunities. Mobility rates include moves for a wide range of reasons unconnected with employment, short-distance moves within the same travel-to-work area, and forced moves. It is well known, too, that age and household type are major determinants of mobility (Cho and Whitehead, 2010; Bramley, *et al.*, 2009). In addition, regardless of transaction costs and potential benefits, those in all tenures will only move to a new location if they can access at least one good job and a home there. Mobility rates in all tenures vary to some extent with the state of the national and local housing market (NHF, 2010; Ferrari and Rae, 2011). Home-owners with limited equity and borrowing power may face constraints on moves from low-price to high-price areas that are also most likely to offer employment opportunities and wage progression. Home-owners who moved from areas of low employment did tend to go towards buoyant labour markets, but generally found new homes in adjacent lower-cost housing markets and commuted the extra distance (Cameron and Muelbauer, 1998). Another major strand of research has focused on the parallel difficulties for social rented tenants in moving from low-demand to higher-demand local authorities, in addition to bureaucratic constraints on mobility experienced by social tenants (NHF, 2010). This may partly explain the pattern identified by Hills (2007).

In addition, the incentive to move will vary by the potential financial gains to be made, how secure the job appears to be, and how gains relate to transaction costs. Studies rarely differentiate between income groups. One explanation for lower inter-regional and job-motivated moves among social tenants is that given their typical education, skills, pay rates and job security (e.g. Hills, *et al.*, 2010), job opportunities would rarely provide an argument for uprooting a whole household (Fletcher, *et al.* 2008; Hickman, 2010; Beatty, *et al.*, 2010).

It has been suggested that high rates of home-ownership lead to high unemployment at a national level by preventing mobility. Robson (2003) found that regions with lower house prices and higher levels of social housing had lower equilibrium unemployment. The association between home-ownership and unemployment rates at a national level is strong enough that owner-occupation rate is sometimes used as a proxy for barriers to regional mobility in cross-national studies (Bassanini and Duval, 2006). However, it is unclear if this association is causal and if so, in which direction it operates: labour economists have argued that high home-ownership might be a result of attempts to insure against unemployment or related problems like low pensions (e.g. Cameron and Muellbauer, 1998; Green and Hendershott, 2001; Nickell, *et al.*, 2005).

Does building homes create jobs?

A frequently heard view asserts:

- Building new homes creates jobs and economic activity.
- This results in higher employment levels and incomes than would otherwise be the case.
- House building has particularly high gearing ratios, translating into more jobs and household income than some other forms of economic activity.

This argument has motivated policy and policy ideas in the past. Those who call for more expenditure on infrastructure as a tool of macroeconomic policy frequently cite housing as an example, and current housing policies aiming to encourage housing development refer to jobs growth as an additional outcome. There is evidence to support the first part of this argument. For example, Monk, *et al.* (2010, section 2.1.2) found that house building 'creates construction and housing-related jobs (such as legal services, real estate, housing management, etc.), and service jobs to supply the new residents (education, health, retail, leisure, transport and local government services)'. The construction industry has relatively high labour intensity, compared with other industries, so that additional activity generates relatively high numbers of additional jobs in the UK (LEK, 2009). For every 100 new homes built in the UK, estimates suggest 200 new jobs are created (DCLG, 2011). The construction industry points out that it largely employs low-skilled people who are vulnerable to unemployment (LEK, 2009).

7 LIKELY IMPACTS OF FORTHCOMING POLICY CHANGES

Universal Credit will change the shape of unemployment and poverty traps, making them less severe but with effects on a larger group of people. The overall impact on work incentives will be limited (Brewer, *et al.*, 2012).

Universal Credit, work incentives and the poverty trap

The Welfare Reform Act 2012 included outline provisions for a new 'Universal Credit' to replace Working Tax Credits, Child Tax Credits, Housing Benefit, Income Support, and the income-related Jobseeker's Allowance and Employment and Support Allowance. Universal Credit will not, for the time being, cover Council Tax Benefit. It will reshape the financial incentives provided by the benefit and tax systems, including Housing Benefit, SMI, and the in- and out-of-work and linked, 'passport' benefits (such as free prescriptions and free school meals) with which they interact. These proposals represent the most significant changes to the welfare benefits regime since the introduction of means tested in-work benefits in the early 1970s.

