

# 'Cometh the hour – cometh the housing drive'

### The growing housing crisis

The trigger for the present world economic crisis lay in the housing sector. Both in the US (the 'sub-prime' market) and in the UK there has been a massive flow of house purchase lending in the deregulatory neoliberal environment since the early 1980s (see Appendix 5 of the Zacchaeus 2000 Trust Memorandum to the Prime Minister on Unaffordable Housing of 2005 at [www.z2k.org](http://www.z2k.org) or the series of videos on Housing Affordability at [www.humanrightstv.com](http://www.humanrightstv.com)). In the UK in particular this took place in a political and electoral climate that stressed home ownership as the panacea for all housing difficulties.

This near obsession with ownership is fundamentally political. It had its roots in the late 1920s (the 'bulwark against bolshevism' argument) and by Neville Chamberlain speeches in the 1930s about how tending one's rose bushes would keep one from revolution. It was reinforced by the Labour Party's adoption of home ownership as 'the normal tenure' in a 1965 White Paper and was driven home by Mrs Thatcher's remark that 'social renting is for social cases'. Over the latter decades of this long love affair with home ownership as a force for political stability other options have been partially closed down. The council sector has been run down as a conscious policy and reverse subsidy applied to Housing Revenue Accounts, the RSL sector has been insufficiently funded to make good the shortfall and the private rented sector, never a socially responsible way to house poorer and more vulnerable households, has seen continuing low standards, rising rents, decreasing security of tenure and increasing 'buy to let'. The whole sensible notion of a housing system offering a balanced and affordable choice between owning and renting, as is the norm in many comparator EU nations, has been sacrificed on the dual altars of 'the housing ladder' and consciously driven rising house prices.

The adverse consequences of this sequence of policy directions for housing quality, availability and cost are well known and documented. Total housing output slumps (because so much of it depends on decisions made in the private sector), choices are narrowed, waiting lists lengthen, personal debt escalates, overcrowding continues, low housing standards increase health costs and hinder educational progress, housing shortfall exacerbates racial tensions, labour mobility is impeded and housing costs in all tenure forms increase as a proportion of income. This forces a growing dependence on housing benefits whose cost in real terms has risen steeply and now approaches £20bn per year. This is the least cost-effective and most socially damaging form of housing support and it



impedes the transition from benefits to work.

This increase in the impact of housing costs on household budgets has a number of damaging effects. It means less money is available for good food, holidays, social life, home support for school children, pensions self-provision and other important items that protect health and the quality of life. There are other socially damaging effects. The increasing burden of mortgage payments to repay loans calculated on the basis of two household incomes, and the increasing level of rents, has forced an increasing dependence on paid childcare, increased parent/child separation and complicated time juggling and detracted from a sensible work/life balance. (It should be noted that a 2007 UNICEF review of child wellbeing in 21 rich countries found the UK at the bottom of the league). Poor housing policies have generated massive public costs.

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### **The global economic crisis**

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. The clear warnings written into the Z2K Memorandum in 2005 became stark reality.

As a result some of the biggest high street banking names needed cash injections at huge public cost and some were even nationalised. 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.

### **So how should DCH respond?**

All crises can be occasions for serious re-thinks. Our housing ‘policy’ has been marked for many decades - perhaps since the post-1918 days of Addison or the post-1945 days of Bevan – by reactive and ideologically-driven crisis-management rather than long-term holistic strategic thinking. DCH can be a voice offering enlightened and constructive ideas.

### **What do people need from their housing?**

We can start from first principles. What do people need from their homes? They need safe, healthy, appropriate and secure housing with adequate space standards. They may need to be able to move easily to follow educational or career paths. They need environments outside the home that are non-threatening, non-stigmatising and which provide the services that make life comfortable. Most people, if pressed, would probably not say they need housing to be an appreciating asset or the source of a pension. There are, or should be, other systems in the economy to provide for these purposes.

Time has shown that there is no evidence that owner-occupancy is uniquely capable of serving this set of needs - Sweden and Switzerland, for example, meet their housing needs without heavy reliance on ownership. In fact recent evidence points in the reverse direction, what with life-styles distorted by heavy indebtedness, negative equity and the rising risk of repossession. The implication is that we should argue for a return to more balanced tenure mix of housing – in other words more rented housing.

### **What sort of rented housing?**

But what sort of rented housing? Long experience has

shown that the private rented sector, by its nature profit-driven, does not provide a reliable, safe, secure and affordable form of renting. The housing qualities people need can be delivered only by some form of ‘social renting’.

Of the two forms, some of the benefits previously delivered by RSLs or housing associations appear to be diminishing. In recent decades the Housing Corporation has narrowed its pattern of financial support to a reducing number of large RSLs thus confining an ever higher proportion of new development to fewer associations. The logic here is the commercial one of scale economies in management and the importance of a large asset base when seeking new development funding. Concurrently a higher proportion of this funding has had to be found from fully commercial lenders, exerting fully market lending terms, so that the previous advantage of accessing public funds on terms that reflect the ‘public service’ nature of the operation has been lost.

