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## **SOCIAL HOUSING ALLOCATION IN SCOTLAND: THE ADVERSE SELECTION ISSUES**

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### **Abstract**

Since the social housing in Scotland is delivered through the public purse, ideally, the social landlords should allocate their stock efficiently to the right recipients. However, a social landlord may occasionally be subjected to adverse selection situations when applicants withhold certain information during the social housing application. Within the information theory spectrum, adverse selection stems from the belief that humans tend to act opportunistically by putting their self-interest first above others' interest. While there is ample evidence of vast adaptation of the information theory in different fields and sectors, there is still a remaining gap in the information theory application in understanding the actors' interaction in the social housing sector. By utilising semi-structured interviews with the housing officers from one case study, ten (10) housing officers from the case study in Aberdeen participated to share their views and experience during the pre-allocation stage. Three (3) broad themes were discovered which consist of withholding information, exploiting the loophole in the system and finally, lack of ways in verifying the information. Data has been analysed through a combination of thematic and content analysis. The thematic analysis primarily aims to establish common themes across settings. The content analysis is employed to support the thematic analysis by conducting a textual investigation and subsequently establishing the frequencies of the event shared by the housing officers. The findings yielded some noteworthy results that signified the matters commonly manipulated by the applicants, leading to adverse selection situations during the pre-allocation stage. It produces critical insights on the issues that the social landlord should thoroughly assess during the pre-allocation stage in improving their allocation practice. Predominantly, helping them to meet the right target recipients in the social housing allocation.

**Keywords:** Adverse Selection, Housing Issue, Social Housing Allocation, Housing Management

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## **INTRODUCTION**

Social housing allocation is a dynamic process involving different stakeholders from the pre-allocation up to the post-allocation stage. Ideally, there should not be a matter of concern between the stakeholders in the social housing allocation process if every interaction and conduct is in accordance with the institutional framework governing the social housing allocation determined by the legislation and policies.

However, this is not the case. Given the social sector's complex nature, the formal institutional framework, at times, cannot provide complete instruction and guidance for all eventualities. The effective operation of the allocation process could potentially fall short when adverse selection situations exist. Within the social sector formal regulations and conduct, in reality, due to opportunistic behaviours, actors may be driven to act out of their self-interest. Meanwhile the applicants could potentially adopt strategic behaviours to gain access to the social housing system.

These adverse selection situations created by the social housing applicants could subsequently lead to social landlords experiencing ineptitude in assigning social housing to the right target of recipients. As such, this paper aims to explore the adverse selection situations that could potentially exist during the pre-allocation stage from the housing officers' perspectives.

## **BRIEF OVERVIEW OF SOCIAL HOUSING IN THE UNITED KINGDOM**

In an overview, social housing in the United Kingdom went through significant changes in its provision and intervention level. Changes in social housing provision were influenced by numerous factors which were primarily caused by the political affluent affecting institutional and governance arrangements for the social sector. For instance, due to the political power, it saw a significant shift in terms of social housing provision with the increasing participation of other Registered Social Landlords (RSLs) such as Housing Associations (HA), which traditionally have been dominated by the Local Authorities (Mullins & Murie, 2006). Progressively, it also saw that the Local Authorities' social stocks have significantly declined for several reasons. In addition to the political aspirations (mainly due to the Right to Buy policy introduction under Margaret Thatcher's reign), the limitation of new Local Authorities' dwellings construction also significantly contributes to the stock's decline. Also, it is essential to highlight that the social housing in the United Kingdom, in general, has been substantially transformed by major stock transfer from the Local Authorities (LA) to other Registered Social Landlords (RSLs) such as Housing Associations. In general, the large-scale transfer of ownership saw the capacity of other Registered Social Landlords (RSLs), particularly Housing Associations (HA), undertaking the primary functions in terms of housing provision and management functions in the

social housing sector throughout the United Kingdom. Nonetheless, Local Authorities equally undertake the management roles and functions, particularly for their properties, within their jurisdiction. Thus, their remit towards the social housing sector still holds. They are responsible for the management aspects which include, letting for their houses (allocation), collecting the rents, properties' maintenance, as well as managing the tenancies (such as tenancy termination) and the environment in which their tenants are currently living. The UK's social housing provision also saw substantial deviations in terms of its institutional and governance arrangements, particularly on defining the target welfare group and how the allocation of social housing is being made in the UK to address the current needs.