Universal Credit

Universal Credit will be introduced for new claimants from October 2013. Existing claimants will 'migrate' onto the scheme over a subsequent four-year period. These changes are intended to simplify administration, to improve work incentives and make the potential gains of entering low-paid work easier to understand. The single unified benefit will have a single taper rate, avoiding cumulative effects from multiple tapers in different benefits. There will be a general taper rate of 65 per cent, and maximum marginal deductions from additional earnings, after Income Tax and National Insurance, of 76 per cent. Allowing for a 20 per cent taper on net income under the Council Tax Benefit schemes, where this overlaps with the

Universal Credit taper, the maximum deductions from each £1 of gross earnings will be 81 pence, but this is much lower than the maximum level of 96 pence under the current system (see Table 3). The change is not intended to reduce costs directly, but it is hoped that it will lead to increased employment rates and, therefore, indirect savings.

Table 3: The revised structure of the poverty trap

Form and rate of deduction	Current Tax Credits	Universal Credit
Income Tax (20%)	20p	20p
National Insurance	11p	11p
Tax/Universal Credits	39p	45p
<i>Net earnings/credits</i>	30p	24p
Housing Benefit (65%)	20p	n/a
Council Tax Benefit (20%)	6p	5p
Total net disposable income	4p	19p

Source: Authors' calculations from Her Majesty's Revenue and Customs, and DWP notes on structure of taxes and benefits

It should also be noted that, since 2009, Child Benefit has been disregarded in the calculation of Housing Benefit entitlements, and this has operated in the same way as an increase in earnings disregards to boost the incomes of working families in low-paid work. This feature disappears in the Universal Credit regime. So, while the indicative levels of the Universal Credit earnings disregards are higher than the current levels for Housing Benefit, for larger families they are lower than the combined value of the earnings and Child Benefit regards, as shown in Table 4. Notably, there will be no additional disregards for any third or subsequent children.

Table 4: Universal Credit earnings disregards for tenant households, per week

Household type	Current disregards	Universal Credit disregards	Gain
Couple + 1 child	£30.30	£51.23	£20.93
Single person	£5.00	£25.62	£20.62
Couple	£10.00	£25.62	£15.62
Lone parent + 1 child	£45.30	£60.53	£15.23
Couple + 2 children	£43.70	£51.23	£7.53
Lone parent + 2 children	£58.70	£60.53	£1.83
Couple + 3 children	£57.10	£51.23	-£5.87
Lone parent + 3 children	£72.10	£60.53	-£11.57

Source: Authors' calculations from DWP, 2012e; DWP, 2012f

The new regime will also be more complex than necessary, as it includes a two-tier earnings disregard, with a higher disregard available for households not receiving any help with housing costs as part of their Universal Credit. The lower levels of assistance that will consequently be offered to working-tenant households receiving help with their rent, may also frustrate the

government's hopes that the scheme will encourage greater labour-market participation. Rent levels will also affect the impact of the scheme in practice.

The allowances in the scheme also disadvantage lone parents and larger families. Lone parent allowances are based on those for a single person, with an additional element for children. Under the current Tax Credit regime they are given the same allowances as a couple with children.

For the current Housing Benefit and other existing means-tested schemes the allowance for each child is £65.62 per week (in 2013/14). Under Universal Credit, the allowance for a first child is a little lower, at £62.62 per week, while for any second or subsequent children the allowance level falls to £52.17 per week (DWP, 2012a). However, these differences are more presentational than substantive, as the Universal Credit child allowances for the first child are effectively inclusive of the family premium element in the Housing Benefit allowances. The Universal Credit child allowances are also net of Child Benefit.

