

EUROPEAN UNION



Committee of the Regions

ECOS-V-014

8th meeting of the commission

12 April 2011

DISCUSSION PAPER

of the

Commission for Economic and Social Policy

TOWARDS A EUROPEAN AGENDA FOR SOCIAL HOUSING

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This document will be discussed at the meeting of the **Commission for Economic and Social Policy** to be held from **11 a.m. to 6.30 p.m. on Tuesday 12 April 2011 in Venice (Italy)**.

DOCUMENT SUBMITTED FOR TRANSLATION: 9 March 2011

CdR 71/2011 FR/RS/PM/ym

Reference document

I. OVERVIEW

The current economic, financial and social crisis was triggered by a mortgage credit crisis and the collapse of the housing bubble (in the USA), and was accelerated still further by inadequate regulation of financial markets. Although speculative bubbles are not uncommon, the magnitude and global scale of the rise in housing costs has no historical precedent. In Europe, Member States have not all been affected in the same way and their housing markets are radically different. However, in all but a handful of countries, the cost of housing has risen rapidly and now represents a considerable share of the household budget for Europe's low-income families.

Housing policy falls within the remit of national or regional governments and there is no question here of calling for changes in the way the subsidiarity principle is applied or in the division of powers in this domain. However, although housing policy is a national or regional matter, it is incontrovertible that decisions about which instruments should be used to implement it can be very strongly influenced by European policy. This report aims to elucidate this relationship. On the basis of this analysis, we will suggest that the positive effects, both of the regulatory framework and of local and regional development policy, be boosted so as to increase the availability of decent housing at affordable prices. We will also propose that the regulations that may be standing in the way of this be reviewed.

Facts and figures

- Between 1995 and 2008 (or earlier, depending on the year in which housing prices peaked), real house prices had nearly tripled in Ireland, had been multiplied by about two and a half in the United Kingdom and had approximately doubled in nine other OECD countries¹.
- In Europe, the only country where real house prices fell over this period was Germany.
- Over the same period the affordability ratio (price-to-income) reached historic highs (levels never previously attained), exceeding 150 in seven countries (with 100 corresponding to the normal value of an affordable housing market).
- Average household debt, of which mortgages are the main constituent, represented about one year of household disposable income in 1995. By 2000, debt had risen to about 120% and in 2007 it was close to 170%.
- In France, house purchases by non-residents represented 9% of residential investment in 2005, whilst in Spain the figure was 10%.

¹ The figures referred to come from OECD Economic Department Working Papers No.746, *A Bird's Eye View of OECD Housing Markets* by Christophe André, January 2010.

Housing is an integral part of the harmonious living environment which regions need to provide in order to ensure their sustained, economic development. Without access to decent housing at affordable prices, it is difficult to integrate into the local community or to play an active part in local life. Above all, without somewhere to live, a place to grow and develop from, there can be no life of dignity!

Although the right to housing is recognised in the European Social Charter and some national constitutions, the number of people who have no access to this fundamental right continues to be measured in the tens of millions (in the absence of reliable, comparable data, the exact figure has not been verified).

II. THE EVOLVING RELATIONSHIP BETWEEN EUROPEAN POLICIES AND SOCIAL HOUSING

Given that social housing is at the intersection of social, environmental and economic concerns, it is affected by the policies developed in these areas at EU level.

Now that we are entering into a lengthy negotiation process on the EU's future policy priorities and budgetary resources after 2013, issues relating to social housing are more closely intertwined than ever with these three aspects of sustainable development.

The EU now has a medium-term political strategy: **the Europe 2020 Strategy**. Consequently, economic, social and environmental policies and their impact on social housing must now be seen in relation to this new framework, whose targets and flagship initiatives are intended to channel the efforts of Member States and the Commission into reaching its objectives. The objective of lifting 20 million people out of poverty and reducing energy consumption by 20% is particularly relevant here.

Another equally vital question is how national, regional and local housing policies can contribute to achieving the common objectives.

In this regard, there would appear to be a number of core issues:

1. Social housing and the "combating poverty and social exclusion" pillar of the Europe 2020 Strategy

Member States have set themselves the objective of bringing about substantial reductions in social exclusion and poverty, with a particular target of lifting at least 20 million people out of poverty by 2020. The European Commission has proposed a flagship initiative called the *European Platform against Poverty and Social Exclusion* as a catalyst for action by the Member States². This initiative emphasises social innovation as a means of developing social policies that are tailored to needs. Given

² See the opinion by Christine Chapman on *The European Platform against Poverty and Social Exclusion*, ECOS-V-12

that housing represents households' largest expense, it is also an area of the household budget where the potential for savings is considerable. Consequently, government action to reduce housing costs (rents, energy consumption, service charges, water consumption) should be seen as a social policy both for keeping households solvent and for reducing welfare expenditure, provided that the solutions for lowering costs are sustainable in the long term (for example, reducing energy consumption in order to reduce the heating allowance that exists in some countries).

