

Attainable prosperity

The average tenant has £800 in savings against the homeowner's £90,000 in equity. **Kevin Gulliver** presents a solution to asset inequality



Since Gordon Brown is now assured of becoming the next prime minister, our thoughts turn to the policies that we can expect from his government. Early announcements from the Brown camp suggest that the creation of an 'asset-owning democracy' will be a major element of his administration. But what does this mean in practice? Can we look forward to yet more 'top-slicing' of the most affluent social housing tenants by encouraging them to invest in ever smaller equity shares, as the Hills review advocated, or will something more imaginative and comprehensive be developed?

A new report by the Human City Institute builds on the work of others, such as the Institute of Public Policy Research and Chartered Institute of Housing, around the role of asset-based welfare. The report suggests potential ways forward to build an 'asset-owning democracy'. But first of all, let's look at the context.

Conservative policies of the 1980s and early 1990s aimed to create a property and share-owning democracy, achieved

through two million council house sales and privatisation of the public utilities. Increasing homeownership may have created permanent benefits for those exercising the right to buy and the economy generally – the resulting shortage of social housing notwithstanding – but the changes wrought by the 'Tell Sid' privatisations were transitory: small investors soon sold their shares to large financial institutions.

Early indications suggest that although Brown's approach may share similarities with previous Conservative policies, not least in the commitment to increasing homeownership, a Brown-led government will champion wider asset-owning as a means of enabling the most disadvantaged citizens and communities to realise a more permanent stake in the nation's wealth.

To some extent this has already got underway during Brown's 10 years as chancellor, with the Child Trust Fund and the Savings Gateway providing a sure start for tomorrow's young people and a means of cost-effective savings for low-income families. The early signs are

that a Brown-led government will extend these initiatives.

The scale of asset inequality

As a backdrop, it is perhaps worth casting an eye over the scale of asset inequality today. One per cent of people, or 60,000 out of 60 million, now own one-quarter of the nation's wealth. One thousand people control assets of £360 billion, more than the annual income of all but a few wealthy countries. In contrast, the bottom 50 per cent, or 30 million people, own only 6 per cent of all assets.

What is particularly interesting to those working in social housing is the proportion of wealth held in property, which has increased considerably since the 1980s. The value of homes owned, minus mortgages, now amounts to £2.6 trillion, or more than twice the UK's annual GDP. The average homeowner has £90,000 in equity; even those in the bottom decile of homeowners have access to unencumbered housing wealth of more than £30,000. This represents a huge wealth divide between homeowners and the nation's five million tenants, who have average savings of only £800, with two-fifths having no tangible assets at all. Tenure is now a metaphor for inequality.

The homeownership fetish

Policies of successive governments have colluded with the view that homeownership is somehow the 'natural' tenure. Social housing is widely perceived as a minority and residualised tenure for those with little choice. There are signs, however, that this policy has reached saturation point, with the overall level of homeownership declining marginally since 2004.

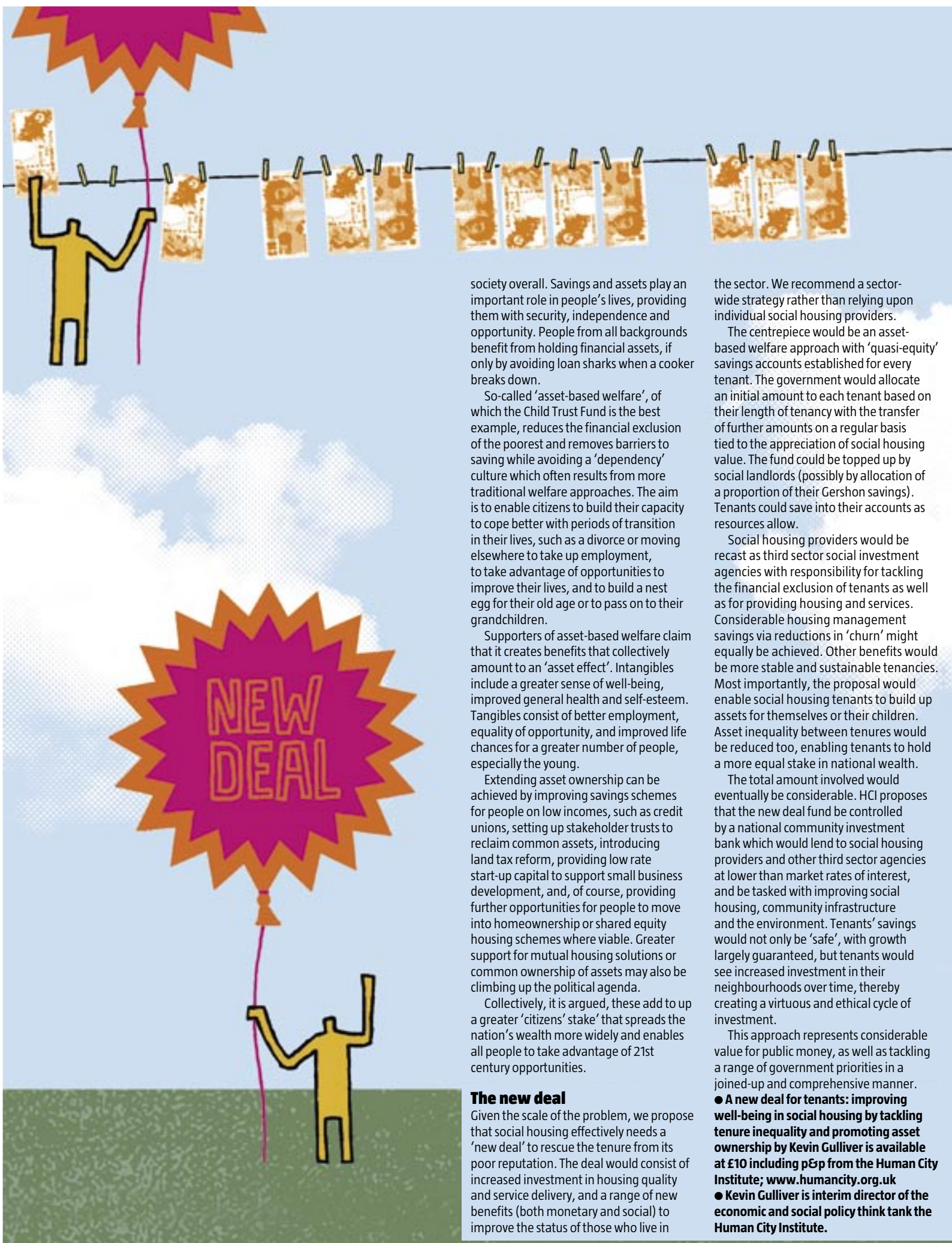
Proposals to extend homeownership to social housing tenants by offering as little as a 10 per cent stake are marginal to the debate about asset equality, with social housing destined to remain the poor relation in the tenure family. It was not always so: 30 years ago, 40 per cent of social housing tenants were economically inactive in contrast with 64 per cent today. National surveys of tenants show that only a minority of social housing tenants now aspire to homeownership and its affordability is unlikely to improve in the foreseeable future.