The overall value of the improved taper rate will be lessened by the fact that Council Tax Benefit is excluded and will create extra clawbacks. In England, the Council Tax Benefit budget has been cut by 10 per cent, and now each local authority will operate its own scheme. Details are not yet known, but they will dilute the intent of the Universal Credit scheme.

In summary, however, the design ensures that a greater number of households will receive additional benefits than would lose out, primarily as a result of the lower taper rate and increased disregards for small households. In addition, there are transitional measures to ensure that no existing claimant loses out as a result of switching from the old to the new regime. However, among new claimants, a substantial minority will receive less than they would have received under the current system. Moreover, it should also be recognised that the relatively favourable comparison of the Universal Credit and current schemes at current rates, is partly a consequence of the cutbacks in the real value of Tax Credits over the last two years. Universal Credit's lower taper rate means it creates a shallower poverty trap than the current system. Overall, it will reduce the number of people living in poverty (Brewer, *et al.*, 2011). However, the trap it creates is wider. It extends further up the income scale, and for households facing higher rents this will push the shallower poverty trap even further up the earnings scale. The reduction in poverty it creates will be outweighed by other benefits cuts that increase poverty (Brewer, *et al.*, 2011)

Work incentives

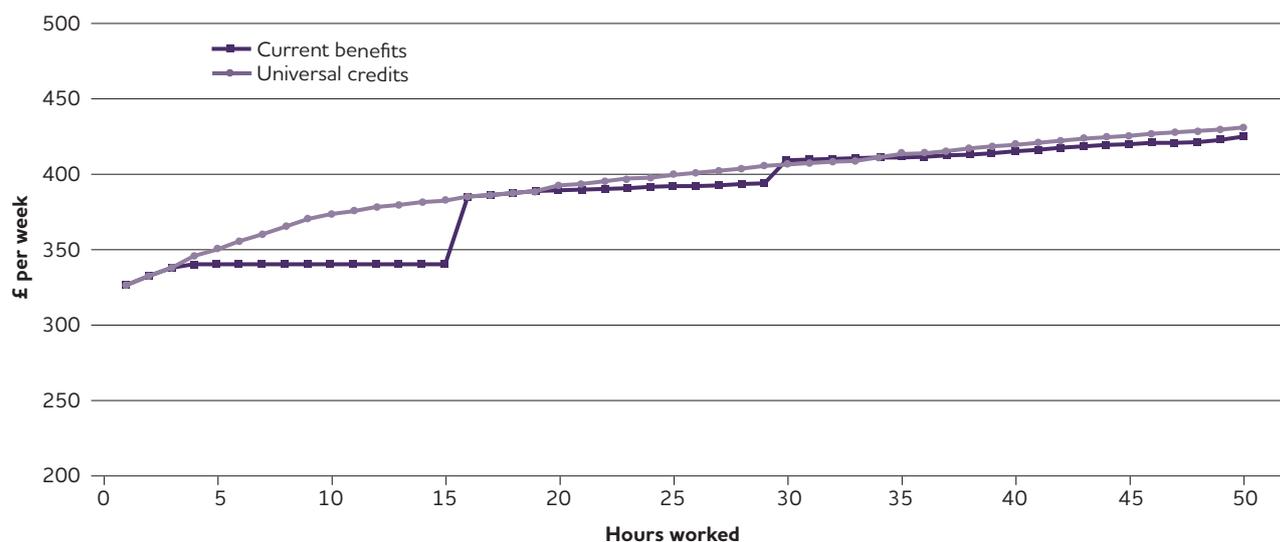
Figure 15 compares the current and Universal Credit regimes for low-income working families. This shows the total net incomes that would be provided for a lone parent with two children and a rent of £80 per week, assuming that their hourly earnings are close to the likely minimum wage (yet to be set) for October 2013. It uses the 2013/14 rates for both schemes, but does not take account of forthcoming changes to Council Tax Benefit. In practice the new localised regimes for Council Tax Benefit in England will incorporate a cut of 19 per cent to total support to recipients of working age (Adam and Browne, 2012). They will introduce complexity and are likely to reduce work incentives for many, undermining the goals of Universal Credit (Adam and Browne, 2012).