The pattern of RSL mergers into ever larger groups, while gaining these scale economies, appears to have entailed a loss of the ‘hands-on’ and socially responsive management practices that formerly marked the best housing associations. ‘Big business’ management styles, and salary structures to go with them, have replaced the formerly philanthropic ethos and the change shows in, for example, tougher policies on eviction. In addition more marginal sites have been used (or recently ‘banked’ rather than used) as the Government has insisted on ever more ‘efficiency’ judged by the narrow criterion of development out per £ in.

Housing provision by means of council owned and managed stock has, by contrast, a number of intrinsic advantages. It can deliver lower rents with relatively little subsidy by basing rents on historically pooled cost rents (see below). It can offer rational mechanisms of allocation and absolute levels of security (subject to reasonable actions by tenants). Its quality can be better controlled. And it can be managed by public sector agencies that, in the end, can be influenced by democratic pressure – i.e. the vote.

### **The new Keynesian mood**

In recent weeks it has become evident that the UK Government, at least, is moving sharply towards a Keynesian solution to present troubles – but without much explicit reference to the policies advocated by that great economist. The Prime Minister has made it clear that the ‘golden rule’ that public borrowing should be limited to 40% of GDP will be breached. The strategy will be to increase Government borrowing so as to invest in capital projects and services and hopefully minimise the inevitable growth in unemployment that is now becoming evident. (It is interesting to note in passing that when the Zacchaeus 2000 Trust approached the Treasury with the evidence presented in their 2005 Memorandum that the total outstanding house purchase debt had risen from about 25% of GDP to over 75%, and put the question ‘is this a problem?’, there was no clear response. So no ‘golden rule’ there).

This seems a perfect moment to be pressing the case for more direct investment in council house building – on a number of grounds. These include:

- That housing output in all sectors is at a historic low and present reliance on s.106 agreements to deliver more ‘affordable’ rented housing is not working because of the slump in the private sector starts on which it depends (quite apart from the misuse of the word ‘affordable’ which is being challenged elsewhere – see [www.humanrightstv.com](http://www.humanrightstv.com))
- That investment in stimulating the construction sector

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feeds through into the stimulation of numerous 'feeder' industries and therefore has a positive effect on job creation

- That increasing the availability of rented housing of decent standard will begin to reduce cost pressures on other public services such as the NHS
- That current labour recruitment and retention problems – especially of lower paid but essential workers – will be eased to the benefit of the whole economy

### **Conditions for the expansion of council housing**

The new drive to provide more publicly developed and managed homes needs to be carried out with full regard to lessons learned from what has gone wrong in the past. These lessons include:

#### **Relationship to assessed need**

- The pattern of need in each local authority needs to be worked out and investment allocated according to area needs (taking account of labour market needs)

#### **Technical and design standards**

- there must be an avoidance of the use of untested technologies such as those that produced the high-rise disaster in the 1960s
- the developments must be of human scale, with proper allocation of land for services, and the housing not visually distinguishable for that of other tenures

- the quality, design and space standards of new housing need to be carefully monitored (with full account of standards such as the Housing Health and Safety Rating System – HHSRS – developed at the Building Research Establishment)

- there must be high environmental sustainability standards

#### **Allocation policies**

- the allocation must be in terms of transparent systems based on measured need – but in the context of the need to increase social mix

#### **Social mix**

One problem deriving from the current extent of area-based social differentiation has been well stated by Hills:

In a purely market-driven system, those with the lowest incomes might all end up in the lowest cost and least desirable parts of towns and cities, and – unless there were compensating variations in rates of social security benefits and tax credits – could end up unable to live in higher cost regions altogether. By contrast, social landlords can provide and allocate housing in a different way, allowing or encouraging more of an income mix between areas, and accepting the need for effectively higher rates of subsidy in some areas or regions to allow this to happen. (J. Hills (2007), *Ends and Means: The Future Roles of Social Housing in England*, London, ESRC Casereport 34).

There are many good reasons to work towards social mix. Apart from the demands of natural justice that all citizens should have equal access to work, services and social support when necessary, the exclusion of poorer households from large parts of towns and cities, or their inclusion in high cost areas that strain their resources, is a powerful source of the societal fracturing that is currently showing itself in many costly ways – not least in the high incidence of crime in some localised areas.

The key point here was made by Aneurin Bevan nearly sixty years ago:

It is entirely undesirable that on modern housing estates

only one type of citizen should live. If we are to enable citizens to lead a full life, if they are to be aware of the problems of their neighbours, then they should be drawn from different sections of the community. We should aim to introduce what has always been the lovely feature of the English and Welsh village, where the doctor, the grocer, the butcher and the farm labourer all lived in the same street... the living tapestry of a mixed community. (quoted in M. Foot (1973), *Aneurin Bevan, Volume Two: 1945-1960*, London : Paladin, p.78).

