

## **Crowded houses**

### Overcrowding in London's social rented housing

March 2011





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## About this report

On 22 June 2010 Andrew Boff was appointed as rapporteur to carry out a review of overcrowding in London's social rented housing on behalf of the Planning and Housing Committee.

The review was seeking to test the hypothesis that increasing the supply of larger family homes would effectively tackle the housing problems of more Londoners in overcrowding.

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## Rapporteur's foreword



Overcrowded housing is a hidden blight in London. More than 200,000 of the capital's families are overcrowded - up a third on ten years ago. The situation is worst of all in London's social rented housing.

Over the years, politicians of all political hues have looked at resolving the problem, but few with much appreciable success. Resolving under-occupation is the oft-touted panacea but, despite innumerable initiatives to reduce it, overcrowding has remained stubbornly high for the last twenty years.

I now think that to tackle our overcrowding crisis, which taints the lives of so many Londoners in social housing, we need a comprehensive overhaul of how we approach the issue.

This report looks at the changes that need to be made to the housing system if we want to reduce the severe problem of overcrowding. It began with a simple, clear idea - the proposition that "building more large homes would more effectively resolve the problem of overcrowding in London's social housing".

It is based on the belief that building more large homes (with 4, 5 or even 6-bedrooms) would have two important consequences. Firstly, it would help to address the historic shortfall in large homes in London by giving overcrowded families bigger places to live.

Second, the creation of every large home would resolve multiple families' housing problems; beyond those of the people who actually move in. This works because, when the first family moves into the new large property, their old home is vacated and another, slightly smaller, overcrowded family moves in. This process is then repeated again and again, thereby creating a 'chain effect' in which every family moves one step up the ladder. In this way multiple 'housing needs' are solved.

Our report shows that just one new 6 bedroom home can help take more than 36 Londoners out of overcrowding. Currently this cannot happen because the 1 and 2 bed homes that are now being built do not create a chain and are too small for the vast majority of overcrowded households.

We tested this hypothesis with experts from across the housing industry and, unsurprisingly, not everyone agreed. However, what was heard fairly consistently, when asked whether building more, larger, homes was the solution, was, “Yes, but . . .” Other steps are necessary to realise the full benefits of building bigger.

This report explores these other factors – money, stock management and housing priorities in terms of their role in overcoming our overcrowding problem.

While we worked on this review significant changes to the way the social housing system will operate have been proposed by Government. It is clear that these will present both challenges and opportunities for efforts to resolve overcrowding. But even when these changes are taken into account, it remains this report’s contention that more people benefit from the creation of a new large family home than building a number of small flats for the same cost.

**Andrew Boff AM**

March 2011



## Executive summary

This report focuses on overcrowding in London's social rented housing – a largely hidden side of the housing problem. Until now it has not been a political priority compared with homelessness and rough sleeping, which are the visible faces of London's housing crisis.

The report seeks to test one simple idea - that rapidly increasing the supply of larger family homes would tackle the housing problems of far more Londoners than any other single policy measure.

London had 207,000 overcrowded households in 2008 – almost 7 per cent of the city's homes; around half of these (102,000) live in social rented housing. It is worse in social rented housing than other tenures and London has 44 per cent of England's overcrowded households in this sector.

Overcrowding affects larger households disproportionately and the problem has a negative impact on children, especially their health and educational attainment. About 331,000 London children live in crowded conditions and one in three children in social rented housing are overcrowded.

Breaching legal overcrowding standards is a criminal offence. But the official definition that has survived unchanged since 1935 is now clearly outdated. Relatively few households are actually legally overcrowded even though members of the family will have to sleep in living rooms and, sometimes, in kitchens.

There needs to be an updated definition of statutory overcrowding based on the bedroom standard as this would provide local authorities with incentives to reduce overcrowding.

The quality of available data and measurement of overcrowding needs to change too. Without accurate data on the levels of overcrowding, policy makers cannot have any real idea of the true cost of dealing with the problems in human or financial terms. London boroughs need to commit to collecting more accurate data to measure overcrowding.

The central proposition of this report is based on the idea that giving overcrowding a greater priority, by building larger homes, will address the housing needs of far more Londoners than the current focus - one that results in building the largest number of smaller homes. Building a one or two bedroom home takes one family out of temporary accommodation or from the waiting list and so meets the housing need of two or three

Londoners. This is the outcome of the current policy that sees increasing the absolute number of new homes as the top priority.

But building one new 6 bedroom home for an overcrowded family, and moving other overcrowded families into larger vacant homes created further down the 'chain', could solve the overcrowding problems of 36 Londoners. It also has the added effect of taking one or two people off the waiting list, or out of temporary accommodation.

However, this approach would not necessarily address the housing requirements of individuals and smaller households in pressing need, for example the homeless and those in temporary accommodation.

There are barriers to building more, larger, family sized homes and these were identified as largely a result of the operation of the public subsidy system, the target setting agenda and planning policy.

Housing grant for social homes tends to be allocated on a 'per unit' basis - a fixed sum per unit of new affordable housing - and grant rates per social rented dwelling currently average around £100,000 per property regardless of the size of the home. However, because of the additional cost of building bigger homes this flat rate of grant is often not enough to make a scheme of large homes financially viable.

Grant rates need to change to make it easier to build bigger - grants need to be higher for larger homes. There is a need to move toward a grant that reflects the number of people housed as opposed to the number of homes that are built. Grants based on 'per person' would allow the Mayor to demonstrate his or her success in helping Londoners out of housing need, rather than by using the unsophisticated target of total new homes - a target that does not accurately measure how home building meets housing need. It is possible that flexibility on rents may also have a role to play in encouraging building bigger homes.

Similarly, the Mayor should change the headline housing target in his housing strategy to the number of new bedrooms provided, rather than simply the number of units. He should also introduce a new measure of housing success, ie 'the number of Londoners taken out of housing need'.

The London Housing Strategy contains a target that more family sized affordable homes will be provided, with 42 per cent of social rented homes having three bedrooms or more by 2011. There is evidence that the

existence of this 42 per cent 3+ bed policy is actually placing a limit on the number of larger homes being built. Research suggests that the need is for four bedroom homes, but what is being built by developers and housing associations reflects the Mayor's 3+ bedroom target.

There is an opportunity to address these issues in the Mayor's review of his housing strategy and he should change his target for family sized housing so that 42 per cent of new social rented housing should be 4+ bedrooms to reflect actual housing need. Additional targets for 5 bed houses would be helpful.

Other factors that influence the amount of family sized housing that is built relate to how local housing priorities are set and how the existing affordable housing stock is managed.

All social landlords allocate housing by prioritising certain groups in housing need. Priority tends to be given to those who are homeless or are in temporary accommodation rather than to the overcrowded. Other priorities can reflect the medical conditions of people on the waiting list or the needs of young people leaving social care.

The report found that only one borough has overcrowding in its top priority group. Two others have overcrowding as a second priority.

These priorities are not only used to allocate vacant properties from within a local authority's own stock – councils also have the ability to 'nominate' people on the waiting list to housing association homes. This arrangement between housing associations and councils exists across all local authorities.

There is pressure from boroughs to use vacancies arising in the social rented sector – including housing association properties through nomination rights - to house people from the waiting list rather than to address overcrowding, particularly as this reduces the cost of housing people in temporary accommodation.