The most significant gains in this case would be for those working less than 16 hours a week, who do not currently qualify for Tax Credits. However, lone parents will be under pressure to work for more than 16

hours, both as a result of benefit conditionality rules, and in some cases in order to avoid the impact of the national benefit cap (see below).

For couples with one or two children, at 2013/14 rates, the Universal Credit regime provides rather more support relative to the current regimes, and the net advantages are greater still for those on higher earnings, as they see the benefits of the net lower taper rate. However, the downside of that advantage is the greater reach of the shallower poverty trap.

Figure 15: Net impact of current and planned Universal Credit systems on poverty and unemployment traps



Source: Authors' calculations from DWP 2012e; DWP, 2012f

The poverty trap

Under the current regime, at 2013/14 rates, a working couple with two children only need to earn £389 (gross) per week to escape from the Housing Benefit poverty trap with a rent of £80 a week, albeit that they remain eligible for Tax Credits until their earnings reach £622 per week. Even with a rent of £120 per week the Housing Benefit poverty trap extends only to earnings of £609 per week, still a little below the point at which the household also ceases to be eligible for Tax Credits. Under the Universal Credit regime the same household would remain subject to the shallower Universal Credit poverty trap until their gross earnings reached £691 per week, and with a rent of £120 per week, they would remain eligible for Universal Credits until their gross earnings reached £780 per week. This is beyond the point (£770 per week) where an individual earner starts to be liable for the higher (40 per cent) rate of income tax.

A consequence of this approach is that a much higher proportion of working social-sector tenants are likely to be eligible for Universal Credit, than are currently eligible for either Tax Credits or Housing Benefit.

Finally, some other issues may affect poverty and work incentives. Universal Credit will be paid monthly rather than weekly, substantially extending the period over which households have to juggle their limited incomes. Housing Benefit for social tenants generally goes directly to landlords at present, but under the new system they will also be required to manage their rental payments. A number of details of the scheme, including arrangements for 'passport' benefits, and support for home-owners who become unemployed, have not yet been resolved. More generally

there are concerns about the challenging timetable, delivering a national scheme online, rather than through local offices, and whether the IT systems and arrangements to assist households using them will be ready and fully effective in time.

Will Universal Credit mean that state support for home-owners has a bigger effect on poverty than at present?

Details are still in development, but it appears that plans for state support for home-owners will at most have a minor additional impact.

It was initially suggested that Universal Credit would include in-work SMI, which had been withdrawn in the late 1990s (DWP, 2011). Home-owners currently face the maximum possible marginal effective tax rate, as 100 per cent of support is withdrawn when they work over 16 hours per week. Addressing this would have led to a significant improvement in the support offered to working-age low-income home-owners. However, it is now clear that SMI will instead be reduced (HM Treasury, 2012). Home-owners will receive no help with their housing costs even if they work for as little as one hour a week.

Under Universal Credit home-owner families with children in low-paid work will instead benefit from higher levels of earnings disregards, before they begin to see a reduction in their baseline Universal Credits (based solely on the household allowances) entitlements. A lone-parent owner will have an earnings disregard of £168.93, while couple owners with children will have an earnings disregard of £123.36 per week. There are no enhanced disregards, however, for home-owner households without children. These higher earnings disregards effectively replace the assistance home-owners currently receive through Tax Credits, while perpetuating their exclusion from any direct help with their mortgage.

There are other unresolved issues about the future arrangements for help with mortgage costs as part of the Universal Credit regime, and a number of limited reform options are currently out for consultation (Wilcox, 2012).

Will the Maximum Benefit Cap affect poverty, work incentives and unemployment traps?