### THE SOCIAL HOUSING ALLOCATION PROCESS

Although there is variation in terms of the stage involved in the allocation process, the allocation process commonly involves these stages: admission to the list of applicants, determination of applicants' categories, identification of priority groups, assessment of priority within the group, and matching applicants with available properties. It is also imperative to note that every stage in the allocation process involves different actors, as depicted in Figure 1. Expectedly, the allocation process involves several other administrative teams, including housing officers, housing allocation team, and housing assessment team. Although different stakeholders equally are an important cog in the allocation process, nonetheless the paper only attempts to present the experience of the housing officers from the case study. Based on the stages identified, the housing officers are responsible to assist the applicant in Stage 1 and Stage 4.

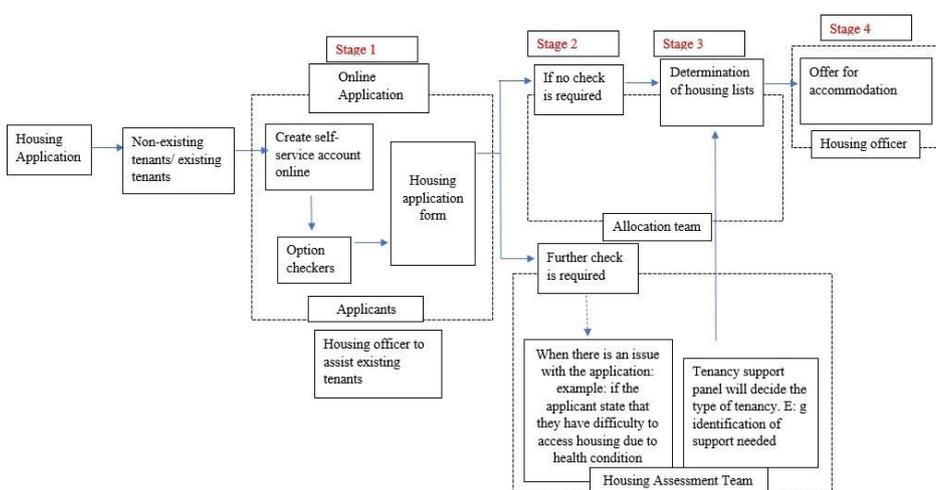


Figure 1: Housing Social allocation process (Author's illustration)

Stage 1 requires the applicants to create their self-service account within filling up their profile information to access the online application. Once the self-service account has been created, the applicants are required to go through option checkers to establish the chances being housed by the system through the priority level. Meanwhile, the final stage stipulates the accommodation offering procedure to the successful applicant. An offer is commonly made by phone and followed by house viewing arranged by a housing officer. Once viewing is completed, the applicant has to decide whether to accept the offer that has been made by the housing officer on behalf of the social landlord within 48 hours. Housing officers are also responsible to furnish the successful applicants with all the necessary information including the tenancy agreement, handbook, and financial assistance such as Housing Benefits.

## **LITERATURE REVIEW**

There is an extensive discussion on the information asymmetry in different forms of economic activities involving different sets of economic agents, such as borrowers and brokers, investors and issuers and also salesman and consumers (Green, 2005) (Brueckner, 2000) (Lutzkendorf & Speer, 2005) (Behnk, Barreda-Tarrazona, & Garcia- Gallego, 2014). However, it was noticed that studies on information asymmetry tend to focus on the private housing sector rather than the social sector.

Within the social housing allocation spectrum, information issues have become main concern in application process (Orr, 2018). Meanwhile (Kullberg, 2002) found that a substantial portion of households only registered in case of future needs and was not seriously interested and as a result, many offered dwellings were refused by applicants. At the same time the numbers of people on the waiting lists may not reflect the accurate needs for housing. Besides that, limitation on social rented housing has encourage households to become as needy as possible either through becoming homeless intentionally or expressing dishonesty in the application process. For example, a household with employed adults is less likely to be allocated a social property than a household with unemployed adults because unemployment threatens the latter household with homelessness. Therefore, some potential strategies for accessing social rented housing would be to lose one's job or lie about being employed purposefully.

Generally, there are numerous factors that likely contributing to the presence of information asymmetry which, subsequently lead to public housing fraud (Zeng, Xiaofen, & Haizhen, 2017). The social landlords may suffer from information asymmetry when dealing with the potential applicants in the allocation process, in particular, when the applicants tend to withhold specific information, especially when the information is vital in determining the allocation outcomes. Subsequently, shielding certain information during the allocation

process may influence the social landlords' decision-making and lead to inefficiency in allocation.