Temporary accommodation costs are significant – averaging over £17 million per borough annually - and so the desire to reduce the cost of temporary accommodation is a strong incentive to boroughs to move people into secure housing as soon as possible. This can exacerbate overcrowding levels by removing the possibility of moving overcrowded families into larger vacant homes. Local authorities need to give housing associations greater flexibility to manage their stock to reduce overcrowding before 'voids' are

released to local authority nominations. In the medium to long term this would have a positive impact on the levels of overcrowding.

As a consequence of trying to make the best use of their housing stock some social landlords have developed quite complex processes that have proved successful in addressing overcrowding. 'Chain lettings' appear to offer a potential way of managing stock more efficiently. They create a process similar to that generated by building a large family sized home - creating a number of moves arising from a vacant property to meet the needs of a number of different households and so make better use of the existing stock.

If overcrowding is to be dealt with more effectively it needs to receive greater attention. London boroughs will be reassessing their housing allocation policies in response to future Government proposals and in doing so they should consider prioritising overcrowding wherever possible with rehousing under-occupiers as a further priority where this would assist in tackling overcrowding.

Borough housing priorities must change because existing housing budgets and the financial penalties of keeping people in temporary accommodation do not reflect the wider public cost of overcrowding. These costs are borne by the education, social services and health budgets.

The Mayor has concluded that given the very high social and economic costs that result from overcrowding, there are compelling reasons for directing resources at this problem. The findings in this report seek to offer ways to rebalance London's approach.

In a time of enormous pressure on social housing, making the best use of declining resources is of utmost importance, and increasing the supply of larger family homes would tackle the housing problems of the greatest number of Londoners in housing need.

# 1 Introduction

*“There are six people in this house, divided for sleeping purposes thus: main bedroom, husband, wife and child; second bedroom, two girls; parlour, son. Accommodation which necessitates five people sleeping in two small bedrooms, and one person in the parlour, is by every civilized standard odious”.<sup>1</sup>*

1.1 This report, from the Architectural Journal in October 1933, added to the public outcry over the state of Britain’s overcrowded housing and led to the country’s slum clearance legislation.

1.2 Now, fast forward to 2011:

*“Laura lives with her husband and three children in a one bedroom flat. While there are five people sleeping in one room, in statutory housing terms they are not officially overcrowded – the youngest child does not count for housing purposes and the two other children are young enough to use the living room for sleeping accommodation”.*

1.3 While nearly 75 years separate these two accounts, similar overcrowded conditions continue to exist in London’s social housing. And while notable improvements have been made in the past 60 years, over the last 15 years the situation appears to be getting worse. Between 1998 and 2008 the number of people living in overcrowded conditions increased by a third.<sup>2</sup>

1.4 Overcrowding is measured in different ways. The most common method compares the number of bedrooms needed by a household; by this standard London had 207,000 households classed as overcrowded in 2008 – almost 7 per cent of all the city’s homes. Around half of these (102,000) lived in social rented housing.

1.5 Overcrowding is worse in social rented housing than other tenures<sup>3</sup> and London has 44 per cent of England’s overcrowded households in this sector.

1.6 Overcrowding affects larger households disproportionately. In London, the overcrowding rate is less than 2 per cent for households with fewer than three people, compared with 33 per cent for households with five or more members.

1.7 The overcrowding rate for black and minority ethnic households in London is about four times that for white British households.<sup>4</sup>

1.8 The problem has a disproportionate impact on London’s children. About 331,000 London children live in crowded conditions and one in three children in social rented housing are overcrowded.<sup>5</sup> A Government commissioned review of the evidence showed how overcrowding damages children in terms of their health, educational development, personal safety and the rate of accidents.<sup>6</sup> It found, among other negative impacts, that children in overcrowded housing are up to ten times more likely

to contract meningitis than children in general (section 2 of this report sets out these effects in more detail).

- 1.9 Homelessness and rough sleeping are the visible faces of London's housing crisis. But this report focuses on overcrowding – a largely hidden side of the problem and one that, so far, has not been a political priority. The report seeks to test one simple idea – a hypothesis – that rapidly increasing the supply of larger family homes would tackle the housing problems of far more Londoners than any other single policy measure.
- 1.10 The evidence base used for the investigation includes nearly 50 written submissions from a wide variety of stakeholders and 9 meetings with housing experts, including one full meeting of the Planning and Housing Committee. Details of the evidence base are set out in Appendix 1.
- 1.11 The report quantifies the scale and cost of overcrowding in London, makes a judgement on the initial hypothesis and then examines ways in which obstacles to building bigger homes can be addressed. It also examines how the existing stock should be managed if overcrowding were to be given a higher priority in terms of tackling London's housing need.
- 1.12 This report aims to stimulate a debate about the priorities that drive London's housing policy. It seeks to show that political choices can effectively mitigate this damaging unintended consequence of housing policy. Ultimately it advocates ways in which the Mayor should recast parts of his housing strategy to give a greater emphasis on tackling the problem of overcrowding in London's social rented homes.
- 1.13 The challenge of meeting London's demand for affordable housing is daunting, but recognising that overcrowding is a significant, and growing, part of that problem is now a good starting point for pushing the issue up the policy agenda.

## 2 Overcrowding in London

### How is overcrowding defined?

- 2.1 There are various definitions of what constitutes overcrowded housing. Statutory overcrowding standards were introduced in 1935 and have not changed since. These define a dwelling as overcrowded if the number of persons sleeping in it exceeds a certain permitted number, based on the 'room standard' or 'space standard'. For the purposes of these standards, a room is considered to be "available as sleeping accommodation" if it is "of a type normally used either as a bedroom or a living room".<sup>7</sup>
- 2.2 The room and space standards are set out in Part X (ten) of the 1985 Housing Act.

### The room standard

- 2.3 The room standard is contravened when the number of persons sleeping in a dwelling is such that two people, who are ten years old or more, of opposite sexes who are not living together as husband and wife must sleep in the same room. Children under the age of ten are not counted, and living rooms and kitchens may also be deemed as suitable sleeping accommodation if they are large enough.<sup>8</sup>

### The space standard

- 2.4 Section 326 of the Housing Act sets out the number of people that can live in a home based on the number of available rooms and the size of the rooms:
- One room = two people;
  - Two rooms = three people;
  - Three rooms = five people;
  - Four rooms = seven and a half people;
  - Five rooms or more = ten people (and two people for each additional room).
- 2.5 The other 'test' is based on the floor area of each room:
- 110 square feet or more - 2 people;
  - 90 square feet or more but less than 110 square feet - 1½ people;
  - 70 square feet or more but less than 90 square feet - 1 person;
  - 50 square feet or more but less than 70 square feet - ½ a person;
  - Less than 50 square feet - no-one.
- 2.6 The statutory overcrowding standard is not generous, and so relatively few households are actually legally overcrowded.<sup>9</sup>
- 2.7 To interpret the legislation a local authority looks at how the sleeping arrangements within the premises could be organised rather than how they are actually organised.<sup>10</sup> For example, a couple, with two children of opposite sexes and aged ten years old or more, with two rooms available, are not statutorily overcrowded because the couple could occupy separate rooms, with one each of the two children (of the appropriate sex).<sup>11</sup> There is no limit on the number of people of the same sex who can live in the

same room although there may be a contravention of the space standards set out in paragraph 2.5 above.