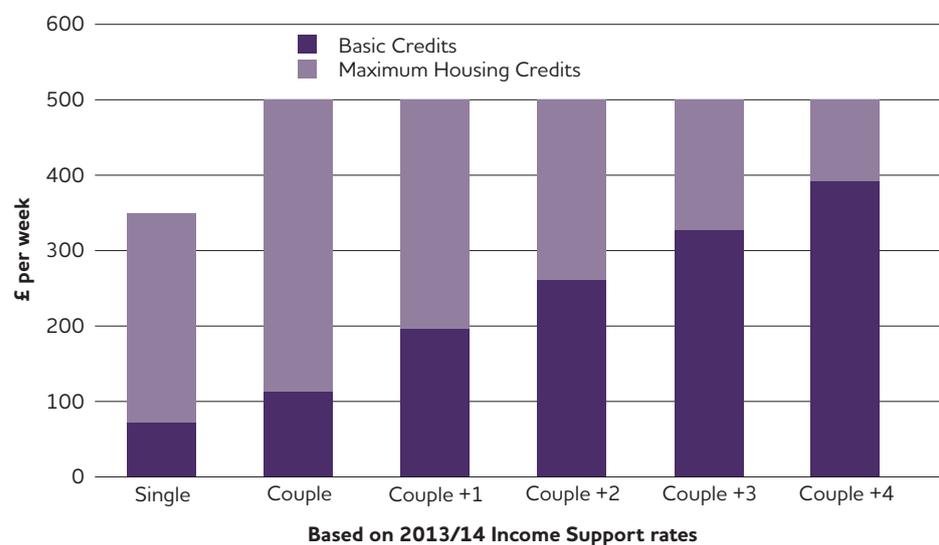
A further reform is the maximum cap on total benefits for out-of-work households below retirement age, which will come into effect from April 2013. The cap is to be based around the national average wage after tax. The cap will initially stand at £350 for single-person households and £500 for couples and lone parents, and will be a flat rate across the whole UK, with no variations to take account of either family size or housing costs. As a consequence the cap will be particularly hard-hitting for larger families in areas of high housing costs, because it will severely constrain the maximum amount of Housing Benefit such households can receive, limiting their ability to meet 'affordable' or even social rents in some cases. For very large families the impact will also be felt in areas with relatively low rents.

An indication of the level of funding available for housing costs under the caps, without requiring households to reduce their expenditures on essential living costs below the levels provided for in basic benefit allowances, can be seen in Figure 16.

A couple with four children would have just £107.50 a week in addition to their baseline allowances, to cover housing costs and Council Tax. This is unlikely to be sufficient to cover a social sector rent and Council Tax for a family home in more costly parts of the country, let alone a private rent. In 2009, median private rents were £146 a week (Pawson and Wilcox, 2012).

The DWP impact assessment estimated that the benefit cap will impact on some 56,000 households across Britain, of which a half will be in Greater

Figure 16: The impact of the planned benefit cap on different households



Source: Author's calculations from DWP, 2012f

London. Across Great Britain as a whole it also estimated that some of the 30,000 households affected would be in the private rented sector, and some 26,000 would be in the social rented sector. Three-quarters of the households affected are families with three or more children (DWP, 2012c).

To avoid the caps, families need to work for a minimum of 24 hours a week, or 16 hours in the case of a lone parent. The income losses involved can be substantial – in one-fifth of all cases they exceed £150 per week, and in well over a half of all cases they exceed £50 per week (DWP, 2012c). The net effect will, however, depend on the behavioural responses of both the households concerned, and social landlords. The way in which local authorities make use of their budgets for Discretionary Housing Payments to ameliorate the impacts of the new limits will also have an impact.

8 SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

People's experience of poverty and material deprivation and their housing circumstances are intertwined. This is because housing acts both as a charge on income and, potentially, as a source of income or income-like flows of benefits. It constitutes an important part of people's material living conditions and makes a contribution to life chances. Homes – households – are also the places where individuals pool and share incomes and costs.