As such, this study attempts to offer some critical insights into how adverse selection could potentially exist in the social housing sector, particularly during the pre- allocation stage. In summary, through the available literature, it can be concluded that there is still a remaining gap in understanding information asymmetry, i.e., adverse selection, especially within the social sector spectrum.

## **RESEARCH METHODOLOGY**

The study employed a qualitative method to gain insights from Ten (10) housing officers' experience. The numbers were deemed sufficient to produce some substantial findings based on these housing officers' vast experience. In general, the interviews adopted a semi-structured approach as research instrument. All the interviews gained through the face-to-face interview and the session were audio-recorded using both a smartphone and a tape recorder. The data collected was organized and prepared for further analysis, including verbatim transcription of the interviews and sorting out the information by using the NVivo Software. Following that, the transcriptions were then gone through several times to develop the familiarization, and frequencies, ultimately, grasp the sense of the data collected. A thematic and content analysis was adopted for the analytical purposes in identifying the data's implicit and explicit ideas (Clarke, 2017) and involve coding to establish common themes across settings (Creswell, 2014).

## **ANALYSIS AND DISCUSSION**

The findings put forward several issues implying the presence of adverse selection situations during the pre-allocation experienced within the actual practice setting. The findings are structured and presented based on the textual investigation and the frequencies of the event discussed by the housing officers during the interview session. Six main issues were addressed by the housing officers and the quotations are included to shed some light on the actual event experienced by the housing officers in stage 1 and 4 as depicts in Figure 2.

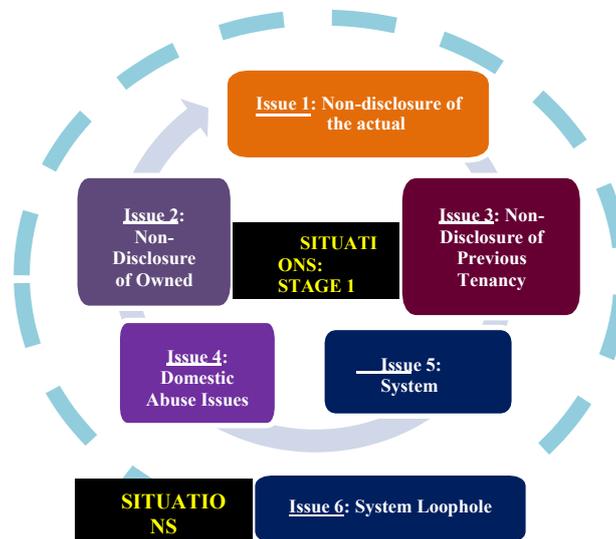


Figure 2. Six main issues were addressed by the housing officers

### Issue 1: Non-Disclosure of Actual Household Information

The housing officers explained that the most common information that the tenants tend not to fully disclose is the actual households' information. The housing officers from the case study excerpted:

- "Someone subtly bending the truth. For example, a single man looking for a two-bedroom property would likely be a single man claiming that he shares custody with his ex-partner, and we have to give him a two-bedroom property since he claims that he has joint custody to look after the child. However, perhaps, in reality, he rarely sees the children. That tend to be the subtle things rather than a major problem such as identity fraud, or anything like that" (H1)
- "There are people that lie about children. They put down that they need two bedrooms because they have this child living with them. it is partial custody. The child is only with them 2-3 days a week" (H3)

In this instance, adverse selection could potentially exist when the tenants strategically distort the facts or information shared with the case study. The acts of lightly distorting the facts may benefit the applicants in the following term. Without proper checking, this suggests that one trajectory for the applicant to exploit the system is by stating that they are experiencing a shortage of bedrooms based on the household information presented during the application

process. This subsequently could potentially increase the applicant's chances of being housed by the case study. Additionally, the transfer or moving-in process will be expedited by the case study, given that overcrowding issues are considered one of the main issues that should be ideally curbed and prevented in the social sector legislation.