- 2.8 A breach of the statutory overcrowding standard is a criminal offence and local authorities have the power to take action against landlords of overcrowded properties on a tenant's behalf. However, where a statutorily overcrowded household lives in council housing, the local authority cannot take legal action against itself without the approval of the Attorney General. Shelter has noted that "the Attorney General has never agreed to let a case of overcrowding by a local authority proceed to court".<sup>12</sup>
- 2.9 Overcrowding (above the statutory definition) is only allowed through 'natural growth' - such as a child reaching one of the specified ages, or temporarily, for example if additional people come to stay in a home for a short time.

### **The bedroom standard**

- 2.10 Another definition is the 'bedroom standard' which is the one that is commonly used by social housing providers and is based on the composition of the household and their ages. Bedrooms are notionally allocated to members of the household based on consideration of age, sex, marital status and relationship of household members.
- 2.11 According to this standard, a separate bedroom is allocated to each of the following:
- Married or cohabiting couple;
  - Adult aged 21 years or more;
  - Pairs of adolescents aged 10–20 years of the same sex;
  - A pair of children aged under 10 years regardless of their sex.
- 2.12 The bedroom standard is compared to the number of bedrooms available to, and for sole use by, the household and is the most widely used by social landlords in their allocations frameworks. The bedroom standard also classifies households that are severely overcrowded. This is defined as two or more bedrooms below the bedroom standard.
- 2.13 The Census also allows measurement of overcrowding based on persons per room. Under this definition overcrowding is defined as one person or more per room while severe overcrowding is defined as 1.5 persons or more per room.
- 2.14 Appendix 2 provides more details of the various overcrowding standards in use.
- 2.15 As set out above, there are exceptions that blur the true picture of overcrowding. In certain cases (under the statutory definition) kitchens can be considered suitable for sleeping in if they are large enough. Children under one year old 'do not exist' for the purposes of calculating overcrowding and children under ten years old (and over one year) are expected to share a room.
- 2.16 This means there are examples of households comprising a large number of people, often with several children, living in a small home that requires them to sleep in living



rooms and even kitchens (if they are big enough to accommodate a bed) that any reasonable person would regard as overcrowded, but which are outside the statutory definition of overcrowding.

- 2.17 The case study of Laura and her family (see box below) is such an example. Despite there being five people in a one bed flat, in statutory terms, the family is not overcrowded but by the bedroom standard they are.

### **One in 102,000 crowded houses - a case study of 21st century overcrowding**

Laura lives with her husband and three children (7 years, 5 years and 11 months) in a one bedroom flat on the second floor of a low rise block in east London. The flat is rented from the local authority but managed by a housing association. She works at a local primary school and her husband works for a charity close to the City.

They have lived in the property since 2003. They moved in when Laura was pregnant with her first child and were told that, once the child was born, they would be rehoused to a larger property. Now they have been advised that the likely wait for a larger home is 7–12 years. There are around 35,000 families on the waiting list in Laura's borough.

Laura has been in constant contact with the council, writing letters to the housing department and local MP, as well as making the housing charity Shelter aware of their situation. So far no-one has been able to offer any practical help.

While there are five people in a one bed flat, in statutory housing terms they are not officially overcrowded – the youngest child does not officially 'exist' for housing purposes, the two other children are young enough to share a room and can, by official standards, live, sleep, eat, play and do their homework in the living room.

The Council has acknowledged that they are living in overcrowded conditions but their response is that "the living room should be turned into a bedroom". The council has offered to buy them a sofa bed from Argos.

Every week Laura checks the list of available vacancies that appears on the council website at midnight on Friday. Quite often, when the list closes on the following Monday at midnight there are 400 – 500 other families that have registered an interest for the same properties.

The family have considered properties in the private rented sector and the Council's rent deposit scheme. They have registered bids for homes in other boroughs but their lack of local connections does not make them a priority.

They have even considered moving out of London but the disruption to their lives, work and schooling is prohibitive.

They all sleep in the one bedroom. There is a double bed for the adults and bunk beds for the two children, and then there is a cot for the baby.

The children are in the house a lot but there is no room for them to play. Laura does not want her children to play outside as she is worried about the children's safety.

**Andrew Boff met Laura and her family on 8 December 2010. They are still waiting for a bigger home. There are tens of thousands of families like Laura's living across London.**

2.18 The Housing Act 2004 recognises both the room and space standard definition of overcrowding. Section 216 of the Act however allows "the appropriate national authority" and local housing authorities discretion to decide what local overcrowding standards should be. This could be used to enforce a more modern and acceptable overcrowded standard that would not allow people to sleep in kitchens or children to use the living rooms, that whole families need, as bedrooms.

2.19 To our knowledge the power to set local overcrowding standards has not been used.

#### **A need to update the standard definition of overcrowding**

2.20 Housing standards have changed considerably since 1935 in terms of what amenities are now deemed essential for modern living but overcrowding standards have not. Local Government Regulation (the body funded by local authorities responsible for overseeing local authority regulatory and related services in the UK) views this as "an outdated standard".<sup>13</sup> Many organisations have lobbied for a review of the official definition of overcrowding<sup>14</sup> and there was even support from the House of Commons Local Government and the Regions Committee for this move.<sup>15</sup>

2.21 The idea seemed to be gaining momentum when, in 2007, the Government said "we will also underpin the work on overcrowding by updating the overcrowding standards"<sup>16</sup> and since then further attempts were made to update the statutory overcrowding standard during the committee stages of the Housing and Regeneration Bill in January 2008.<sup>17</sup> But, as yet, nothing has changed.

#### **Conclusion**

2.22 The fact that overcrowding has not been reassessed in terms of the wider personal and associated public costs explains why overcrowding does not have such a high political priority. There needs to be an updated definition of statutory overcrowding based on the bedroom standard as this would provide local authorities with incentives to reduce overcrowding.

#### **Recommendation 1**

**The Government should use its forthcoming social housing reform legislation to make the bedroom standard the statutory requirement for measuring overcrowding.**

### Measuring overcrowding in London

- 2.23 Measuring the extent of overcrowding is problematic given the lack of detailed data collected by local authorities. The most up to date and reliable estimates of overcrowding and under-occupation come from the Survey of English Housing - but this is not large enough to allow for detailed analysis of overcrowding by borough, household type or other characteristics.<sup>18</sup>
- 2.24 The quality of available data and measurement of overcrowding needs to change. During this investigation we found no examples of good practice in terms of the local measurement of overcrowding – that is by boroughs being able to fully assess the extent of conditions in their areas. Boroughs and other service providers do not have a good enough picture of the levels of overcrowding in their housing. Policy makers cannot therefore have any real idea of the true cost of dealing with the problems in human or financial terms.
- 2.25 None of the currently available data sources have a sample large enough to give reliable, comparable and up to date estimates of overcrowding at borough level and the ‘waiting list’ is inaccurate.<sup>19</sup> The inability to measure overcrowding accurately at borough level means that the figure of 102,000 overcrowded households in social rented housing may therefore be an under-estimate. Boroughs need to know what the true levels of overcrowding are in their areas, preferably based on an agreed method for improved data collection that is not expensive or onerous to implement.
- 2.26 There is an opportunity to remedy this situation. Recent government proposals will give local authorities the discretion to determine which categories of household should qualify to go on their housing waiting list.<sup>20</sup> This will give boroughs the opportunity to better understand the real need for social housing in their areas because they will have to review housing needs criteria in order to draw up their waiting list policies.

