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thinkPIECE

**'TOWARDS A ONE NATION
HOUSING POLICY'**

July 2013

Dr Chris Handy is Chair of the Matrix Strategy Committee and Chief Executive of the Accord Group.

Kevin Gulliver is Director of the Human City Institute.

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This 'thinkpiece' is based upon research by the Matrix Housing Partnership and the Human City Institute. It proposes ways in which Labour's 'One Nation' emblem can encompass social housing. It puts forward interrelated policies that will promote a social housing sector that is 'flourishing, affordable and fair' in contrast to the residualised sector created by housing policies since 1979. One Nation Labour has begun to put flesh on the bones of its housing strategy. But this 'thinkpiece' recommends, at a time when the Comprehensive Spending Review proposes further public spending cuts, how policy announcements to date might be extended to ensure that the UK can return to a more economically rational approach to housing: One that supports productive house building, reduces the amount of housing benefit going into the pockets of private landlords and financial institutions, and delivers more affordable homes for a growing population. Alongside, the 'thinkpiece' describes how mutualism might be extended into social housing to reduce tenure inequalities and challenge negative portrayals of the sector.

Backdrop

At last year's Labour Party conference, Ed Miliband, in his second speech as leader, sought to rebrand the Party as 'One Nation Labour'. While seen by some as a clever way of stealing some of the Conservatives' clothes through appropriation of Prime Minister Benjamin Disraeli's famous phrase, others recognised an opportunity of reclaiming for Labour a policy terrain that stresses 'the many not the few'. This latter interpretation is supported by a quote from Ed Miliband's speech:

"One Nation: a country where everyone has a stake. One Nation: a country where prosperity is shared. With one million young people out of work, we just can't succeed as a country. I will never accept an economy where the gap between rich and poor just grows wider and wider. In One Nation, in my faith, inequality matters. It matters to our country."

'One Nation', then, potentially embraces a fairer, more egalitarian and economically rational policy direction that seeks to utilise the talents of the many to rebuild the nation following the Credit Crunch and the double dip recession resulting from deep-seated economic errors made over the last thirty years that have increased and embedded inequality; not least in the UK's housing system. This 'thinkpiece' sets out to describe what a 'One Nation' housing policy might look like with particular reference to social housing.

State of the Nation's Housing: A Thirty Year Legacy

Housing policy over the last thirty years has been built on three unsustainable pillars:

- The promotion of home ownership as the 'natural' tenure of first choice ramping-up affordability problems, and the relegation of social housing to a residual tenure of last resort with growing inequality in asset ownership between these tenures.

- The transfer of housing subsidies from economically beneficial bricks and mortar development to those that support housing costs and from housing consumers to landlords and private financial institutions.

