Inviting market forces in: financing Social Housing from the Coalition to the Spending Review

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*In the first of two articles, **Stewart Smyth** outlines the recent history of policy changes towards social housing, from the apparent certainty that had emerged at the start of the year, through to the changes that have occurred in the sector since the election in May, and finally up to the recent Comprehensive Spending Review.*

At the start of 2015 there was a certainty surrounding social housing; after an initially tentative start by the Coalition government, a new settlement for building social housing had emerged, focused on dramatic cuts in up front grants and a greater emphasis on developing housing associations having to plug the gap.

The election campaign signalled potential large reforms including the extension of Right-to-buy to housing associations. As if that wasn't a big enough change, the summer saw the first indications that housing associations would be reclassified as public organisations, with their debt (approx £60 bn.) being added to the government's finances. This move was confirmed on 30 October by the Office for National Statistics.

We can use a financialization framework to help make sense of at least part of this. Financialization is a term that is increasingly being used to capture a range of processes focused on the increasing power of financial capital through the financial services industry in relation to households. But financialization operates across a range of fields and in multifaceted processes.

There are two facets immediately relevant to understanding the Coalition's social housing policy – the shareholder value revolution with its accompanying short-termism and the increased amount of debt within the economy in the UK economy. For example, the shareholder value revolution is focussed on achieving *this year's* numbers; in this process, long-term capacity and productivity is reduced. According to the McKinsey Global Institute the UK's total debt to GDP ratio now stands at 252 per cent; an increase of 30 points since 2007.

Both processes are evident in the Coalition's social housing building programme – *Affordable Homes Programme (2011-15)*. Under the AHP the government specified the types of homes (or products as they call them) they would fund: affordable rent homes, affordable home ownership, mortgage rescue, empty homes and supported housing for the elderly. They also made it clear that homes at social rent levels would only be supported in exceptional circumstances.

In 2012, the National Audit Office investigated the AHP programme and showed how the financing was working. They noted that 'the Programme is intended to build housing with a third of the grant per home of earlier affordable housing schemes'. In further detail, they added:

> *It will involve housing providers spending some £12 billion on new homes, funded by a combination of government grant (£1.8 billion), borrowing by providers supported by rents on the new properties (we estimate around £6 billion), and funding from other sources (about £4 billion). Rents totalling around £500 million a year on new homes will be paid by tenants, approximately two-thirds of whom are supported by housing benefit.*

It was clear from the start that the AHP was designed to increase debt levels, debt that the government thought would be private.

The focus on short-termism is not as immediately obvious but is no less an important element, and can be seen in two aspects. First, in the shift from higher upfront capital funding (under the previous programmes) to a reliance on higher rent levels that increase the benefits budget (i.e. revenue expenditure) over the longer term.

This can also be seen in the government's attitude towards value for money which was to deliver the largest number of homes given the funding available. However, according to the NAO this produced a lower benefit to cost ratio than the previous National Affordable Homes Programme (2008-2011).

The second aspect of short-termism concerns the use of housing association resources, whether that is through the rationalization of housing stock (e.g. the sale of voids or conversions of social rents to affordable rents) or utilizing any spare borrowing capacity. These are one time funding manoeuvres, which are considered to be unsustainable as a long-term funding model.

The AHP is incapable of addressing the lack of social housing supply and therefore cannot help the 1.7 million households on council waiting lists. Unless there was a change in policy direction, the AHP was leading to a debt bubble being inflated which at some point would become unsustainable; but it would be off the government's balance sheet.

Therefore, the reclassification of housing associations as public bodies would then appear to be a major headache for the government; yet the response so far has been rather muted, with no mention of re-privatisation in the 2015 Spending Review.

Further, because the announcements confirming the extension of Right-to-buy to the sector and the ongoing reduction in rents came at the same time that the ONS started to look at housing association, there is a perception that these were the causal factors in the final reclassification decision. However, the ONS make no mention of either of these policies in their notification statement. Instead, the decision was backdated to 2008, to the Housing Regeneration Act (2008) introduced by the previous Labour government

This all gives support to the argument that the growth of the housing association sector was not about the artificial measurement of public debt but had more to do with a twofold ideological stance of successive government since the 1980s. First, is a strategy to undermine council housing through the stock transfer process. Second, is the belief that competitive market forces can deliver (mainly through some sort of trickle down process) social housing for the most needy in our society.

The concern now is that the government will treat housing associations in the same way as they have council housing and turn it into a Cinderella service through cuts in funding and the extended Right to Buy. This is what was behind the co-ordinated attack on housing associations in July by Channel 4 news and others.

Of course many of us have been critical of the excessive executive salaries in housing associations for many years; something successive governments have shown no concern about. It is the charge that housing associations are not building enough that is a deliberate misrepresentation of the sector. The housing association sector is not designed to deliver a mass building programme.

It is differentiated in its composition with many small associations who do not develop new homes. For example, of the 1,783 registered providers only 336 have more than 1,000 homes. Further, nearly half of these are stock transfer associations who were created for the sole purpose of improving the condition of the housing stock through the *Decent Homes* policy. There are a relatively small number of very large associations who have active development programmes. In 2014, the top 50 developing associations completed more than 40,000 homes.

In the space of nine months the financial and funding environment within which housing associations operate has changed utterly. There is now significant uncertainty about the future direction of government policy for the sector coupled with significant strains being placed on individual housing associations that have developed strategies based on one set of assumptions only for all those to change.

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About the Author

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Note: This is the first of a two part blog -the second part examines what that future may look like and whether it will actually help to alleviate any aspects of the current housing crisis. The article represents the views of the author and not those of the British Politics and Policy blog nor the LSE. Please read our comments policy before posting.