### Recommendation 2

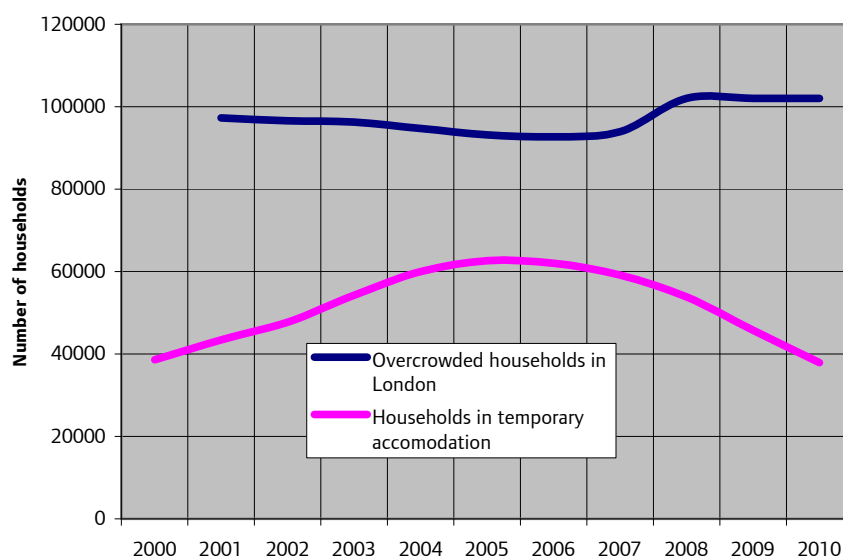
**London boroughs should commit to collecting more accurate data to measure overcrowding. The Mayor and London Councils should work together so that, by 2012, there should be an agreed common method that local authorities use for collecting data on overcrowding in London’s social rented housing.**

### The need for larger social rented homes

- 2.27 Despite the shortcomings in the way the statistics are collected at a local authority level the Survey of English Housing shows that after a period of decline, overcrowding in London’s housing is on the rise.
- 2.28 Department for Communities and Local Government (CLG) figures show that, of the London households on the waiting list for social housing in 2008, 17,109 households (4.8 per cent) needed a home with four bedrooms or more (see Appendix 3).<sup>21</sup>

- 2.29 The demand for larger homes is particularly concentrated in a number of boroughs – Newham, Ealing, Brent, Tower Hamlets and Lewisham all have more than 1,000 households waiting for a property with 4 beds or more. Appendix 3 details waiting lists and size of homes needed by London borough.
- 2.30 By proportion of the waiting list needing 4+ bed homes, Harrow has the largest (12.2 per cent) with Hillingdon, Brent, Lewisham, Waltham Forest, Camden, Ealing and Enfield all having more than 6 per cent of their lists composed of households needing larger homes.
- 2.31 Compared with other categories of housing need, overcrowding in social rented housing, is a much larger problem numerically with more than 100,000 households affected:
- In the middle of 2010 there were 37,910 London households in temporary accommodation (this has declined from a peak of 63,800 at the end of 2005).<sup>22</sup>
  - London’s local authorities accept some 7,100 people each year as being statutorily homeless.
  - Official counts suggest a total of 415 rough sleepers on London streets on any one night.<sup>23</sup>

**Figure 1: Overcrowding in social rented housing and households in temporary accommodation**



Source: CLG Housing Statistics

### The social and financial costs of overcrowding

- 2.32 Overcrowding has a significant negative impact on communities, families and individuals. It tends to be concentrated in particular neighbourhoods, is more likely to affect some minority communities, and is linked to poorer health and educational outcomes. In many cases it increases the likelihood of anti-social behaviour.

2.33 There is a wealth of evidence demonstrating these impacts:<sup>24</sup>

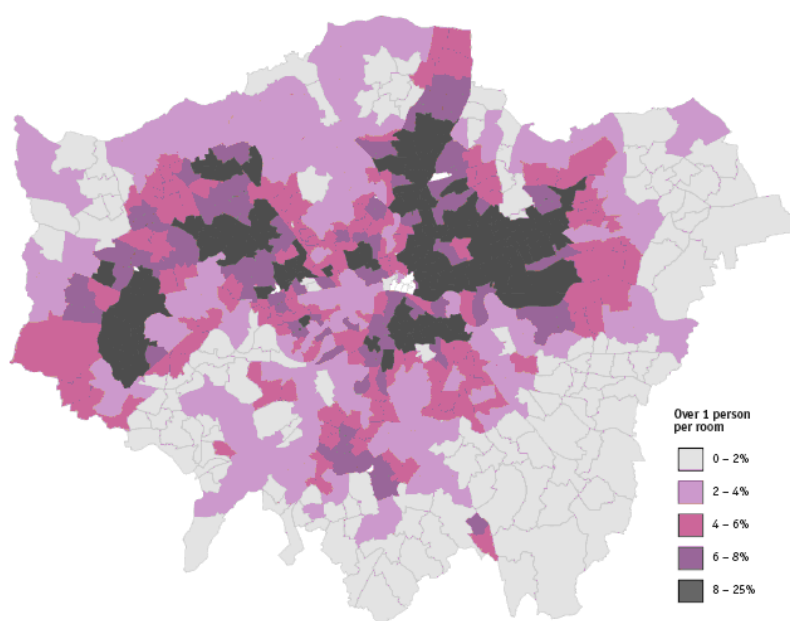
- Households that experience multiple housing problems (including overcrowding) have increased children's risk of ill-health and disability by up to 25 per cent.
- Children in overcrowded housing are up to ten times more likely to contract meningitis than children in general.<sup>25</sup>
- There is a direct link between childhood tuberculosis and overcrowding.<sup>26</sup>
- Mental health issues such as anxiety and depression have also been linked to overcrowded and unfit housing.
- Overcrowded housing affects children's ability to learn at school and study at home.
- Children in overcrowded homes miss more school due to illnesses and infections.
- Overcrowding is linked to delayed cognitive development.<sup>27</sup>

2.34 As well as these severe personal and social impacts, overcrowding also imposes a number of 'hidden' financial costs on local and central government. These include providing additional health services, the cost of welfare support resulting from poor educational achievement and the resulting impact on employability and even the costs of anti-social behaviour that are linked with overcrowded housing.

2.35 For official data at a neighbourhood level the Census must be used. Of the 15 most overcrowded wards in England, 13 are in London.<sup>28</sup> Overcrowding is concentrated geographically in certain areas of London, so the costs of overcrowding are borne disproportionately by certain local authorities.