It is important that social housing's role in preventing exclusion and insecurity (particularly energy poverty) is recognised and incorporated in this initiative. Training for employees and residents, the creation of mechanisms and initiatives for strengthening communities and the introduction of pilot projects that can be replicated and supported by the public authorities (social innovation) but steered by local stakeholders, including those involved in social housing, are all important aspects that should be considered.

2. Social housing and the future priorities and resources of cohesion policy after 2013

In response to the demand from the European Parliament, housing has now – albeit only in the post crisis revision of the Structural Funds – become "eligible expenditure" for energy efficiency in the EU-15 countries (in the EU-12 countries it was already classed as such from the beginning of the programming period). The regional authorities managing Structural Funds programmes may now co-finance energy related renovation work for social housing.

In just one year, the results produced in the Member States which have taken up this option have been remarkable, with an absorption rate of over 60%, exemplary initiatives and proven energy savings. In France, for example, it is estimated that the Structural Funds have enabled 80,000 households to cut their energy bills by almost half. These projects have created local jobs that cannot be relocated, with ten direct jobs and five indirect jobs created for every million euros invested.

However, as far as housing is concerned, cohesion policy, enacted through the Structural Funds, does not stop at energy savings. It must also support regions and local authorities in meeting future challenges. One key focus of the discussion on the future priorities of cohesion policy is its territorial dimension: how can cities be given more effective support to face future challenges such as segregation, immigration, population ageing and the use of natural resources? Social housing must be given its proper place here, as a lynchpin in urban and social development and in initiatives to renovate local neighbourhoods. It is also vital to be proactive in combating urban sprawl, both for ecological reasons and in order to ensure universal access to public services, an area where local housing policies are all too often under-resourced.

3. Social housing and the future Energy Efficiency Plan 2011

On 8 March this year, the European Commission adopted a new energy efficiency plan³ (as part of a wider energy strategy).

The plan identifies the obstacles standing in the way of the energy revolution that needs to take place in the social housing sector, namely: the level of funding required (well over the sum that can be set aside under the cohesion policy), the lack of financial engineering instruments (i.e. the capacity to utilise several different sources of funding for an energy efficiency renovation programme), the lack of incentives for private sector partners to come in as third party investors and the consumption behaviour of final users (tenants) and also puts forwards several approaches for tackling them. Nevertheless, it is timid when it comes to concrete solutions and legislative proposals, and there is a need to put funding implements in place rapidly.

4. Social housing and the issue of public services in Europe

The intention behind the new European rules on economic governance is to compare and evaluate the fluctuations in Europe's property markets, in order to avoid housing bubbles, and the corollary of financial and public debt crises, happening again in the future. Maintaining stable housing markets has become a European objective, meaning that the Commission will now be able to issue recommendations to Member States in this area.

The overwhelming majority of EU Member States categorise social housing as a general economic interest, although there is no uniform definition of the functions it performs. Quite the contrary, social housing systems differ widely, ranging from "generalist" or "universal" systems to systems "targeted" on the most vulnerable groups. The financial crisis, the barriers to access to home ownership for low-income households and the lack of intermediate alternatives between social rental accommodation and private ownership are impelling housing policy to focus on diversifying the kinds of housing available in order to respond to the diversity of social needs.

However, the need to support the provision of decent, affordable housing in a broader context, beyond welfare concerns, is also re-emerging. This is the case, for example, in regions where house prices have risen beyond the reach of middle-class households or in regions where there has been no investment in the housing stock for twenty years, in Central and Eastern Europe, for example, where the quality of the housing stock has deteriorated.

In addition, the current crisis demonstrates the need for housing policies that can result in greater price stability as well as providing more affordable housing.

³ COM(2011) 109 final.

The functions of social housing change over time and are locally specific. In addition, local public financing for housing policy is largely decentralised, meaning that local authorities are responsible for its disbursement.

In relation to the rules on state aid, derogations apply to SGEIs (Article 106 of the Treaty on the Functioning of the European Union) and their scope has been determined in the case-law (Altmark judgment).