The relationship between housing, poverty and material deprivation

Most of the numerous definitions of poverty and material deprivation cannot be entirely separated from housing circumstances. The significance of the links between housing, and poverty and material deprivation deserves greater recognition, both from those interested in housing and from those interested in poverty.

Conventional measures of income and poverty provide only one of the possible ways of interpreting the links, but have a big effect on the numbers defined as living in poverty, the composition of those in poverty and the implications for policy.

Questions for which there is good evidence for a positive answer

Do people living in poverty typically have less desirable and worse housing conditions than others?

There is strong evidence that, where housing is largely distributed through the market, people living in poverty will have fewer housing choices, will typically have less desirable housing conditions and will find it harder

to enter home-ownership. It is not always clear to what extent poverty causes housing circumstances, and whether there is any sign that housing circumstances may contribute to poverty.

Do housing policies partly break the link between lower incomes and worse housing conditions?

There is strong evidence to support this argument. Not all of those in poverty experience undesirable housing conditions, and those in poverty are not the only people to experience such conditions. The strength of the link varies for different aspects of housing conditions. However, it is difficult to say to what extent the link is broken overall, and how much housing and welfare policy, families, employers and borrowing are responsible. It has been argued that the UK housing system compensates for a welfare state less generous than in some other countries, but the evidence is not strong enough to declare this argument proven or disproven.

Does building homes create jobs?

There is good evidence that building homes creates jobs, and that it may have a bigger effect on employment and poverty than many other kinds of other economic activity.

Do poor housing conditions create poverty and employment?

There is substantial evidence to show that poor housing conditions affect some aspects of child development or elements of adult health. Evidence to support the link between housing and/or health and income and employment is less convincing, although this is probably partly due to the complexity of establishing cause in such a broad field.

Do housing costs create poverty and material deprivation?

There is strong evidence to suggest that they do. Housing costs constitute the most important and most direct impact of housing on poverty and material deprivation. Overall, five per cent more of the UK population, or 3.1 million people, experience poverty when the impact of housing costs on income is taken into account. Not taking housing costs into account means a significant underestimate of the risk of poverty and material deprivation for workless households, people in London and the South East, minority ethnic groups, single people and renters. It also means that the targets set in the Child Poverty Act 2010 overlook many children living in poverty.

Does the regional variation in housing costs affect poverty and material deprivation?

There is strong evidence to suggest that it does. Variations in regional housing costs have a substantial impact on total numbers of people defined as living in poverty, and the extent to which people in poverty experience material deprivation. One million extra Londoners are 'poor' once housing costs are taken into account. Variations between places have been overlooked in research on poverty and material deprivation.

Does Housing Benefit prevent poverty and material deprivation?

There is strong evidence to suggest that it does. Housing Benefit makes a major contribution to reducing housing-cost-induced poverty and preventing material deprivation, and is second in importance only to housing costs themselves.

Does Housing Benefit reduce work incentives or create unemployment and poverty traps?

There is strong evidence that, as well as preventing homelessness, poverty and material deprivation, Housing Benefit reduces work incentives and creates unemployment and poverty traps. The overall impact of these traps on employment rates is hard to judge, but there would be little effect on poverty rates.

Do rent levels affect financial work incentives and unemployment and poverty traps for tenants?

Again, there is very strong evidence that rent levels affect financial work incentives and unemployment and poverty traps for tenants.

Do social landlords provide services that prevent poverty and increase employment?

There is some evidence to support this argument. Most social landlords provide some services intended to prevent poverty and increase employment, and social tenants have more access to such services than others. There is evidence of positive impacts from individual schemes, although gauging the total impact is difficult.

Does the location of housing have effects on employment and earned incomes?

There is strong evidence to support this argument. Different regions and labour markets offer markedly different employment and income opportunities to people with the same individual characteristics. Evidence for the role of neighbourhood location is less strong.

Questions for which there is good evidence for a negative answer, equivocal evidence or limited evidence overall

Does state support for home-owners prevent poverty?

There is little evidence to support this argument. State support for home-owners who lose their jobs is limited and while it may reach some people living in poverty, it is unlikely to have a substantial impact on poverty overall.