2.36 Using 2001 Census data London Councils was able to map the extent and concentration of overcrowding in London down to a ward basis (Figure 2 below). While this is now out of date it does indicate the extent to which overcrowding is concentrated:

**Figure2: Overcrowding by London ward - Percentages of households with more than one person per room**



Source: Overcrowded housing and the effects on London's communities, London Councils, October 2004

2.37 The Mayor recognises that additional costs exist – and, importantly, that these costs are not reflected in housing budgets; “The costs of tackling overcrowding directly are also significant. However, given the very high social and economic costs that result from overcrowding, there are compelling invest to save arguments for directing resources at action”.<sup>29</sup>

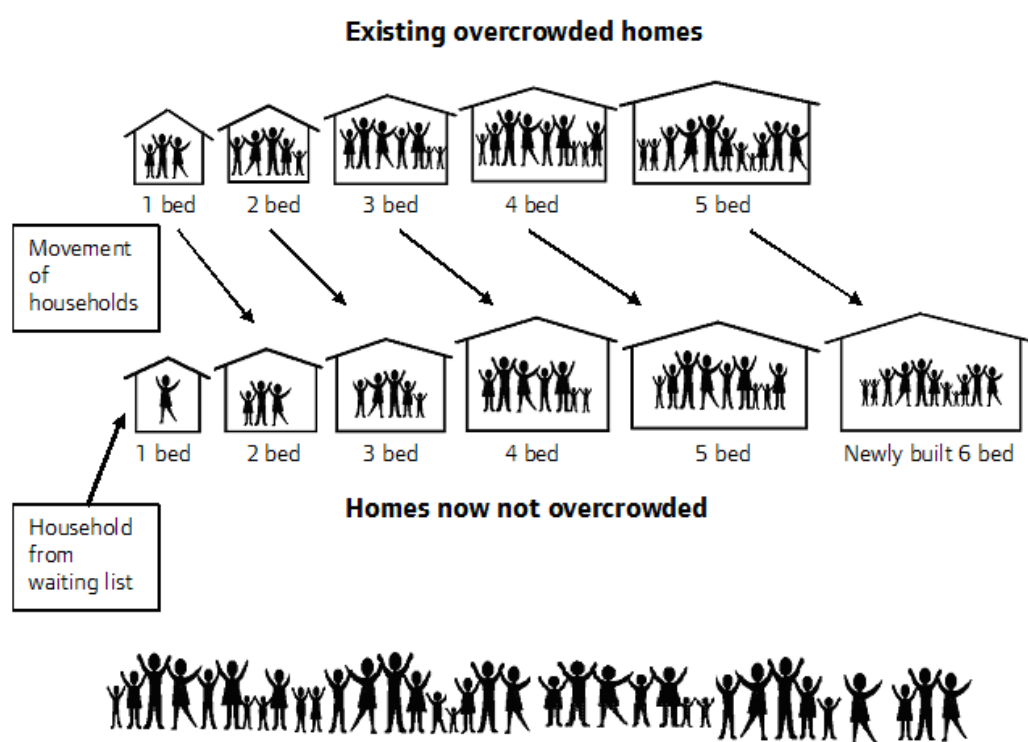
### **The role of the Mayor**

- 2.38 The GLA Act 2007 gave the Mayor new powers and responsibilities over housing in London, including a requirement to prepare and publish a statutory Housing Strategy and to set out priorities for over £4 billion of public housing investment between 2008 and 2011 – London’s share of national housing resources for producing new and improving existing homes.<sup>30</sup>
- 2.39 The Mayor accepts that overcrowding is a serious element of London’s housing need and is “having major impacts on the lives, health and well being of the 102,000 households living in unacceptably cramped conditions in the capital’s social rented sector, with 11,000 severely overcrowded households particularly badly affected”.<sup>31</sup>
- 2.40 He sees reducing severe overcrowding, and eliminating rough sleeping, as two of his key priorities.<sup>32</sup>
- 2.41 To tackle this the Mayor has set a target of halving severe overcrowding in London’s social housing by 2016 (Housing Strategy Policy 1.3E). The Mayor aims to achieve this by increasing the proportion of family-sized affordable homes (3+ bedrooms) to 42 per cent of new social rented homes by 2011 (Housing Strategy Policy 1.1C)<sup>33</sup>, as well as making more effective use of London’s existing housing stock.
- 2.42 To implement these policies the Mayor published his London Overcrowding Action Plan<sup>34</sup> in July 2010 to help deliver the Housing Strategy target to halve severe overcrowding in social housing by 2016. Key areas of this plan include:
- Prioritising action on overcrowding and under-occupation;
  - Identifying overcrowded and under-occupied households;
  - Addressing overcrowding;
  - Tackling under-occupation.
- 2.43 The remainder of this report examines the ‘invest to save’ or ‘social return on investment’ arguments identified by the Mayor (paragraph 2.37 above) so that tackling the high social and economic costs of overcrowding will be addressed in the most cost effective way.

## 3 Tackling overcrowding – testing the hypothesis

- 3.1 The starting point of this investigation was one simple hypothesis that: “Increasing the supply of larger family homes would effectively tackle the housing problems of more Londoners in overcrowding”.
- 3.2 It is based on the idea that, by giving overcrowding a greater priority by building larger homes, the housing needs of far more Londoners can be addressed than the current focus which results in building the largest number of smaller homes. It is the most effective use of resources and one that tackles housing need more intelligently.
- 3.3 Building a small one or two bedroom home takes one family out of temporary accommodation or from the waiting list and so meets the housing need of two, three or four Londoners. This is the outcome of the current policy that sees increasing the absolute number of new homes as the top priority.
- 3.4 But building one new 6 bedroom home for an overcrowded family, and moving other overcrowded families into larger vacant homes created further down the ‘chain’, could solve the overcrowding problems of 36 Londoners (or even more people depending on the level of overcrowding). It also has the added effect of taking people off the waiting list or out of temporary accommodation. This is shown below in Figure 3 (Appendix 4 shows the numbers that benefit from this at different levels of overcrowding).

**Figure 3: The effect on overcrowding of building one large home**



- 3.5 One new larger home takes many families out of overcrowding. One new smaller home solves the housing problem of two or three Londoners. Overall it is a more efficient approach in terms of the price of solving housing need.
- 3.6 From this it is possible to envisage that, building a smaller number of larger family homes instead of a large number of small homes and ensuring overcrowded families were moved into the larger homes that would become available, could more effectively tackle the overcrowding problems of many Londoners. This hypothesis was tested with housing experts.
- 3.7 In every case the experts agreed that overcrowding in London is a serious problem and that building more family sized housing would help to reduce overcrowding.<sup>35</sup>
- 3.8 However, the evidence suggests that overcrowding in London is a far more complex issue and other factors need to be taken into account in addition to just building larger homes – since just building large family homes would have a number of unintended consequences.
- 3.9 This is because the picture of London’s housing need is multi-faceted and made up of many different elements including: homelessness and rough sleeping, overcrowding and under-occupation, temporary accommodation and medical needs that require specific types of housing. All of these aspects of housing need have varying degrees of magnitude and impact (see Appendix 5 for more details). These effects are primarily on individual Londoners, but also on government budgets through peoples’ need for public services.
- 3.10 The experts who contributed to this review stressed that, despite the need for larger homes, there is still a continuing need for small homes to house those on waiting lists and to cater for the projected future demand for smaller household sizes. Relevant factors include:
- The evidence contained in the Strategic Housing Market Assessment<sup>36</sup> (SHMA) that estimates future housing requirements in London, broken down by tenure and by home size shows the biggest demand is for smaller homes and this is used to justify the current policy approach.<sup>37</sup>
  - New housing developments require a mix of house sizes to give them a range of household types to support the national housing and planning objectives of building mixed and balanced communities.<sup>38</sup>
  - If all new homes in an area were only family sized housing it would result in a large number of children living in a small area. This puts undue pressure on shared amenities and can lead to problems with anti-social behaviour.<sup>39</sup>
  - Smaller homes are needed by local authorities to re-house those in temporary accommodation.<sup>40</sup>
  - The cost of keeping people in temporary accommodation represents a significant budget for housing authorities.