### **Issue 2: Non-Disclosure of Owned Property**

From the findings collated, the other type of information often withheld by the applicants during the pre-allocation is about owning property. According to the housing officers, the applicants have the tendency not to disclose that they have other property elsewhere. During the application stage, the applicant needs to disclose whether they have another property. However, some of them strategically chose not to reveal this imperative information. The housing officers from the case study claimed:

- "Applicant did not disclose she owned a property...." (H10)
- "We had a girl who had a baby, and she was allocated two bedrooms property. I went to see her, and I was advised that she owned a property that she had bought through shared ownership with [housing association], but she told us she does not own any property" (H2)
- "Somebody was coming in and applied for a house. Husband and wife with three children, but when it comes down to it, the wife and children live in the house that they own in Europe, they have a property, but they come to this country, and we are very soft in allocation property, and it turns out the family has no attention to moving, and we have already allocated the property to the husband" (H6)

Based on the extract above, the applicants tend to not disclose their information on owning a property. Not disclosing that they owned property would influence the allocation as it can intensify the applicant's chances by increasing their awarded points in the allocation mechanism.

### **Issue 3: Non-Disclosure of Previous Tenancy Record**

Another housing officer shared that there are times when applicants do not disclose that they were formerly social tenants. Interestingly, the findings suggest that the applicant might re-enter the system by applying their partner's (ex-partner) name for a new allocation, particularly, to avoid paying their existing debts. The housing officers stated:

- "A lot of people said they have not been a social housing tenant before and have no debt with the organisation. The rent arrears they could own, thousands and they apply as a new/not a social housing tenant...." (H1)

- "...a man who claimed he was recently split from his partner and had three children that are going to stay with him, so he got allocated. 2 – 3 bedrooms property, pretty quickly under his name. The property that he just moved out from would be under the partner's name, and they could own us £2000-£3000..." (H7)

The findings suggested that, to avoid paying the debt, applicants will attempt to re-enter the system by submitting a whole new application. Again, there is a presence of adverse selection in this situation as the applicant may engage in this strategic behaviour in such a way by not disclosing their previous tenancies history, subsequently would increase their chances to re-access the social housing sector. According to the housing officers, this can be traced based on the applicant's basic information, such as date of birth and national insurance number, to verify the information. Nonetheless, the housing officers admitted that, at times, some might slip through the system's loopholes.

#### **Issue 4: Domestic Abuse Issues**

Adverse selection can also occur when the information shared by the applicants involves sensitive issues such as domestic abuse or violence. In this particular situation, it is extremely difficult for the housing officers to validate the information given. Occasionally, they would check the information with the relevant authorities. For example, whether the tenants have made any report to the relevant authorities about the alleged abuse to corroborate the information given. As excerpted by the housing officers:

- "Another example would be domestic abuse. We have to take domestic abuse seriously. We have to put them in temporary accommodation if they needed, but there have been circumstances where people have used that just to get another house" (H5)
- "... things like domestic violence, not everybody reports it, so again, we have to be a little bit sensitive to that. We cannot assume that it does not happen if they do not report it. So, I think this [domestic abuse] can be manipulated a bit. (H6)
- "You do not really know until later on. So, I had one couple of years ago where a woman came in and said, "I have been abused", and I cannot go home. So I said ok, I put you in temporary accommodation, got an offer for her, a brand new house, months later, the boyfriend moves in, so you are not sure whether or not they were lying the whole time or maybe they just got back together, you are not quite sure, but it gets you to think if it happens more than one [domestic abuse], well it is difficult one, it is hard to prove, but you kind of have to take what

they said because it is not my job to probe, I have just had to accept it"  
(H7)

Due to the complexity of domestic abuse cases, which may involve physical, emotional, economic or physical actions and threats toward the person who is being abused, the housing officers commonly take the information at par value without further detailed questions for sensitivity purposes. As such, the domestic abuse situation, on occasion, leaves room for manipulation by the applicants in the social housing system.