The new Treaty on the Functioning of the European Union (resulting from the Lisbon Treaty) has taken a further step towards creating a favourable environment for SGEIs in Europe. Article 14 of the treaty makes the first ever reference to the EU's powers to act by means of regulations to establish the principles and set the conditions under which services of general economic interest should operate. Protocol 26 to the Treaty refers to the primary role of the Member States and regional and local authorities in the organisation of SGEIs, and to their wide diversity.

The Member States therefore need clear legislation favourable to social housing as a SGEI, to underpin the implementation of their housing policy.

For the same reason, the VAT Directive 2006/112/EC (revised in December 2010 by Directive 2010/88/UE) authorises the application of reduced rates of VAT for the construction and renovation of housing as part of a social policy, allowing reductions in the cost of providing affordable housing.

It is worth recalling here that the following rules apply to and restrict investments in the social housing sector:

- the Basel III rules on banks' capital ratios (the new rules are unfavourable to property investment, with no distinction between speculative investment and investment in social housing, the only thing that counts being the sector of investment, thus penalising social landlords considerably and thereby increasing the cost of providing social housing);
- the public debt ratio of local authorities (here, too, there is no differentiation between investments in infrastructure and investments in a service, which can be reimbursed through the rents paid by tenants).

Lastly, the directives on procurement markets are also relevant here. If these were made less burdensome or applied more effectively, it would be easier for public bodies to cooperate, enabling them to pool some services and reduce costs. One particular issue is that the costs of disputes could put the viability of projects in question, thereby reducing the provision of social housing.⁴

Standards, for construction itself, but also for products, services, urban safety and accessibility, can guarantee quality. However, there are now so many that they have made action by local authorities not only costly but also in some cases impossible. What is most deplorable is that using standards

⁴ See Mr Kool's opinion in connection with the consultation on the Green Paper on Public Procurement.

instead and in place of public policy is not only undemocratic, but also prevents the best and most integrated solutions from being chosen (focusing on individual products gets in the way of effective consideration of the whole picture).

III. PROPOSALS FOR POSITIONS THAT COULD BE TAKEN

1. The economic dimension: rules on state aid and public procurement

Although the principles underpinning the decisions on state aid and the regulation of public procurement are in themselves sound, they are either difficult to implement or being implemented inappropriately.

a. State aid

The European Commission's 2005 decision, also known as the "Monti/Kroes package", authorises Member States and their competent authorities not to notify state aid for "small" SGEIs, social housing and hospitals. Although this decision was welcomed, there are two main problems with its implementation:

- it is difficult to calculate the compensation for operations/projects whose financial balance is estimated over a very long period. For the decision to be applied, the rules on over-compensation need to be clarified and made more flexible.
- as defined in the decision, social housing is limited to the provision of housing for households with solvability constraints. This is a restrictive definition of its general interest role, since needs not covered by the market are highly dependent on local housing markets. The concept of social housing therefore needs to be redefined, taking account of what it is required to do to compensate for the deficiencies of the market and to respond to specific local or regional difficulties in accessing decent, affordable housing.

The Commission is expected to issue its proposals on the revision of the Monti-Kroes Package at the end of 2011. This will be an opportunity to amend the rules to ensure that they are applied more effectively, thereby increasing legal certainty.

b. Revision of the directives on public procurement

Proper application of the rules has also been an issue in relation to the directives on public procurement. The Commission has launched a broad consultation on these directives, which are also to be revised at the end of 2011.

What has happened is that the national authorities have imposed stricter rules when transposing these texts, thereby making public procurement procedures less flexible. Unable to risk court disputes, local authorities have chosen to stick to a cautious reading of the law. Having the actions of the public authorities regulated through court action is a brake on innovation, on the complex markets that would

offer integrated local-level solutions and on the consideration of ambitious social criteria. Although theoretically all kinds of options are possible, once the selection criteria and subject of public contracts are clearly and explicitly defined, they cease to be adequate procedures for projects involving long-term cooperation between different partners. In our view, Europe has not done nearly enough to provide local authorities with the means to use the rules on public procurement to the best effect and insufficient use has been made of instruments such as training, relaxation of the rules (particularly raising thresholds) and exchanges of experience between peers.