**Conclusion**

- 3.11 Building more family sized homes would reduce overcrowding as households move into larger and more appropriately sized housing. This then frees up properties for the homeless and those in temporary accommodation; a process that may effectively tackle the housing problems of more Londoners in housing need. However, it would not necessarily address the housing requirements of individuals and smaller households in pressing need - especially those homeless and those in temporary accommodation.
- 3.12 The next sections of the report examine the barriers to building larger homes and the balance between the various demands for large and smaller units - arguing for a need to rebalance the current approach.

## 4 What stops London building larger family homes?

- 4.1 The failure to provide enough larger homes over recent years has been a major factor in the significant increases in overcrowding we have seen in London. Just 17 per cent of new homes built by housing associations in London (both social rented and intermediate homes) had three bedrooms or more in 2007/08, which was down from 39 per cent in 1997/98.<sup>41</sup>
- 4.2 GLA projections suggest London's average household size will decline from 2.34 persons per household to 2.19 by 2031.<sup>42</sup> But London's population will continue to be younger than elsewhere in the country, with more children and therefore, despite a falling average household size, there will still be a demand for larger family homes.
- 4.3 According to the GLA Strategic Housing Market Assessment<sup>43</sup>, around 40 per cent of the requirement for new social housing is for homes with four bedrooms or more, reflecting both high levels of overcrowding and the small numbers of new family homes being built.
- 4.4 So what is stopping London from building larger family homes? This section examines three interrelated barriers: financial obstacles, the effect of housing targets and the impact of planning policies.

### Financial obstacles

- 4.5 The financial viability of any new housing development depends on the balance between costs and value (or revenue). The cost of a development includes the purchase of the land, building costs and other costs such as meeting planning obligations. The value of a scheme is a reflection of the price of the resultant homes.
- 4.6 For social housing providers their development costs are balanced by the level of rents they can receive (which are set by the Tenant Services Authority - TSA) and any cross subsidy that can be generated by the sale of the market property or shared ownership elements of a scheme.
- 4.7 The gap between the costs and revenue needs to be bridged by public subsidy. Under the current model of housing delivery this is provided in the form of social housing grant from the National Affordable Housing Programme, administered by the Homes and Communities Agency (HCA).
- 4.8 Public subsidy will almost always be needed to build new affordable rented housing. For example, in outer London, the cost of building a 2 bedroom property is around £230,000, whilst the cost of a 4 bedroom property is £315,000<sup>44</sup> and subsidy is therefore required to make a socially rented development economically viable. This subsidy can take a number of forms, including direct government subsidy in the form of

social housing grant (now provided by the HCA), a financial contribution from a developer under a section 106 agreement<sup>45</sup>, or cross-subsidy from the sale of the proportion of market homes in any new development or a combination of them.

- 4.9 Social rented housing, no matter who builds it, is therefore dependent on often public subsidy - and the current financial circumstances make home building even more dependent on HCA grant. However, this investigation has found that HCA grant is currently providing little economic incentive to build larger homes. This is a problem that needs to be addressed.

### **Social housing grant**

- 4.10 The National Affordable Housing Programme is the main source of Government funding for increasing the supply of affordable homes in England. The HCA London Board, which is chaired by the Mayor, oversees and directs the investment programme of the HCA in the capital. In the forthcoming Localism Bill a more devolved arrangement for HCA activities in London will involve a transfer of all HCA London powers to the Mayor by April 2012.<sup>46</sup>
- 4.11 In areas like London it is expensive to develop new homes because of the high cost of land. For affordable homes, that will generate 'sub market' rent returns, grants for new social housing allow the builders of affordable housing (in most cases housing associations) to make a development economically viable. Housing associations apply for this grant each year for individual housing schemes (and it is often) topped up with financing borrowed by housing associations.
- 4.12 Further subsidy needed to make a scheme economically viable comes through section 106 contributions and cross subsidy from market sales and intermediate rented homes. Under the Government 'Affordable Rent' proposals it is likely that for sites where grant is reduced from current levels, section 106 will be expected to contribute a larger proportion of subsidy.
- 4.13 Grant for social homes tends to be allocated on a 'per unit' basis ie a fixed sum per unit of new affordable housing. HCA grant rates per social rented dwelling currently average around £100,000 per property regardless of the size of the home.
- 4.14 However, because of the additional cost of building bigger homes this flat rate of grant is often not enough to make a scheme of large homes financially viable (see diagram showing sample build costs and grant rates below). To build a larger sized home would require a higher grant rate than for a smaller one – for example 60 percent for 4 bedrooms in contrast to 50 per cent for 2 bed homes.<sup>47</sup> Given that grant rates do not vary sufficiently with the size of home, schemes comprising smaller homes are often proposed since the grant available will cover the lower building cost of smaller units.
- 4.15 From 2008, HCA grant rates rose considerably as the effects of the credit crunch began to be felt by the housing market. Public subsidy had to rise to support private housing investment and to compensate social developers for the loss of section 106

contributions and cross-subsidy from market and intermediate sales that, until then, had represented 15 – 20 per cent of the building cost of social rented homes.

- 4.16 However, the HCA now states that the current level of grant is unsustainable and that “grant is going to be tighter in future” and “we will be looking to squeeze grant rates quite tightly again”.<sup>48</sup> This will make building larger affordable homes even more difficult.
- 4.17 The importance of grant is set to change following Government proposals for the ‘Affordable Rent’ model (see below from paragraph 5.37 onwards) and the grant element is likely to reduce as a proportion of total build costs. Nevertheless grant will remain a significant factor in the economic viability of social rented housing development.