### **Issue 5: System Loophole**

Following the importance given in the social housing legislation, which is to provide housing for a reasonable preference group, including the homeless, there might be a tendency for people to manipulate the system by intentionally presenting themselves as homeless to increase their chances of being housed. Without appropriate checking on the information, the applicant might slip through the safety net, which would afterwards cause an inefficient allocation in the system. As shared by one of the housing officers:

- "People generally lied on a homeless application, so they present themselves as a homeless, they said "this is their circumstances, then an offer came up, I meet them, when I speak to them, they said something and I said "that is not what it said in your application" (H4)
- Interestingly, one of the housing officers shared the experiences she had encountered in her job. Exploiting the system stretched beyond a bit of disinformation, and she further explained that sometimes people create an entirely different history about themselves.
- "Well, it is not unusual for people to turn up and their name is John Smith and gave us the entire history, filling in the online application, they could be anybody (H7)

She further continues:

- "...you just apply. They could be anybody. The only time we are asking for identification is when they come in. When they are being offered a property and for a lot of people the single man, they could come in with a current bank account, and that is it, and they got no photographic identity, but they could borrow that from any of their friends. So, we do not have a robust vetting system to ensure that the person we are talking to is that person. One of my colleagues who is doing the lease signing asked me to come in as a witness (for signing), and I said, 'Hi Jimmy,

how are you?' I have not seen you in ages. You are getting a new flat?' and then my colleagues said his name is not Jimmy, it is Peter! (H7)

Following that substantial weight is given to preventing homeless in the social housing system in Scotland, at times, applicants could potentially manipulate the route to gain access to the social housing system. In this instance, the result further points out the importance of information verification during the application stage to minimise [11] the room for manipulation by the applicants.

#### **ADVERSE SELECTION SITUATION IN STAGE 4**

##### **Issue 1: System Loophole**

Based on the findings, one (1) main issue was highlighted to transpire in Stage 4. The presence of adverse selection during Stage 4 can be identified in the following condition. First, the housing officers addressed that people commonly exploited the financial assistance they were eligible to receive. In particular, the Housing Benefits. In brief, the case study manages the Housing Benefits on behalf of the Scottish Government to assist people in paying their rent. As the housing officers excerpted:

- "Housing benefit frauds definitely a big one" (H7)
- "I also have people in the one-bedroom property, and the partner's lives there, claiming housing benefit, saying she lives alone, she has Council tax discount, single person discount" (H2)

Following the non-disclosure of the actual information presented to the social landlord, it may lead to other issues involving the application of Housing Benefits. For example, the applicants are entitled to receive Housing Benefits and Council tax reductions together based on their chosen information shared with the social landlord. In this instance, adverse selection situations can potentially exist as the applicants seek to gain benefits by claiming more than they are entitled to by shielding information such as the actual number of households to increase their chance of receiving more generous payments from the government. The concern raised by the housing officers is in tandem with the data published by Audit Scotland (2020). It is estimated that the overpayments of HB due to fraud, had increased between 2015 and 2016 from £1.28 billion to £1.46 billion. In which the adverse situation may significantly impact the social landlords in terms of financial losses. Overall, through the findings collated, the adverse selection situation can be clustered into three (3) major themes:

**Table 1:** Themes identified in the pre-allocation stage.

<b>Adverse selection category</b>	<b>Adverse selection situation</b>
1. <b>Theme 1:</b> Withholding information	<ul style="list-style-type: none"> <li>● Non-disclosure of the actual status of household information</li> <li>● Non-disclosure of property owned</li> <li>● Non-disclosure of previous tenancies and records</li> </ul>
2. <b>Theme 2:</b> Exploiting the loophole in the system	<ul style="list-style-type: none"> <li>● Strategically exploiting the system by declaring oneself as homeless,</li> </ul>

## CONCLUSION

Based on the findings, there are six key matters addressed by the housing officers that possibly implicate adverse selection situations in a pre-allocation setting. Firstly, it includes the non-disclosure of the actual status of household information, non-disclosure of property owned, and non-disclosure of previous tenancy records. Secondly, applicants, occasionally, exploit the system by declaring themselves as homeless and to some extent, create an entirely different profile to regain access to the social housing system. Thirdly, the information or issues are challenging to verify, especially when it involves sensitive information and cases related to domestic violence issues. Based on these findings, it can be further clustered into three (3) major themes, namely, withholding information, exploiting the loophole of the system and finally, lack of way in verifying the information.

The findings correspondingly display the importance of better screening, more sophisticated contracts and systems engaged by the social landlord as a safety measure in protecting their allocation, and ensuring the ability in meeting the right recipients. Also, implicitly, it further implies for more effective punishments or disincentive mechanisms to be considered in order to discourage applicants from exploiting the system. It further shows that the social landlords perhaps, should accentuate the level of verification and mechanism, incredibly in validating the information presented to the social landlord by the applicants during the pre-allocation stage, to ensure the efficiency during the pre-allocation stage could be further improved.

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