Furthermore, public actors must be given better opportunities for cost sharing (co-management of certain services by public sector enterprises located within the same area) together with the means to become more efficient and improve the quality of the service they provide to the public. For this to happen, the rules in this area need to be clarified (application of the Teckal judgment).⁵

2. Public investment

Social housing represents both an investment in local and regional economic development and a service of general interest aimed at making housing accessible, decent and affordable for everyone. The European Union must provide itself with the capacity to invest in social infrastructure, as it has already done for energy and transport infrastructure. Labour mobility will be impossible without a better balance between the regions and countries in terms of housing supply. Given that urban renewal is one of the EIB's objectives, it should focus investment on social housing, particularly in countries with virtually no housing stock or countries with a predominance of unsatisfactory housing. Accordingly, there is a need to promote policies on investment and development agencies in this sector. Just as enterprises in the private sector can draw on economic development advisory services to help them grow, the very many different actors in the affordable housing sector (which can potentially be opened up to all enterprises, as it is already in some countries, provided that the rules and obligations are clearly defined) will only be able to emerge if the legislative framework for their activities (i.e. the law on the protection of the rights of tenants, owners and social housing players, etc.) is clear. This is vital not only in order to bring about substantial improvements in Europeans' quality of life but also to make public action, including the implementation of European policies, easier and more effective.

3. The social dimension

The things that concern Europeans in their day to day lives and living environments (employment, housing, education, health and transport) need to be better reflected in European social policy.

- A specific flanking policy on household energy expenditure needs to be introduced at European level. The key foci for strong action in this area should be an assessment of the directives in the third energy package in relation to low-income households, coordination of poverty reduction and

⁵ See H. Kool's draft opinion in connection with the consultation on the Green Paper on Public Procurement (CdR 70/2011).

energy reduction policies and implementation of the European Charter on the Rights of Energy Consumers (not approved by the Council).

- The proposals on social innovation announced in the platform against poverty and social exclusion must include a section on social housing policy. Housing represents 40% of household spending for low-income families and action needs to be taken urgently to bring about a significant reduction in this expenditure.
- More broadly, the platform against poverty should ensure that unacceptably low living standards are eradicated, by coordinating policy and reaching for ambitious objectives.
- Proposals for action under the Roma integration and migrant integration programmes must also include a housing dimension.
- European employment policies should do more to promote local jobs, which often allow the people farthest removed from the labour market to get into employment. These might include green jobs in the area of energy renovation or jobs enabling elderly people to continue living at home.

4. The governance dimension

It is important to emphasise that the Committee of the Regions has a key role to play as the institution that represents local and regional authorities in their capacity as major players in the implementation of housing policies. For this reason, it is vital that these levels be more involved in drawing up European rules that could either constrain them or give them more opportunities. The EU should support the action they take in pursuit of common objectives, just as it does in relation to the EU 2020 strategy, where local and regional authorities are the mainstay when it comes to implementation.

To ensure that the various levels of decision-making and action are taken into account in housing policy and given the increasing interaction between European policy and housing policy, consideration should be given to a new form of governance that would allow for systematic consultation of stakeholders and increase the pool of expertise needed to feed into decision-making. The following elements could be discussed:

- territorial impact studies from the Commission/Eurostat on proposed European policies and instruments, in areas such as energy, social inclusion and cohesion;
- creating a network of local housing market observatories and tools for monitoring housing markets;
- structured dialogue between representatives of local authorities, housing sector players and the institutions, with a view to effective consultation, analysis of policy implementation and exchanges of good practice (perhaps a summer school?);
- an annual European meeting of housing ministers: drawing on a network of the administrators responsible for European affairs in housing ministries, with links to the permanent representations, as tools for implementing European policies and involving each country in decisions on new policies which would have an impact on their own housing policies;
- EUROSTAT: better European statistics on housing conditions, needs and public expenditure on housing, to provide a better foundation for policy on housing and homelessness;

- an interdepartmental group within the European Commission to ensure better coordination between the various DGs which have an impact in this area;
- stronger cooperation with the European Parliament, in particular with its Urban Housing Intergroup.

The aim of these proposals is to strengthen coordination between policy makers in order to improve impact assessments and develop European policies that will encourage the creation of more decent, affordable housing for Europeans.

QUESTIONS FOR THE DISCUSSION

- As an elected representative, have you been aware of a growing inter-relationship between European policies and local housing policies?
- What impact has the economic crisis had on housing needs and the response of the public authorities?
- Which of the opportunities made available by European policy have you made use of (in particular in relation to cohesion policy, but also in connection with the framework programmes for research and innovation, the EIB and so on)?
- How could the future cohesion policy support housing policies more effectively to facilitate access to decent, affordable housing?
- How could European energy efficiency and climate policies strengthen the measures taken at local level to reduce energy poverty and consumption as a whole?
- What should the European rules be with regard to state aid in support of housing policy?