### **Conclusion - the need for variable grant rates**

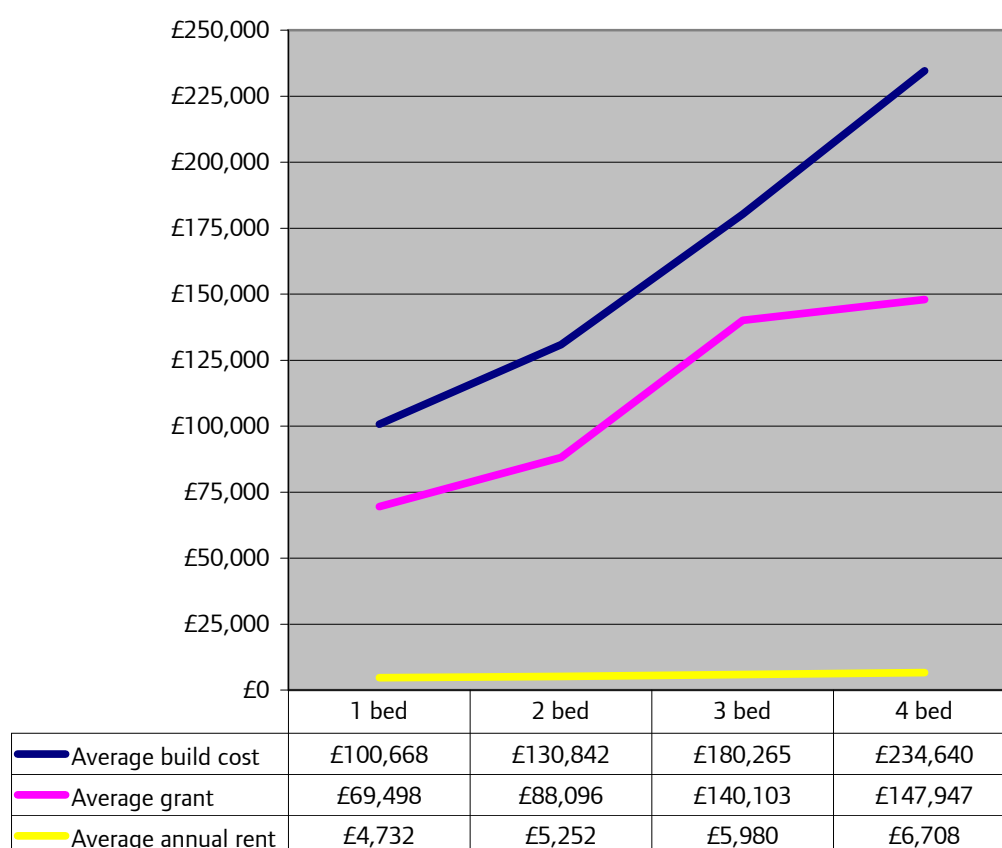
- 4.18 Grant rates play a critical role in the amount of new larger homes that can be built and they need to change to make it easier to build bigger.
- 4.19 Experts were clear that “the best way to incentivise the building of larger properties is to provide a bigger grant for larger properties”<sup>49</sup> and “if grant rates were changed new larger homes could be completed within 12 to 18 months”.<sup>50</sup>
- 4.20 There is a need to move toward a grant that reflects the number of people housed as opposed to the number of homes that are built. Grants need to be higher for larger homes. Grants based on ‘per person’ would allow the Mayor to demonstrate his or her success in helping the actual number of Londoners out of housing need, rather than by using the relatively unsophisticated target of total new homes – a target that does not accurately measure how home building meets housing need.

### **Rent levels**

- 4.21 At the moment Government policy is designed to make sure that rents paid by tenants remain affordable and that tenants in similar properties in similar areas pay similar rents whether their landlord is a council or a housing association. To achieve this they set target rents that all properties in the public sector have to achieve. Housing associations charge rents in accordance with the objectives set out in the Government directions to the Tenant Services Authority.
- 4.22 In broad terms, rent does not increase significantly with the size of the home. Consequently relatively low rent differentials between small flats and larger houses do not offer an incentive to build bigger places to live. As in the case of affordable housing grant, the difference in weekly rents for two bedroom and four bedroom properties does not reflect the increased cost of building larger properties and therefore does not improve the business case for building homes with more bedrooms.

- 4.23 One housing association gave examples of where it charges, on average, £102 a week for a 2 bed, and £104 a week for a 4 bed home in its Greenwich properties. In Bromley it charges, on average, £97 a week for a 2 bed and £122 a week for 4 a bed home.<sup>51</sup>
- 4.24 Social housing providers draw up a business case for each new development with the aim of breaking even over a 40 year period. As well as the level of anticipated grant subsidy, the amount of rent collected will affect the business case. Lower rent differentials in many cases mean that larger properties are not economically viable – even over a 40 year period.<sup>52</sup> Figure 4 shows sample build costs and grant rates for a number of housing schemes in Greenwich.

**Figure 4: Sample build costs and grant rates: Housing schemes in Greenwich**



Source: Moat Housing Association

- 4.25 The Spending Review in 2010 first announced proposals for an ‘Affordable Rent’ model that would allow housing associations the ability to offer tenancies at up to 80 per cent of local market rents.<sup>53</sup> The Government has said it expects housing associations to charge this rent, in most cases, in order to qualify for new funding. It also expects housing associations to charge the new rent model on re-lets and on some homes built with funding from the 2008-11 housing budget round that are not yet occupied.<sup>54</sup> As yet it is unclear how housing associations will use this model for new home building particularly given the interaction with other reforms, such as the benefit proposals.

### Conclusion

- 4.26 Within a static budget increasing grant for larger homes would inevitably mean fewer homes overall would be delivered. However, as the hypothesis suggests (and the example of the effect of building one 6 bedroom home in section 3 above explains), the housing needs of more Londoners could be solved as opposed to the needs of the relatively few that benefit from building smaller homes. This, therefore, is likely to require a policy decision to choose the appropriate balance between building more larger homes at the expense of fewer homes overall.
- 4.27 To help decide on the balance, it is crucial to recognise the hidden costs of overcrowding and apply a wider 'social return on investment' test rather than the simple numerical value for money calculation in relation to the number of homes that can be built with the available levels of grant.<sup>55</sup> Applying a much broader concept of value, a social return on investment analysis would incorporate the social, health, environmental and economic costs and benefits into decision making, providing a fuller picture of the benefits of reducing overcrowding.
- 4.28 If targets and grant priorities are changed in this way, and these measures improved financial viability, there will be a greater number of larger homes and the number of people taken out of overcrowding will increase. There will be fewer Londoners in housing need overall.

### Recommendation 3

**The Mayor should review the level of grant rates in London with the aim of incentivising the building of larger homes. The Mayor should specifically consider the impact of providing grant on a per person basis rather than unit basis.**

### Recommendation 4

**In his forthcoming housing strategy review, the Mayor should include an assessment of the role that flexible rents could play in incentivising the provision of larger homes and work towards a policy that would give boroughs a degree of flexibility to vary rent levels according to property size - if that would assist in encouraging the provision of larger homes.**

**In considering flexible rents there needs to be a careful consideration of how this could act as an incentive to build larger homes but balanced by the impact it would have on larger families in terms of their ability to pay these rents.**

### Target setting

- 4.29 The London Housing Strategy contains a target that more family sized affordable homes will be provided, with 42 per cent of social rented and 16 per cent of intermediate homes having three bedrooms or more by 2011.<sup>56</sup>

- 4.30 Progress, though variable, is being made with 39 per cent of social rented and nine per cent of new intermediate homes funded between April 2008 and May 2010 having at least three bedrooms.
- 4.31 Target setting is crucial to the delivery of affordable housing in London. The Chartered Institute of Housing believes “what gets measured gets done”.<sup>57</sup> And so future Mayoral targets will “be absolutely key to what gets delivered in terms of family size social rent”.<sup>58</sup>
- 4.32 The primary target the HCA is working to (and therefore targeting its funding) is the Mayor’s target of 50,000 more affordable homes by 2012. The proportion of family sized homes and the mix of social and intermediate housing<sup>59</sup> are, in effect, subordinate targets, with less public profile.<sup>60</sup>
- 4.33 Setting a target for the delivery of larger social rented homes makes a difference to the outcome. As the GLA’s Head of Housing argued, “We have a 42 per cent target in the current investment round. We had a lower target (36 per cent) in the previous investment round - and there was lower delivery in the previous one, before a target was set”.<sup>61</sup> The Mayor’s target that 42 percent of new homes should have 3 or more bedrooms is a result of a mixture of research, evidence and pragmatism. It is evidence based to the extent that the target is set on need identified in the SHMA – and pragmatic as it reflects what is thought feasible to deliver with the money available.<sup>62</sup>
- 4.34 Some experts argued that if addressing the housing needs of families could be made “priority one” for housing, it would send a strong signal to social housing providers about the significance of the issue.<sup>63</sup>

