Defend Council Housing

November 2008 Conference Papers

Private Sector Failure: Housing Crisis, Credit Crunch and Recession

1. Introduction

The current economic crisis and the failure of an increasingly neo liberal housing policy reinforces the case for investment in first class council (public) housing.

Housing policy based on the private market – promoting home-ownership and relying on private sector companies to deliver 'social housing' – has led to the current housing crisis.

Promoting home-ownership at any cost – including to those who cannot afford it – has led to not just a housing crisis but caused the collapse of the subprime market in America which triggered the current worldwide economic crisis. The credit crunch makes a nonsense of recent proposals to force or 'encourage' more council tenants and others into marginal home-ownership.

The so-called Third Sector (using Registered Social Landlords to deliver new 'social rented' housing and 'low-cost' home-ownership) is not a credible alternative. Other schemes which rely on private finance – from demolition and regeneration schemes to new Local Housing Companies – will be equally risky, exposing council housing to the instability of the market which a system of allowances provided by government protects it from. Proposals to break up the council housing national 'Housing Revenue Account' should similarly be scrapped.

Positively, the crisis has put government in the driving seat: it has the opportunity to dictate the terms to lenders, developers and builders prioritising a massive council house building programme to provide real public benefits.

2 Housing policy based on home-ownership has led to the current housing crisis

Successive governments over the last 30 years have pursued policies promoting home ownership at all costs — including the systematic dismantling of the council housing sector.

> "housing and land have become investments, from which speculators, moneylenders and the banks grow ever wealthier. Governments have allowed the market to exploit the shortage of land by allowing unregulated lending to lift the price of housing above the needs of the poor in the UK…The deregulation of financial markets in the 1980s sparked off a flood of house purchase lending that has underpinned massive house price rises and consumed £600 billion of investment that could have found a better use…The sharp rise in lending in the 1980s appears to have produced the house price boom in the late 1980s… All through the 1990s total housing debt continued to rise much faster than earnings and the Consumer Price Index and at an accelerating rate. This began to pull house prices first above the CPI index from about 1996, then above the earnings index in about 2000 and then into a steeply rising curve from that date to the latest available figures… Since over the period the debt outstanding rose by over 1600% while the stock of houses to be purchased increased by only 21% it would be remarkable had there been any other outcome than rapid house price inflation and sharply declining affordability.." (Memorandum to the Prime Minister on Unaffordable Housing, Zacchaeus 2000 Trust, May 2005).

> "a further source of house price pressure, pumping public money into an already overheated market... it is futile to improve affordability by increasing salaries or subsidising home buying... While each individual home buying grant – such as those under the Starter Homes Initiative – may help the recipient enter the housing market, the combined effect of such grants is to push the market up further, making entry even harder for the next grant recipient." (Response to the Barker review of housing supply, Henry George Foundation, 2004).

The failure of housing policy based on an increasingly neo-liberal agenda is now bringing misery to millions facing economic recession, the repossession of their homes and no council housing there as a safety net.

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All the evidence shows the market has failed to deliver (statistics from The Guardian, 29 October 2008):

• Five million people will be on social housing waiting lists by 2010 – a million more than this year.

• 100,000 homes will be built this year, down from 170,000 in 2007, the lowest number since 1945.

• Almost 100,000 households were homeless in England in 2007 – almost twice as many as in 1997

• It is estimated that a total of 45,000 homes will be repossessed this year, up from 26,200 last year

• There are currently more than 750,000 empty homes in England. These include flats built for buy-to-let landlords, homes left empty pending delayed regeneration schemes and property owned by speculators.

> "A dramatic rise in house prices over the past ten years, together with increased availability of new mortgage deals in the sub-prime sector, has meant that many people have overstretched themselves to get a foot on the housing ladder. Such people are far more susceptible to being tipped into the red by a rise in interest rates or a sudden change in circumstances, such as job loss, illness or relationship breakdown" (Breaking Point : how unaffordable housing is pushing us to the limit, Shelter, August 2008)

> "There is no denying that the market delivers benefits for those who are already well off, but it still cannot provide anything like enough houses to meet need. Affordability remains a great many people's major worry. What the market does deliver is instability, and whether it is in a boom or a slump it generates stress for large numbers of marginal purchasers and would-be first-time buyers… The housing market tends to reflect and amplify inequalities generated elsewhere… Market fundamentalism in housing has had its day. The theory that the private sector has all the answers has been tested to destruction and now we need to come up with something different and better if we are to break out of the cycle of booms and slumps that have bedevilled the British housing system for too long." (Peter Malpass, writing in Roof, Nov/Dec 2008)

3 Not just a housing crisis but an economic crisis

The economic crisis was partly triggered by government's obsession with privatisation and deregulation, including disinvesting from and stigmatising council housing to push people into reliance on private housing solutions.