Society's 'fetishising' of homeownership, exemplified by the popularity of 'make-over' and 'trading-up' TV shows, has non-monetary effects too. Homeowners receive a psychological 'lift' from the act of ownership itself, irrespective of housing quality and location. The opposite holds true for social housing tenants, who are often portrayed in negative terms – through coverage of anti-social behaviour, for instance.

The perceived lower status of tenants has well-documented effects on health, community cohesion, heightened anti-social behaviour, and, increasingly, a greater propensity to vote for extremist political parties. Low status and poor self-esteem have real consequences but these will not be tackled by pushing more tenants into unsustainable homeownership. So is there an alternative approach?

The asset effect

HCI's research shows that widening asset ownership will have considerable beneficial effects on these seemingly entrenched problems and improve the cohesion of our communities and
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society overall. Savings and assets play an important role in people's lives, providing them with security, independence and opportunity. People from all backgrounds benefit from holding financial assets, if only by avoiding loan sharks when a cooker breaks down.

So-called 'asset-based welfare', of which the Child Trust Fund is the best example, reduces the financial exclusion of the poorest and removes barriers to saving while avoiding a 'dependency' culture which often results from more traditional welfare approaches. The aim is to enable citizens to build their capacity to cope better with periods of transition in their lives, such as a divorce or moving elsewhere to take up employment, to take advantage of opportunities to improve their lives, and to build a nest egg for their old age or to pass on to their grandchildren.

Supporters of asset-based welfare claim that it creates benefits that collectively amount to an 'asset effect'. Intangibles include a greater sense of well-being, improved general health and self-esteem. Tangibles consist of better employment, equality of opportunity, and improved life chances for a greater number of people, especially the young.

Extending asset ownership can be achieved by improving savings schemes for people on low incomes, such as credit unions, setting up stakeholder trusts to reclaim common assets, introducing land tax reform, providing low rate start-up capital to support small business development, and, of course, providing further opportunities for people to move into homeownership or shared equity housing schemes where viable. Greater support for mutual housing solutions or common ownership of assets may also be climbing up the political agenda.

Collectively, it is argued, these add to up a greater 'citizens' stake' that spreads the nation's wealth more widely and enables all people to take advantage of 21st century opportunities.

The new deal

Given the scale of the problem, we propose that social housing effectively needs a 'new deal' to rescue the tenure from its poor reputation. The deal would consist of increased investment in housing quality and service delivery, and a range of new benefits (both monetary and social) to improve the status of those who live in

the sector. We recommend a sector-wide strategy rather than relying upon individual social housing providers.

The centrepiece would be an asset-based welfare approach with 'quasi-equity' savings accounts established for every tenant. The government would allocate an initial amount to each tenant based on their length of tenancy with the transfer of further amounts on a regular basis tied to the appreciation of social housing value. The fund could be topped up by social landlords (possibly by allocation of a proportion of their Gershon savings). Tenants could save into their accounts as resources allow.

Social housing providers would be recast as third sector social investment agencies with responsibility for tackling the financial exclusion of tenants as well as for providing housing and services. Considerable housing management savings via reductions in 'churn' might equally be achieved. Other benefits would be more stable and sustainable tenancies. Most importantly, the proposal would enable social housing tenants to build up assets for themselves or their children. Asset inequality between tenures would be reduced too, enabling tenants to hold a more equal stake in national wealth.

The total amount involved would eventually be considerable. HCI proposes that the new deal fund be controlled by a national community investment bank which would lend to social housing providers and other third sector agencies at lower than market rates of interest, and be tasked with improving social housing, community infrastructure and the environment. Tenants' savings would not only be 'safe', with growth largely guaranteed, but tenants would see increased investment in their neighbourhoods over time, thereby creating a virtuous and ethical cycle of investment.

This approach represents considerable value for public money, as well as tackling a range of government priorities in a joined-up and comprehensive manner.

● **A new deal for tenants: improving well-being in social housing by tackling tenure inequality and promoting asset ownership by Kevin Gulliver is available at £10 including p&p from the Human City Institute; www.humancity.org.uk**
 ● **Kevin Gulliver is interim director of the economic and social policy think tank the Human City Institute.**