Focus: Fair shares

Investigations into the potential for equity stakes have shown they really could help tenants buy into social housing, Sue Regan and Mark Lupton explain

One of the surprise inclusions in last year’s Labour manifesto was a commitment to explore ‘equity stakes’ for social housing tenants.

The notion was greeted with some scepticism from those in and around the housing world and many saw it as little more than a gimmick designed to prove that New Labour was still capable of new ideas. But research published this week, jointly by the Chartered Institute of Housing and Institute for Public Policy Research, demonstrates that equity stakes could revolutionise the relationship between tenants and landlords.

The first objective for equity stakes – to enable tenants to build assets – sits within a wider government interest in asset-based welfare. This recognises that the most substantial inequalities in society are not simply between different income groups but between those who own shares, pensions and housing and those who rely solely on wages and benefits. Inequalities in wealth are far more acute than income inequalities.

The second objective builds on the recognition that many social landlords need to look at ways to make the social housing ‘brand’ distinctive. A policy that provides incentives for tenants to value their tenure by altering their own and the general view of the tenure has considerable attractions.

Equity stakes could strengthen the social rental sector, moving it away from being seen as a purely residual sector, and helping to ensure its sustainability.

The link between asset-building objectives and overcoming financial exclusion are also an important consideration in developing equity stakes. Financial exclusion means not having a bank account or basic financial instruments such as house contents insurance or being part of a savings scheme.

One per cent of the population, for example, do not have bank accounts. In part this is because the banks themselves have little incentive to offer ‘no-frills’ accounts, although the market is slowly changing. But it is also increasingly recognised that an ‘outreach’ strategy, involving advice and readily accessible arrangements, is necessary if financial exclusion is to be broken down.

Some social landlords are already engaged in this task, often linked to specific banks or building societies. Equity stakes can be seen as a further instrument to help tackle financial exclusion, which could be linked with other initiatives, for example, the government’s ‘Saving Gateway’.

The right to buy has been the single most important measure to transform tenant access to assets over the past 20 years and it cannot be ignored in any debate about equity stakes. As well as its success in benefiting around 3.5 million former tenants who are now homeowners, we must recognise the costs in terms of lost of rented housing and consequently the rehousing opportunities for current and future tenants.

As a minimum, we have to consider how equity stakes would fit in with the right to buy, in particular whether it can be used to build towards that right and how this would affect discounts. More fundamentally, it presents an opportunity to review right to buy.

Considerations that made the policy relevant at the time of the 1979 act are necessarily irrelevant in the early 21st century. Significant changes in the housing market make a rational policy in this area less obviously irrelevant.

Consultations with tenants and landlords were a key element of the research. Tenants’ views, gathered through focus groups, tended to vary between the inspired, the interested but cautious and the uninspired, with most falling in their middle category.

Tenants had concerns about the scheme being simple and fair. Qualification criteria for example that tenants have to abide by tenancy conditions, were felt to be unacceptable. The value of the stake would have to be sufficiently attractive. Starting points of either £800 or one per cent of the value of the property were seen as acceptable.

The idea of the matching of tenant contributions by an equal contribution from the landlord was greeted with enthusiasm. There was some support for the stake being ‘locked away’ so that it would build up over time but not for possible restrictions on how the stakes could be used.

Equity stakes could achieve two objectives. Helping tenants access the benefits of asset-ownership and improving the status of social housing. Ultimately equity stakes might revolutionise the relationship between tenants and landlords, and even make the right of the right to buy possible.

The first objective for equity stakes – to enable tenants to build assets – sits within a wider government interest in asset-based welfare. This recognises that the most substantial inequalities in society are not simply between different income groups but between those who own shares, pensions and housing and those who rely solely on wages and benefits.

Equity stakes could revolutionise the relationship between tenants and landlords.

Landlord views, as represented by six case study organisations, to some extent reflected those of tenants. There was general recognition that the need to do something to reap the status of social housing, but uncertainty about whether this objective could be linked to that of increasing tenants’ assets.

Again, views could be characterised in three ways, but this time between those who were enthusiastic, those unconvinced, and yet others who were sceptical or even hostile. Key concerns were that any scheme should not be integrated into tenancy arrangements and broader policies, and that it is one ‘tool in the armoury’ not the whole solution. Any scheme should be flexible and recognise the different situations of different landlords.

Certain key requirements will apply to any successful equity stakes scheme. Our consultations with tenants and landlords highlighted these which include simplicity, fairness, giving an ‘incentive’ element (so that stakes are earned) and having clear qualification criteria. It also became clear that equity stakes would only be a useful tool if based on certain principles.

An enabling framework should be developed which encourages locally-based approaches rather than a prescriptive national scheme. No one approach works best for all tenants and landlords, and we believe that tenants and landlords are capable of developing imaginative solutions which address their particular circumstances and needs.

The focus should be on improving the status of social housing not on further promoting home ownership.

Equity stakes will need additional funding. Initially, the government should establish a challenge fund to help landlords pay for them.

All landlords could be doing more to tackle financial exclusion. Our research has reinforced previous studies that social landlords are well positioned to be key bodies in promoting financial inclusion and equity stakes need to be integrated with other housing management tools but also have to be part of a cultural change in social housing which is focused on better service delivery and a renewed relationship between landlord and tenant.

Sue Regan is associate director at the IPPR and Mark Lupton is policy analyst at the CIH. A stake worth having? Chartered Institute of Housing, 02476 851 752 or pubs@cih.org