> "But now the crisis is bigger even than all this and transcends the housing sector. In lending for so long in so profligate a fashion in so poorly regulated an environment, and in the competitive search for ever more profit, the banks and building societies have seriously de-stabilised themselves. Suddenly, in the summer of 2007, there was a collective realisation that the whole sector had over-lent and had committed vast sums to loans to marginal borrowers and investment in derivatives and other financial products that were both risky in the medium term and little understood even by senior management. Confidence suddenly evaporated, bad debts escalated, inter-bank lending dried up, falling house values generated negative equity at an accelerating rate and the tide of repossessions began to flow…"

> "Informed commentators regard this as the most serious economic crisis in modern times and the cost of the stabilising measures will be felt on public sector finances for many years forcing either tax rises or falls in the quality of public services or both – with the inevitably regressive effects on income and wealth distribution. We will all pay the price for the failures of Government policy over the last three decades to exert proper regulation on this powerful sector of the economy. But, as always, the poor will probably pay most as they depend most on the services, including housing services, that will be cut – unless that is some firm steps are taken to avoid this regressive outcome." (Professor Peter Ambrose, Brighton University)

4 The credit crunch makes a nonsense of proposals to force or even encourage more marginal home-ownership

It is not responsible for politicians to push more people to over stretch themselves financially by going into home ownership. But this is precisely what's being promoted by the Chartered Institute of Housing and others (The Times, 10 November 2008).

> "It's illogical to say that because the Government hasn't built anything like enough public housing for rent and can't provide for the huge numbers in housing need, that it should now turn tenants out of council houses to make room for even poorer people." (Austin Mitchell MP, letter to The Times, 11 November 2008)

High levels of repossessions, loan scarcity and negative equity mean it's irresponsible to pour more public subsidies into promoting marginal home-ownership in the current economic climate.

Even 'encouraging' more council tenants and applicants for council housing to take up home-ownership, whether through regular tenancy reviews, or yet more low-cost shared-ownership schemes, is madness at the present time and can only fuel more problems later.

Talk of 'shares' and 'staircasing' into home ownership is an impractical ideological obsession. 'Low-Cost Home Ownership' schemes are now using 30% of public subsidy for housing (Achieving Mobility in the Intermediate Housing Market: Moving up and Moving on?, Joseph Rowntree Foundation, November 2008).

Paying a mortgage and rent – along with carrying full responsibility for repairs – is according to Shelter's Roof magazine the least economic form of tenure, even if massive public subsidies are poured in. Despite endless re-launched and new schemes these are an expensive failure:

Only 15% of those accessing public subsidies were from the priority groups of council or RSL tenants (A Foot on the Ladder: Low Cost Home Ownership Assistance, Public Accounts Select Committee, March 2007).

> "Housing associations have handed back tens of millions of pounds to the government's housing agency after its flagship scheme to help first-time buyers proved unpopular and expensive" (Inside Housing 14 September 2007).

The latest report on shared-ownership (Joseph Rowntree Foundation, 2008, as above) found that shared-ownership restricted mobility; was often unaffordable; did not provide the staircase into full ownership expected of it by the government; and meant that a significant number of units created in the first place with subsidy end up on the open market.

5 The so-called 'Third Sector' is not a credible alternative

The second part of relying on the private market has meant using private sector companies – Registered Social Landlords (RSLs), the so-called 'third sector' – to try and replace the role of councils. RSLs have taken billions in public subsidies over the last twenty years but failed to deliver. RSL rents are considerably higher than council rents, they offer less security and they are totally unaccountable. This is not a criticism of many committed housing professionals who work in the sector but an objective assessment that the political and economic principles that RSLs are founded on are seriously flawed.

RSLs are increasingly multi-billion pound regional or national companies. Their dependence on the private market has meant that their business model is coming apart at the seams, more are expected to merge/get taken over, and some are now expected to fail. Government's argument used to be that for every pound of public subsidy RSLs could 'lever in' a pound of private investment. Today they are just demanding two pounds of public subsidy for a private sector asset!