Does housing equity prevent poverty?

There is some evidence to show that home-ownership provides some people with equity which could be used to supplement or replace income, particularly in retirement. However, this appears to be of little help to people living in poverty.

Does home-ownership protect people from material deprivation?

Home-owners living in poverty face a lower risk of material deprivation than those in poverty in other tenures. However, we cannot be sure it is the tenure itself that is responsible, rather than long-term income.

Does home-ownership provide non-financial work incentives?

There is little UK evidence to support this, and none which suggests that this might benefit owners at risk of poverty.

Does settled, secure housing have effects on employment for ex-homeless people?

Evidence suggests that settled housing is a necessary prerequisite for gaining employment, but not a sufficient one, and the majority of ex-homeless single people have difficulties finding sustained work.

Does the ability to move home have effects on employment?

Evidence suggests that the ability to move home does have effects on employment, but the effects do not appear to be significant, and both social renters and home-owners may be affected.

Implications of the evidence for future policy

This report was intended as an evidence review rather than as the basis for detailed policy proposals, and, as in reviews in other policy areas, it has found some important gaps in the evidence base.

Nevertheless, the review suggests that:

- social policy should pay closer attention to the links between housing, income and welfare – these links have been neglected;
- whatever the outcome of current reviews of the definitions and measures of poverty, those interested in the links between poverty and housing should measure income poverty using income after housing costs (AHC), at least as a supplement to income measured before housing costs (BHC);
- they should also pay attention to groups living in poverty because of high housing costs.

The review suggests that a housing policy to reduce poverty should consider:

- reductions in housing costs, particularly for renters, or at least limits on further increases in rental costs. Traditional social housing can play an important role, although rent levels in the private rented sector are an increasingly important part of the picture;
- monitoring and maintaining good housing conditions for all households in all tenures. Bad housing conditions affect health and may have long-term effects on incomes and employment. The near-universal good standards we have achieved on housing conditions may be threatened by lower incomes, such as through benefit cuts;
- monitoring the impact of Housing Benefit cuts on claimant households' residual incomes, material deprivation and location (relative to job opportunities);
- increasing take-up of Housing Benefit (and Universal Credit), particularly among those in work and living in private renting;
- increasing take-up of Council Tax benefit, particularly among home-owners, and Pension Credit, particularly among older people.

It suggests that a housing policy to increase employment rates should consider:

- lower rents;
- prioritising low-cost tenures for people only able to command low wages.
- monitoring the impact of affordable rents on incomes after housing costs, on work incentives and on unemployment traps;

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- building homes to increase housing supply, to create jobs and to support residential and employment mobility;
 - encouragement of increased 'in work' take-up and efficient administration of Housing Benefit/Universal Credit;
 - extension of eligibility for Universal Credit to low-income working home-owners;
 - continued attempts to try to reduce the impact of the Housing Benefit poverty trap, building on the Universal Credit reform;
 - supporting local authorities in the design of Council Tax Benefit systems to limit work disincentives, given rising in-work poverty, local wage levels, the costs of working, and the interaction with Universal Credit;
 - greater understanding of how poverty and employment traps vary by area and by rent levels, and how they interact with local wages;
 - greater understanding of which individuals are more likely to be able to respond to financial work incentives and how they are affected by poverty and employment traps;
 - paying particular attention to where new house building takes place, including building new affordable housing in areas with competitive job markets;
 - improving the links between employment areas and residential neighbourhoods, neighbourhood-based training and employment support;
 - continuing or expanding income and employment activities by social landlords, and potentially extending them to private tenants.

NOTES

- 1 For more details of the search methods, see 'Housing and Poverty Evidence Review: methods used to find and select evidence'. Available at: <http://www.york.ac.uk/chp/publications/2013> [Accessed 16 February 2013]
- 2 The Cochrane Collaboration is an international network of health experts that carries out authoritative reviews of evidence to assist decision-making in health care.

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