



Housing subsidy's long-term shift from supply to demand and what might be done about it¹

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Introduction

A common feature in much of the western world, and notably in the UK, has been the phenomenon of the long-term shifting of rental housing subsidy from capital for building new homes to personal housing subsidies to help people pay for their homes ([Stephens et al, 2015](#); [Gibb and Stephens, 2024](#); [Stephens, 2024](#)). Until the late 1970s, the great majority of subsidy was on the supply-side aimed at building new housing, and improving the stock, often poorer quality owner-occupied housing. Since then, the ratio has been completely reversed with the preponderance of identifiable housing spending now taking the form of demand side or personal subsidies in the form of housing benefits (i.e. the housing element of universal credit, local housing allowance and housing benefit)². This briefing paper looks at four questions arising from this long-term trend:

- Why did it happen?
- What do the figures tell us and why is it a little bit more complex than at first sight?
- Why might it make sense to reverse the trend and why is that not straightforward?
- What might be a progressive way to proceed at least in terms of initial steps?

The shift to demand subsidy

This cumulative transformation contrasts post 1950 housing policy when public spending on housing facilitated the building of literally millions of homes, almost always council housing, until the mid-1970s, when it started to switch into personal demand-side subsidies thereafter. Alongside this and well into the 1980s, local authorities also organised

considerable volumes of repair and maintenance grants for owner-occupiers. Housing associations became more significant from the establishment of the Housing Corporation in the 1960s and following further reforms to its powers in the 1960s and 1970s. Housing associations built new homes but were also heavily involved in refurbishment and improvement of older stock.

By the late 1980s, new general needs council housing had essentially ceased, the Right to Buy was in full flood, councils' ability to borrow for housing was severely curtailed and housing associations post 1988 were able to develop new supply through mixed finance. A further important feature of this period, something sustained by New Labour, was the focus on improving the quality of the non-market stock through a decent homes' standard, large scale voluntary transfer, ALMOs and selective transfer and demolition – councils were no longer developing new build. The emphasis on stock improvement in the social sector contrasted with the parallel dwindling of private sector repairs subsidy. Most housebuilding was led by speculative private development with attendant swings and market volatility but in a context of marked lower average completions than in the period of large-scale public investment in new rental homes.

Alongside these massive changes to the funding and delivery environment, the housing benefit system consolidated and replaced the various existing system in place until full delivery in 1988. Housing Benefit was now more explicitly targeted at those in the lowest incomes. While numbers eligible always had an important countercyclical element to it, much of the cost explosion arose from the growing and more expensive private rented sector – a process that accelerated after the mid 1990s. The Local Housing Allowance was redesigned and implemented in the second half of the 2000s around local median PRS rents but was subsequently restricted within the wider benefits reductions and limits that emerged after 2010. Universal Credit's long rollout followed in the next decade (and continues).

The commencement and continuation of austerity policies since 2010 led to a reduction in the safety net dimensions of housing benefit, weakening the hitherto solid principle that those qualifying for means-test social security should expect that their income after housing costs would be protected.

¹ This paper arose from a series of discussions with Ian McDermott, CEO of Peabody. I would also like to thank Mark Stephens for his comments on an earlier draft of this briefing paper.

² Following Stephens, 2024.

[Stephens \(2024\)](#) calls this the growing separation of housing benefit and related benefits from wider housing policy. The growing material effects of benefit caps, limits to child benefit, the spare room subsidy, LHA caps and freezes, etc. have all left long-term damaging consequences especially for working age households renting in contemporary Britain.

This is an alarming retreat from thinking about housing as a connected system where changes to social security spill over to impact on housing policies and outcomes in undesirable ways. A key element in the story of the growth of HB was the sustained sense from housing policy decision makers that the benefit could “take the strain” of rising rents flowing from lower capital grants and multiple claims on rental surpluses to maintain and improve property assets.

There has clearly been a degree of entropy and inertia as these trends have been allowed to settle in. This is an important path dependency because it will take time to reverse if the aim is to restart a larger capital programme to support more new supply. The housing system is dominated by the housing stock and the flow of new supply will take a long time to impact but reductions or lower eligibility to benefits are widely felt quickly. Simply swapping out lower benefit resources for more housing capital is not a simple thing to do.