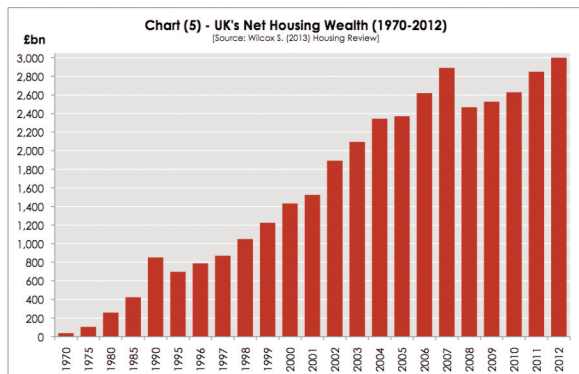
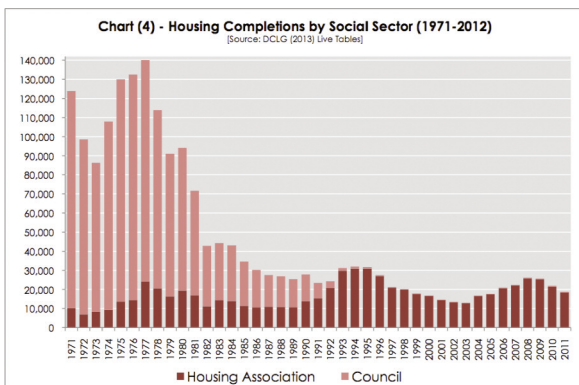
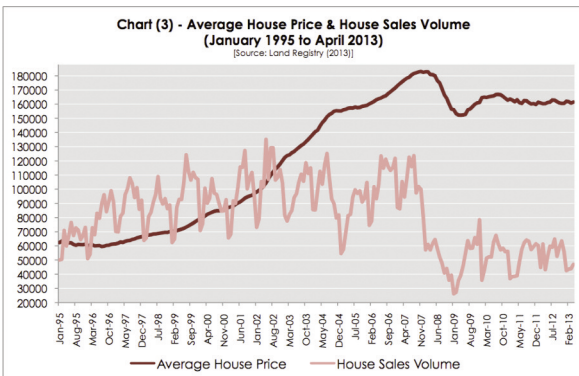
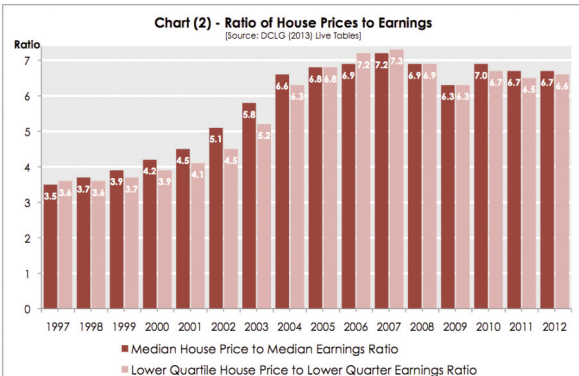
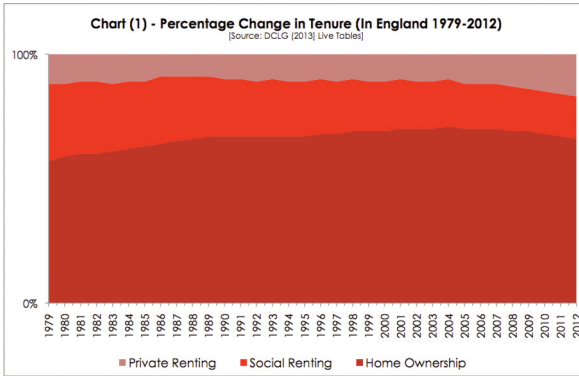
- Challenges to the reputation of social housing and its tenants with associated 'CHAV' and 'skivers' rhetoric coupled to punishing welfare reforms and austerity measures that are biting deep into social housing communities.

Tenure Trends and Worsening Affordability

Housing policy since 1979 has stressed the importance of home ownership as the 'natural' tenure of choice, relegating social housing to a second class tenure of last resort for those with little choice. This policy trend has been reinforced by the Right-to-Buy which transferred more than 2.5 million social homes to home ownership between 1979 and 2012. This has held back economic investment by locking capital in residential property at a greater rate than for most of the UK's competitor economies. The over-promotion of home ownership has also fuelled property bubbles since the late 1980s, especially in the 1998 to 2008 period, that have been the incubators of ramped-up personal debt, predicted to breach the £2tr mark next year by the Office of Budget Responsibility. Personal debt, which has been used to fill the gap between declining incomes and the rising cost of living, is a more pressing concern for the development of progressive economic and housing policies than the comparatively lower level of public debt.

Home ownership reached a peak of 71 per cent of all homes in 2004 but has since fallen back to 66 per cent because of adverse housing market conditions in the wake of the international financial crisis, as chart (1) shows. However, it remains historically high and in relation to international comparisons. Despite home ownership's falling back and average house prices dipping since 2008, the housing market is barely more affordable today





than five years ago. As chart (2) illustrates, the main measure of affordability in the housing market - average wages to house prices at median and lower quartile levels - have barely fallen since the Credit Crunch and stand today at 6.7 and 6.6 respectively. Combined with the need for large deposits to access mortgage finance, and despite the Government's 'Help to Buy' scheme announced in the March 2013 Budget, high house prices continue to shut out most first time buyers.

Chart (3) illustrates why this is so. House prices have remained high because volumes of house sales have collapsed which, coupled with insufficient housing supply and stagnant households incomes, has meant that affordability problems remain entrenched.