> "What associations will not admit is that they have now become dependent on private lenders – independence is a miasma. Housing associations argue that they must be independent if they are to maintain their private funding. But the crisis in private funding that threatens housing associations has not been caused by over-regulation by the state. It is the private funders – faced with a credit crunch – that have closed down on associations. Loans are more difficult to obtain. Those with loans are being asked to adhere to the minute detail of loan agreements. What the events of September have exposed is that, in an under-regulated world, the reckless competition of a few puts the homes and livelihoods of millions at risk." (Morag McDermot, Lecturer in Law University of Bristol, writing in Roof November/December 2008)

Housing associations have increasingly behaved like private businesses, building homes for outright sale. Many of them have become dependent on the private housing market: both from using building for sale to provide income ('cross-subsidise') new build for rent; and through private developers' contributions known as 'section 106' (Private developers are required to provide an element of 'affordable housing' on their sites through planning agreements.) Because of this they are no more able to solve the housing crisis than private developers:

> "the credit crunch is already limiting social landlords' ability to produce new housing, not only because of the difficulties in accessing private finance but also because of their increased dependence on the health of the owner-occupied and shared ownership markets through section 106 agreements and the sale of homes to generate income to cross-subsidise rental development." (Suzanne Fitzpatrick & Mark Stephens, editors, The Future of Social Housing, writing in Roof November/December 2008)

Housing associations are not just failing to develop new homes – their whole financial viability is threatened:

> "The Housing Corporation is keeping 'a close eye' on several housing associations that are struggling to make ends meet during the economic crisis, chief executive Steve Douglas has said. The corporation's concern comes at a time when Inside Housing is receiving weekly calls from people warning that different associations are running into financial problems. 'There are a number [of associations] that we are watching very closely,' Mr Douglas said. 'It is due to the economic downturn and a combination of things. It is about exposure in terms of for-sale property, and it is about availability of credit and liquidity.'" (Inside Housing, 24 October 2008)

> "'There is likely to be significant pressure on some registered social landlords to need assistance from the rest of the sector,' he [Peter Hammond, of Tribal Group's housing finance team] predicts. 'If there are casualties that require assistance, and they are medium-to-large, that could have serious confidence issues for the sector – it would push up perceived risk and the cost of borrowing and would make it even tougher for those left in the sector.'" (Inside Housing, 2 October 2008)

6 Any schemes which rely on private finance – from regeneration to Local Housing Companies – will be equally at risk

All the same problems faced by RSLs will apply to any other models which use private finance or depend on the sale of homes on the open market. This includes any demolition and regeneration schemes, schemes involving the private finance intuitive, Local Housing Companies, and any public/private partnerships.

> "Is nothing safe? As we edge closer to what can sometimes seem like the end of the world, the victims of our financial woes are piling up fast… The government's publicly funded flagship regeneration and refurbishment projects should be bullet-proof. But that isn't entirely the case. Private sector involvement has meant that the housing market renewal and major regeneration projects are now facing some uncomfortable realities…The Leeds Easel (east and south east Leeds) project, a partnership between Leeds Council and developer Bellway Homes, has also been affected. Construction began this summer and the first completed properties are due next year – the timing, the council admits, could have been better. 'The recent credit crunch has had a direct impact on the initiative as uncertainty on house prices and mortgage availability has restricted demand for new homes,' says a spokesperson for the authority… Nigel Wilcox, of Ernst & Young, is not surprised that regeneration projects are feeling the pinch, as many schemes were predicated on rising land and property values." (Inside Housing, 24 October 2008)

Government is heavily promoting new Local Housing Companies (sometimes also called 'special purpose vehicles' or 'local development vehicles'. To set up a Local Housing Company (LHC) or any other private / public partnership councils must make assumptions – guesses – about interest rates, rates of inflation, and house prices over the next 20 or 30 years. For example, the Barking & Dagenham scheme which only proposes to provide 25% of the new homes for rent (and as 'assured' not 'secure' tenancies) is based on house prices going up by 2.5%. If house prices do not rise then the 'profit' from the scheme will be halved and there will be even less homes for rent. If they fall by as much as 10% then the whole LHC would become unviable. These seemed like reasonable assumptions a year ago but with the credit crunch are now shown as unsustainable.