Evidence of Trend Shifts

[Stephens \(2024, p.46\)](#) summarises the growth of HB as follows (my parenthesis):

Together, housing benefit and the housing cost element of universal credit represent the largest government subsidy to housing. Since the late 1970s, their annual cost has grown [in real terms] from under £5 billion to more than £31 billion [2023/24 prices]. This represents around one-tenth of the entire social security budget. ... It greatly exceeds the DLUHC budget for housing and communities. The numbers of claimants receiving housing benefits rose from 3.4 million in the late 1970s to 4.4 million in 1992/93 and 5.3 million in 2022/23. The share of private tenants rose from around one-fifth in the 1970s. ... [and] has since risen to more than one-third. Stephens also summarises the shift over time from supply to demand side subsidy in England from 1975-76 to 2021-2022 (2024, figure 1.4.2 p, 54). These are presented in real terms (2022 prices). The numbers are based on central government housing-related public spending on housing (table footnote p.54)³.

Table 1 Shift in supply and demand subsidy in England 1975-76 to 2021-22 (based on Stephens 2024)

Year	Supply-side subsidy	Demand-side subsidy	Total in 2022 prices
1975-76	82%	18%	£26b
1985-86	33%	67%	£32.6b
2000-01	20%	80%	£20.3b
2015-16	4%	96%	£25.5b
2021-22	12%	88%	£30.5b

Source: Stephens, 2024, numbers derived from figure 1.4.2, p.54

Note: for definitions see text and Stephens, 2024.

This is a stark and striking set of figures. Clearly the largest shift occurred in the wake of both the IMF bailout in 1976 and the first and second Thatcher government terms. This is when the principal switch in trend occurred. Second, the ratio reached its nadir at the end of the Osborne coalition five years spending review term in 2015-16 before slight recovery in the most recent period. The magnitude of the shift points both to the immense difficulty in shifting this ratio in any material way but also suggests that there is plenty of scope to review incremental changes suitably designed and implemented.

Table 2: Eurostat EU and UK comparison of housing demand and supply public expenditure: 2009-2015.

EU avg	09	12	15	UK avg	09	12	15
Housing development as % of total	47%	34%	25%	Housing development as % of total	36%	22%	15%
Housing allowances as % of total	53%	66%	75%	Housing allowances as % of total	64%	75%	85%

Source: EU Eurostat

Table 2 from older EU Eurostat data tells us a similar broad story (though there are likely significant definitional differences in detail between Eurostat and the Stephens evidence for England). It also looks at a shorter period from 2009 to 2015. Yet, it indicates similar patterns across the EU to the UK. It also suggests that the UK picture is more extreme than the pre-Brexit 28 country average.

Accounting for other housing subsidy

It is important to note that this big switch between supply subsidies and demand-side personal subsidies is not the whole story of the cost of housing policy. These are the direct subsidies associated with various national and devolved ministries of housing (e.g. DLUHC) and what is now the DWP. But there are also other financial housing interventions that are less visible e.g. through the tax system, state-owned equity loans or state-backed guarantees.

Key examples of these tax expenditures include the rise and fall of mortgage interest tax relief – a subsidy to mortgage holders worth more than £10 billion per annum at its peak – phased out on a bipartisan basis across two Parliaments from the late 1980s onwards. The most important, however, is the

³ As Stephens points out, MIRAS was the lion's share of demand-side subsidy in 1975-76, not means tested benefits to tenants. MIRAS was subsequently phased out by the Major and Blair governments.

(volatile) non-taxation of real capital gains on the principal residence of owner-occupiers, estimated by the NAO in 2018-19 as worth £26.7 billion in one year. In addition, government has also expended resources on shared ownership, equity loans, help to buy, and other state backed guarantees (e.g. to reduce housing association cost of borrowing in England). National and devolved governments have also repeatedly fiddled with stamp duty land tax (land buildings transactions tax in Scotland) to encourage housing trading behaviour by reducing tax eligibility in different ways. The UK also chooses not to charge VAT on new housing (but it does levy it on repairs and maintenance). The other big change in housing policy and direct spending terms over this period has been the complete collapse of the previously substantial non-HRA council funding of home-owner repair and improvement grants ([Preece, et al, 2021](#)).