An associated tenure trend, also shown in chart (1), over the last thirty years has seen the decline of social housing to only 17 per cent of all homes with a fall from 6.6m homes to 4.5m at a time when waiting lists have ballooned to 5 million applicants. Chart (4) reveals the slide in social house building over the period. Within this downwards trend, the proportion of social housing managed by housing associations has increased to more than 55 per cent: up from 7 per cent thirty years ago. Local authority housing has been in decline. This has resulted from housing associations being established as the main providers of new social housing via the Housing Act 1988 and the transfer of housing stock to housing associations, community-based agencies and arms-length management organisations.

Alongside waning social housing, the private rented sector, in decline since the 1920s, has seen a revival in recent years. After reaching an all-

time low of 9 per cent of all housing in 1989, private renting re-established itself at 17 per cent of homes in 2012, due mainly to the growth in buy-to-let on the back of the housing booms post-1997. Rents in all sectors have risen much faster than the rate of inflation since the late 1980s.

Transfer of Housing Subsidies

One outcome of these trends has been the transfer of subsidies since 1979 from building homes to subsidising housing costs. Today, for every £1 spent on social house building, at least £5 is spent on rent subsidies compared to £1 to £1 in 1979. The consequence has been an expanding housing benefit bill climbing to £25 billion while social house building is at historic lows [as chart (4) illustrates]. Perhaps this is what housing minister Sir George Young meant when he said in 1991 that 'housing benefit would take the strain' of the mixed private-public funding regime ushered in for housing associations. More than half of this huge amount is being paid to private landlords for rapidly inflating rents. The private financial borrowing requirement of housing associations, standing at £40bn today, is a further element of transfer of subsidy from bricks and mortar to rent. The government's 'affordable rent' programme, with rents allowed to rise up to 80 per cent of those levied by the market, will further drive-up the housing benefit bill while capital spending was cut back in the Comprehensive Spending Review of 2010.

Social Housing's Reputation

Social housing is increasing portrayed as an inferior tenure of last resort with sustained attacks on security and sustainability of tenure,

mixed income communities and those tenants with spare rooms. At the same time, social housing is being re-branded as 'affordable' housing with associated higher rents. And the Right to Buy has been resuscitated after pronounced dead following the Credit Crunch, with the Government aiming to halt the recent decline in home ownership. The reputation of those living in social housing is also being challenged with the revival of 'CHAV' and 'skivers' rhetoric contributing to the acquiescence of the UK public in draconian welfare cuts and biting austerity measures, many aimed specifically at social tenants. The results have been severe for social tenants and are likely to get worse. Social tenants' incomes, already low at less than £9,000 per annum on average, have lost at least 10 per cent of their purchasing power since the Credit Crunch. This equates to a total loss of real terms income circulating in social housing communities of more than £3bn since 2008. This loss of purchasing power has resulted from above inflation increases in necessities, such as food and fuel, which take up disproportionate amounts of tenants' incomes. Reforms of welfare will remove a further £2bn from tenants' pockets by 2015 against a backdrop of Government proposals to cut a further £12bn from welfare.

An Emerging Labour Housing Policy
At the Fabian conference in January 2013, Ed Miliband said that a future Labour government would seek to reduce a widening social chasm between those who rent and those who own their home. Ed Miliband also proposed a national register of landlords and enhanced powers for local authorities to tackle rogue landlords. He also proposes to streamline the charges levied by landlords and letting agents, making the renting process more transparent and preventing tenants from being exploited. This was followed-up by Ed Balls' proposal that a future Labour government would use a projected £4bn windfall from the sale of 4G networks to build 100,000 new homes and would create another stamp duty holiday for first time buyers buying homes for less than £250,000.

More recently, Ed Miliband has questioned the Government's cutting of welfare bills and is proposing a more considered policy to tackle the forces pushing up welfare bills, such as long-term worklessness, embedded low pay and a housing market that pushed up prices and rents while not meeting demand and needs. The bloated £25bn housing benefit bill is put forward as an exemplar. Ed Miliband argues that housing expenditure should be transferred over time from subsidising rents subsidising rents paid to private sector landlords and private finance institutions via housing associations to building new homes.

Towards a One Nation Housing Strategy

Below are some recommended approaches to further a 'One Nation' housing strategy.

Linking Housing and the Economy: Expanding Social Housing

Many economists now recognise the important linkage between housing policies and the wider economy. In particular, the pivotal role of housing investment generally - in stimulating economic growth and employment, while supporting wider economic success (via labour market mobility for example) - and specifically - in social and affordable housing to support often fragile local economies - are now generally acknowledged by most commentators, even the International Monetary Fund.