With prices for new homes falling, the high cost of credit, and inflation on the increase, the picture is likely to end up even worse as developers and lenders insist on protecting their profits. Public/private partnerships have a disastrous track record. Impressive sounding objectives to meet public need at the beginning of projects invariably get scaled back. The private sector 'partners' will be looking to maximise profits and minimise their exposure if the business plan goes pearshaped. Councils have a poor track record of effectively policing these kind of arrangements.

7 Proposals to break up the council housing 'Housing Revenue Account' must be scrapped

The government is currently carrying out a review of council housing finance. Some councils (backed by the Local Government Association (LGA) and others) are arguing to break up the national Housing Revenue Account. But the proposal that each

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authority 'opts out' and takes responsibility for managing a 30 year business plan, based on retaining its own rents and receipts, carries real risks for tenants. The present economic downturn and rapidly changing interest rates and inflation is a stark warning of how easy it would be for 'opted out' councils to get into financial crisis. This could be through inexperience, bad financial judgement or deliberately constructed as a crude excuse to justify privatisation.

Maintaining a national council housing sector by fully funding allowances within a national Housing Revenue Account (HRA) avoids these risks. Introducing a strict ring-fence, along with a level playing field on gap funding and debt writeoff, would support a new system of fully funded allowances to authorities based on an independent and objective assessment of 'level of need' and provide real transparency.

This option would stop the 'robbery', ensure that each authority received a level of allowances sufficient to manage, maintain and repair its homes and leaves responsibility for macro economics with government avoiding any risks of individual HRA's going bankrupt.

8 Conclusion – a change of policy is needed, from subsidising the private sector to re-building the public

The government's target of 3 million new homes by 2020 is in tatters: builders, landowners, developers and lenders are all closing up – or, in some cases, closing down.

The reality is that the private market is not going to deliver the secure, well built and designed and environmentally friendly homes needed at a price that working people can afford. Nor can the private sector ever be made accountable. Large numbers of unsellable rabbit hutches built for a 'buy to let' market that was promoted as a guaranteed investment is a direct consequence of that lack of accountability; so too are the increasing numbers of private tenants and marginal home owners facing repossession.

Millions now face insecurity and financial hardship. It's a melting pot that the Nazi BNP and others are seeking to exploit by trying to make scapegoats of the usual Nazi targets of immigrants, Muslims and others.

Opponents of public housing like to allege that council housing, unlike other forms of tenure, is subsidised. The reality is that government has been disinvesting from council housing ('Robbery' from tenants rents and siphoning off capital receipts), whilst subsidising RSLs through grants, and homeowners and buy-to-let landlords through tax breaks. Government's multi-billion pound bailout of the banks is the biggest ever public subsidy for private housing.

Now that local authorities can apply for Social Housing Grant and retain rents and receipts from new build it makes economic as well as political sense to build new council housing to meet housing need. There is no need to pay profits or fat cat salaries and access to lower borrowing costs means that council housing is cheaper to build, manage and maintain than the private alternatives. It is also a far less risky strategy than entering into partnerships with private companies (via new Local Housing Companies or old PFI).

> "We consider that social housing has a vital role to play in the creation of mixed and sustainable communities, but current Government policies and spending plans are insufficient to allow it to do so. Only sustained and substantial commitments in policy and financial terms will enable the sector to fulfil the aims originally envisaged for it... There should be no impediment to local authorities, exercising their place-shaping role, which wish to build on land that they own. The Government should take further steps to support and enable local authorities to add to the supply of social rented homes."(The Supply of Rented Housing, Communities and Local Government Select Committee, May 2008)

Of course if people want to buy they should have that choice. But public money and public land should be prioritised for building first class public housing.

Increasing supply would allow local authorities to open up allocation policies once again to people from all backgrounds and circumstances. Reestablishing council housing as a mainstream tenure of choice and offering tenancies to the wide social mix amongst the 1.7 million households on council waiting lists would return council estates to the mixed communities they used to be.

Our alliance of tenants, trade unions, councillors and MPs, joined by numbers of housing professionals and academics, is a powerful force for change. Together we are determined to win a 'Fourth Option' settlement for existing council tenants and a new generation of first class council housing that continues to provide secure tenancies, low rents and a landlord tenants can hold to account as an alternative to the insecurity and lack of affordability offered by the private market. ■

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