Tax expenditures are a central part of housing policy in the UK and in different ways elsewhere, too. It is difficult to arrive at an agreed figure because governments tend not to accept that a failure to tax an activity necessarily constitutes a subsidy, but clearly these practices do shape and influence behaviour by households and act like public expenditure because they increase the budget deficit by reducing the tax take.

Why did the shift to demand-side subsidies happen?

Ideological currents were important and remain implicit as assumptions regarding the balance of housing policy now. From the later 1970s there was what became a permanent shift away from public housing new build and eventually a shift towards an independent rented sector funded by a combination of grants and commercial loans. This was a permanent reduction in supply-side subsidies beginning in 1976. The shift to the demand-side was also fuelled by rising social and private rents, PRS deregulation and the subsequent growth of private renting.

The change in trend reflected tenure driven ideas based on growing home ownership through mortgage deregulation and the RTB, and also deregulating the rental market. New Labour maintained many of these assumptions and focused on investment on the existing stock albeit through quasi-markets and often private borrowing underwritten by HB. Post-2010 housing policy has been informed by austerity, the affordable housing programme, budget cuts (with the largest proportionate cuts during the 5-year CSR 2011-15 from Osborne and Cameron landing on housing) and a procyclical reliance on S106 agreements. This has amongst other things undermined social housing investment in terms of new build in England. Meanwhile, even with caps and a range of other benefit limitations, the wider housing benefit bill has continued to grow (and is predicted to continue to so so)⁴ even though arguably it is increasingly unfit (e.g. the low levels of local housing allowance in the high cost PRS).

From a wider international lens there is a longstanding debate (see [Gibb and Stephens, 2024](#)) about the alleged relative superiority of demand-side as opposed to supply subsidies

⁴ Among the reductions to HB the biggest was induced by Osborne's decision to cut social rents by 1%.

– those who have favoured demand-side subsidies argue for unrestricted cash transfers that allow recipient to choose how they spend their benefits as opposed to the perception that allocating social housing is a binary choice which leads to inefficiencies. This is before one turns to criticism of how efficiently the organisation of such social housing is in the absence of market competition. Of course, there may be non-market competition, and as has been pointed out, even under universal credit, we do not provide unrestricted cash transfer but rather tie HB to actual housing costs. Moreover, supply subsidies directly reduce housing costs and may help improve labour market participation ([Yates and Whitehead 1998](#)). Scottish evidence suggests that more social housing let at low rents may explain historic lower child poverty rates north of the border ([Congreve, 2019](#)).

Other explanations reflect on the nature of the housing system and its governance – the dominance of the stock relative to new flows makes it increasingly hard to reverse self-reinforcing inertia and entropy. New investment takes time, but investors need to look to private equity and financial innovation to increase new investment. These long-term needs sit poorly against the short termism of much housing politics and policy innovation, something worsened by the revolving door of short-term ministerial appointments.

Why should we reverse the trend?

There are many and growing calls for more social housing supply. Recently NHF and Shelter published research by CEBR, showing that new social supply of 90,000 per annum have strong positive net economic benefits on employment, spending, tax revenue and savings on several non-housing budgets. Investment in new supply can help also to reduce temporary accommodation pressures and could also build programmes around acquisition of former PRS stock, as well as other off the shelf purchases.

However, the author of the recent needs estimates that led to the 90,000-figure identified above, Glen Bramley, is also clear that the single biggest way of reducing homelessness is to increase LHA – benefits and supply could and should work together to address chronic housing problems ([Watts-Cobbe, et al, 2024](#)). In a chapter in the [UK Housing Review 2024](#), Bramley has revisited his housing requirements estimates for England based on different modelled scenarios and simulations. He argues that greater use of S106 type arrangements is essential, especially in buoyant markets with high land values in London and the south but that more grant in particular is needed in weaker markets north of the South East. He concludes (p.20):

it is reasonable to plan based on a total supply of at least 300,000 new homes, including 60-70,000 social rented units per year in the initial period. There is also a case for providing around 20,000 p.a. of shared-ownership homes (i.e. no more than recent numbers) plus 25,000 for intermediate rent, within the 300,000 overall provision. From 2030, the conclusion is that output should rise to around 350,000 per annum, of which 90,000 should be for social rent.