Extra investment in social and affordable housing with a greater level of housing subsidy will realise major economic pay-offs while keeping the housing benefit bill under control through more affordable social rents and fewer households being reliant upon the private rented sector with higher rents. This will enable rebalancing housing subsidies over time from rents to bricks and mortar, while reducing poverty traps and making work pay.

Improving the Reputation of Social Housing by Creating an Asset-Owning Democracy

Alongside this numerical expansion, creating a social housing sector with an improved reputation is vital. This will involve the creation of a more level playing field for social housing with home ownership to foster some of that tenure's attractiveness. To this end, the social housing brand could be bolstered by narrowing the growing wealth divide between home owners and tenants, which averages £100,000. The inexorable rise in the UK's net housing wealth (that is, unencumbered by mortgage), as shown in chart (5), has hardly been punctuated by the Credit Crunch.

So providing social tenants with access to assets will reduce tenure inequalities and bolster tenants' self-esteem. An 'asset-owning democracy' would be realised through the creation of a Tenants Mutual in the style of the Child Trust Fund, which would aggregate tenants' asset accounts. These asset accounts would be created and supported by Government initially, but built upon by social landlords, tenants and social investors from then on to foster a savings culture, enhance the security of tenants and reduce their reliance upon high-cost credit.

The Tenants Mutual would not only harvest and protect social tenants' assets but would lend to social landlords to build new homes and to upgrade neighbourhood infrastructure. A virtuous cycle of investment would be created using tenants' collective asset accounts to improve their communities so creating employment in fragile local economies and enhancing the quality of disadvantaged neighbourhoods.



Housing Associations - Extending Mutualism

The UK is unrepresentative of most of Europe, and even the USA and much of Asia, in terms of its under-development of co-operative housing and mutual organisations. At a time when the value of mutualism is increasingly being recognised by all political parties as a means of embedding economic growth, local democracy and improved public service delivery performance, housing remains largely under-developed, despite some recent developments in creating community mutuals and gateway associations. Only 0.6 per cent of UK housing is classed as co-operative.

Housing associations have a long-term commitment to providing more than social landlordism, including creating opportunities for tenants and communities to take control of their lives. A few, like Matrix, support co-operative development agencies and tenant management organisations. A future Labour government could, and should support the transfer of control of social housing to social tenants and communities in partnership with housing associations and local authorities, many of which are already moving towards a co-'operative council' status. The creation of a new co-operative tenancy would ameliorate current tenant-landlord arrangements which have their roots in feudalism.

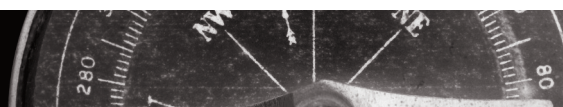
Summary of a One Nation Housing Strategy

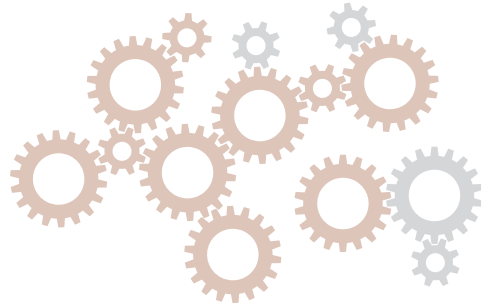
Labour's One Nation housing policy could rest upon:

- Systematic but gradual rebalancing of the housing subsidy system towards economically productive bricks and mortar activity and away from subsidising private landlords and financial institutions. This might take at least one Parliament, possibly two, so that the housing benefit bill can be brought down. A faster pace could be achieved with rent restraint negotiated with the social and private rented sectors.
- Linking future funding for social housing to reducing tenure-based inequality and increasing asset ownership by creating a national Tenants Mutual to oversee tenants' asset accounts. This would help restore the self-esteem of tenants and the reputation of social housing, while tackling financial exclusion and creating an asset-owning democracy.
- Extending mutualism within, as well as outside, social housing to provide tenants with more of a say in how their homes and communities are managed. Housing associations, appealing to their historic social purpose and learning from sectoral examples, could be the vehicles to spread the influence mutualism to come in line with EU noms.



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