This aim of social integration was being partially reached even in immediately pre-Thatcher times:

...as recently as 1979 [the population living in social housing] was spread across the income distribution. A greater proportion of those with low incomes lived in it – more than 40 per cent of those in each of the bottom five-tenths of the income distribution – but so did more than 30 per cent of the next four groups, and even [on the figures cited] 20 per cent of the tenth with the highest incomes. (J. Hills (2007), *Ends and Means: The Future Roles of Social Housing in England*, London, ESRC Casereport 34, Figure 9.1a).

Obviously in the market-dominated neoliberal climate over the past thirty years a process of 'residualisation' has occurred in many areas. Regaining a social mix will not be achievable in the short term because in those areas measured need will mean that most tenancies are necessarily being made available to those with severe housing problems. But if, as time elapses, more housing is provided in small multi-tenure and visually undifferentiated developments, and less in huge mono-tenure spreads as in the past, the social mixing will gradually evolve in an organic fashion.

What should be rigorously avoided is the 'quick fix' policy of seeking to engineer forced 'social mix' by introducing market-price private owner-occupancy developments into existing large public estates using some variant of the theory that 'middle class' residents will somehow solve the estates' problems – perhaps (insultingly) by serving as 'role models'. The motivation behind these attempts is often a profit-driven desire to benefit from some government flow of regeneration funding and/or to pick up some cheap sites. The research literature shows that the outcomes of such insensitive 'social engineering' policies are both mixed and unpredictable and that adverse outcomes are as likely as positive ones.

#### **Management of public housing**

- the management must avoid the poor standards and paternalism that has often marked public sector management in the past – there needs to be a renewed drive for more housing management training and a broadening of the management training curriculum

#### **Rent-setting strategies**

Above all the rent-setting logic must move back towards the pooled historic cost principles so as, over time, to deliver rents that are historically construction-cost related, not related to current market-driven property prices and rents in the locality. In effect this means they will be more affordable.

There is a longstanding belief that council housing, alone among tenure types, has been heavily subsidised from the public purse. This, so the argument goes, has been the reason for the low rents that this form of housing delivered – implicitly at the expense of the general taxpayer. This belief is simply wrong on a number of counts.

In the days of mortgage interest tax relief, which ended only in the present century, the amount of tax concession (effectively subsidy) was in fact more per property for purchasing owner-occupiers than was the subsidy per council rented

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household. If one analyses a typical housing authority Housing Revenue Account for, say, the 1980s or 1990s, subtracts from the income side the government subsidy and then re-works the average rents these would still be well below those available locally in the private rented sector. It was not primarily central government subsidy to the HRAs that produced low rents. This imbalance in the pattern of support was very clearly a regressively redistributive mechanism since owner-occupiers (who got more) are almost by definition better off to start with than council tenants (who got less).

The actual mechanism for delivering low rents was the averaging of rents over the entire stock of an authority so as to cover the pooled historic costs of the stock. Given a maturely developed stock, with perhaps some having been built in the 1920s and 1930s, the loans and interest payments on the earlier stock have long been paid off – yet these houses and flats continue to provide a rental flow. When the costs of running this older stock are combined with the costs of running more recently built stock (where the finance charges have not yet been paid off), and an averaged rent derived for the whole stock, it can be seen that this averaged rent can be low in terms of present prices. And the greater the rate of inflation over the maturity period the lower the average rents can be in terms of current prices. This pooled historic cost principle, which relates the rents charged to the historic profile of the costs of providing the stock, is the most rational way of providing decent quality low rent housing – so long as the average life of the properties is materially longer than the average repayment period on the construction loans and so long as good older stock is not sold off.

The mechanism has been largely destroyed by a number of policy decisions since the early 1980s. These include:

- the duty laid on housing authorities to sell stock (with in practice much of the older better stock selling first)
- the siphoning off by central government of growing amounts of HRA money (a move from positive to negative subsidy) and
- the imposing of a rent regime such that council rents should rise to RSL levels by 2011 and should reflect to some degree local private sector prices – thus uncoupling them completely from the historic construction cost

Given the often-stated anti-poverty agenda of the Blair and Brown Governments it is difficult to see why these housing policies, which clearly work to increase income inequalities and/or to drive up the cost of housing benefit, should have been persisted with.

## The outcome

There are no quick fixes to our present severe housing problems that have built up over many decades. The key point at the moment is to identify the right directions, not to promise quick results.

The present crisis is a good point at which to identify the past policies that have gone wrong and to spell out clear future policy requirements. If there is a major public sector housing drive of the kind indicated, carried out with due regard to the lessons of the past, the results will, within a very few years, provide important social and economic benefits, reduce benefit-dependence and lessen the health cost and other seemingly

intractable problems generated by the present disastrous state of affairs.

The council sector will once again become a tenure of choice for people from all walks of life who want the security, quality and safety it provides and who do not choose to be dependent on a private landlord or to move into the long term life-limiting debt that ownership implies. The result will be a healthier, less fractured, better housed and more balanced society. ■

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'Cometh the hour – cometh the housing drive', DCH conference paper, November 2008

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