Why might it be difficult?

But it is not straight forward to turn the tap on and magic up large scale new social supply. Evidence from Scotland indicates that rising development costs, finance costs, construction labour costs and supplies inflation mean that even historically much deeper grant rates are insufficient. A new supply programme in England will be expensive per unit, and some of its risks being diluted and disincentivised by the RTB (which was restricted and then abolished in Scotland, encouraging council housing development). The contemporary Scottish situation, one where it is looking increasingly difficult to maintain affordable supply targets, also questions how resilient an affordable development sector would be to external shocks and how counter-cyclical it can now be in practice.

There also must be investment in temporary and follow-on accommodation for homeless households. The TA crisis needs to be addressed at three points: reducing the inflow through more effective prevention upstream; shortening the stay in temporary accommodation by finding either new social supply to provide longer term housing solutions or that turnover in the existing stock (which is low) or by finding ways to build more social and affordable units for those in need because of homelessness.

While we may wish to shift the relationship between supply and demand subsidies, this will take time and low-income households must be protected from high housing costs. On the one hand we need to make the safety net of HB and UC much stronger, but also, we need to find effective subsidy and funding mechanisms to expand social and affordable supply (and elsewhere as argued below) and prevent new demand for social housing through better early or preventative action.

A way forward?

To start a rebalancing conversation, here are initial ideas to shift the dial that are worth debating (mindful that the aim is not to make things worse, especially for the benefit-dependent).

How can we make benefits more fit for purpose? We could reinstate LHA to pre-austerity levels (eventually to the pre-austerity median local rent) and reverse or mitigate the most egregious wider benefit cuts. At the same time, policies such as social provider acquisitions from the PRS could support a strategic shift of low-income private tenants into social renting, which, among other things, would reduce benefit costs to the Exchequer.

We could revisit and extend cheap loans through lower interest costs through state backed guarantees for affordable rent products – this has previously been deployed in various

ways England, been successfully piloted in Scotland and is the mainstay of for instance affordable housing in Finland.

One further option would be to end the Right to Buy on new build council homes, incentivising councils to build general needs social housing and provide pilot grants to encourage development.

There should be a balance between new general needs social supply and much needed additional TA supply, the latter might include leasing arrangements between councils and private investors (and between BTL landlords and councils). Once the TA crisis is brought under control it may be possible and desirable to shift some of these homes into the general needs sector.

Longer term, local government and Homes England should promote mixed tenure larger master-planned developments, where councils partner with private sector and housing associations. Is there also scope to lessen the requirements for commercial returns on land sales by public sector bodies where significant parts of larger developments are for social housing?

Social landlords confront difficult decisions on the three-way trade-off for rental surpluses (retrofit, asset management or new build) – how best to use about internal resources for development needs to resolve this wider stock v new supply choice (or dilemma). Development may well lose out. The funding mix for new development may therefore need new injections of other forms of funding and different kinds of partnerships e.g. with private sector investors. This may not work for all social landlords, but such ideas should be debated and tested. More fundamentally, in the long term we need to find different ways to fund and subsidise social housing that moves away from reliance on rising rents (and hence higher HB bills) from the existing housing stock. A wider set of ideas should be investigated via different international options for subsidising and funding affordable housing ([Gibb, et al, 2013](#); [Maclennan et al, 2019](#), [Gibb, 2018](#))

More broadly, government should commit to share resources and tax revenue from economic growth for housing supply and a bigger commitment to prevention and preventative spending could help over time reduce critical pressures such as on TA. This is not a short-term question with ready-made solutions but rather needs a consistent long term joined up policy for the housing system. On the same basis, government should think systemically in a joined-up way across all of the housing system, for example, reinstating targeted housing investment repairs grants for owners ([Preece, et al, 2021](#)), and support tax incentives through SDLT for older owners to encourage downsizing ([Whitehead and Crook, 2024](#)) to free up under-occupation problems among this demographic.