#### **The need for larger social rented homes and Mayoral targets**

- 4.35 Since 2006, national guidance (through Planning Policy Statement 3)<sup>64</sup> has required a strong evidence base to support housing and planning policies. Strategic Housing Market Assessments (SHMA) and Strategic Land Availability Assessments are an important part of this process. They provide information on the level of need and demand for housing and the opportunities that exist to meet it.
- 4.36 The 2008 London SHMA<sup>65</sup> set the capital’s future housing requirement. It used a range of scenarios to quantify the level of housing need (detailed in Appendix C of the SHMA) that produced estimates of the ‘net’ demand for 4+ bedroom social housing. These ranged from 50,700 to 80,300 homes over a ten year period (between 38 per cent and 48 per cent of all required social rented homes).
- 4.37 The preferred scenario used in the SHMA and set out in the housing strategy shows the need for 4+ bedroom social rented homes to be 5,070 per year. However, this is not reflected in the relevant section of the Draft Replacement London Plan. Here it sets out that 3,326 social rented homes per year (42 per cent) should be 3+ bedroom.

- 4.38 The housing strategy and London Plan therefore define 3+ bedroom targets that are below the need identified in the SHMA which is for at least 40 per cent of new homes to be 4+ bedroom. As the GLA Head of Housing (responsible for delivering the Mayor's housing strategy) noted: "four bedroom homes for social rent – this is where the pressing need is".<sup>66</sup>
- 4.39 Moreover, there is evidence that the existence of this 42 per cent 3+ bed target is placing a limit on the number of larger homes being built.<sup>67</sup> Research suggests that while the actual need is for 4 bedroom homes, what is being built by developers and housing associations simply reflects the Mayor's 3+ bedroom target. The HCA says "they will only build the three beds because that achieves that target".<sup>68</sup>

### Conclusion

- 4.40 The Mayor's 42 per cent target for 3+ bedroom homes does not reflect his own evidence base in terms of need, and should be revised upwards to reflect the need for 4+ bedroom homes.
- 4.41 Additional targets are needed for 4 and 5 bed houses otherwise the Mayor's 3 bed target will become the maximum size property developers will aim for in order to get planning permission.<sup>69</sup>
- 4.42 There is an opportunity to address these issues in the Mayor's forthcoming review of his housing strategy.

### Recommendation 5

**The Mayor should change the headline housing target in his housing strategy to the number of new bedrooms provided rather than simply the number of units. He should also introduce a new measure of housing success, ie 'the number of Londoners taken out of housing need'.**

### Recommendation 6

**The Mayor should change his target for family sized housing in his housing strategy so that 42 per cent of new social rented housing should be 4+ bedrooms as this reflects actual housing need.**

### Planning policy

- 4.43 Over recent years, London planning policy has contributed to higher density housing<sup>70</sup> which in turn has resulted in smaller sized units.<sup>71</sup> Other contributory factors include high land costs and planning obligations (section 106).
- 4.44 Acquiring housing land in London is expensive, so developers are under economic pressures to build as many units as possible. The higher the density of a building development the more economic value it has.<sup>72</sup> But high density developments are not necessarily appropriate for family sized housing as this can put undue pressure on shared amenities<sup>73</sup> and can lead to problems with anti-social behaviour.<sup>74</sup>



- 4.45 Requiring family sized units also triggers additional section 106 contributions to pay for the additional social facilities that higher child populations create – in turn adversely affecting a scheme’s economic viability.<sup>75</sup> For example the London borough of Southwark requires developers to pay £10,457 for every additional child a new development would house to cover increased education costs and the London borough of Camden seeks £13,679 for every new 4 bedroom home to reflect increased school expenditure.<sup>76</sup>
- 4.46 However where there is local political will a greater number of larger units can be delivered. Some boroughs do have higher targets in their planning policies for use in negotiations. A number of boroughs have targets well in excess of the Mayor’s 42 per cent target for 3+ bed homes and are achieving significant levels of new larger homes:
- The London borough of Camden’s guidance specifies that 50 per cent of new homes should be 3+ bed.<sup>77</sup>
  - The East London Sub-Regional Partnership has adopted a target that 50 per cent of new homes should have 3 or more bedrooms.<sup>78</sup>
  - The London borough of Harrow is achieving 45 per cent new homes with 3+ bedrooms.<sup>79</sup>
  - The London borough of Southwark has defined areas of the borough where new housing development should be at least 10 per cent, 20 per cent and 30 per cent of 3, 4 and 5 bedroom homes respectively.<sup>80</sup>

### Conclusions

- 4.47 All housing targets are a mixture of political priorities and pragmatism, but the targets the Mayor sets in the next investment round will define what kind of housing is delivered in London over the coming investment period.
- 4.48 A move from a ‘bricks and mortar’ target to the number of people housed would more effectively match policy to need and encourage the provision of larger homes – as the overall target would be viewed in terms of ‘people housed’ or ‘people taken out of housing need’. This is being proposed as a much more meaningful objective for what, after all, is a policy that is designed to meet the housing needs of Londoners.

## 5 Housing priorities and managing the existing housing stock

- 5.1 Much of the focus in terms of housing policy over recent years has been on building the maximum number of new affordable homes. Experts believe that this has given overcrowding a particularly low priority over the last five years as the policy to increase the number of new homes has been geared towards meeting other aspects of housing need such as homelessness.<sup>81</sup> Furthermore, another source believes that severe overcrowding should be considered the biggest priority as improvements in this area could be made very quickly. In London “it could largely be tackled in a couple of years”.<sup>82</sup>
- 5.2 This report is principally concerned with how to get larger homes built, but it is recognised that there are other measures that would have the same effect – making bigger homes available for overcrowded families. This section of the report looks at the way housing priorities are set and how the existing affordable housing stock could be managed differently to deal more effectively with overcrowding in social rented housing.
- Housing priorities – the operation of the waiting list and allocations policies**
- 5.3 All local authorities are responsible for their own housing allocations policy which must conform to legal requirements and have to publish their priorities and the procedure for allocating housing.<sup>83</sup>
- 5.4 Social rented housing is allocated in a number of ways by local authorities. Usually, when a new social rented home is built, or an existing one becomes vacant, it is filled from the ‘waiting list’. In London the number of households on the waiting list has increased from 181,080 in 1997 to 354,389 in 2009.<sup>84</sup>
- 5.5 The 1996 Housing Act sets out the groups of people in housing need that must be given a ‘reasonable preference’ in terms of priority for the allocation of social rented housing.<sup>85</sup> In 2008/09 around 90 per cent of new housing lettings went to households in some form of reasonable preference category.<sup>86</sup>
- 5.6 All local authorities prioritise housing allocation by using either a ‘points’ system or a ‘banding’ system.
- 5.7 The points system is based on different types of housing need. More points are usually awarded to those who are homeless or are in temporary accommodation rather than those living in overcrowded conditions. Other priorities can reflect the medical conditions of people on the waiting list or the housing needs of young people leaving social care.



























































