Critical Housing Analysis
Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

"Just another" or a "genuine" change in the Slovenian social housing strategy?

Andreja Cirman

University of Ljubljana, Faculty of Economics
Kardeljeva pl. 17, 1000 Ljubljana, Slovenia
andreja.cirman@ef.uni-lj.si

Abstract: *This paper overviews the developments that have affected the Slovenian social housing after the country's transition to a market economy. It analyses the Slovenian institutional framework and functioning, while critically evaluating its sustainability. The global financial crisis with its economic and social impact created strong challenges for the sector and revealed its weaknesses. A new strategic document was adopted in 2015 as a response to this situation. Although this new document provides for a transition to a more sustainable and better supply of social housing, it is still too early for optimism since it would not be the first time in Slovenia that a strategic document has primarily been left to its declaratory content.*

Keywords: social housing provision; Slovenia, housing strategy.

Introduction

The social housing sector in Slovenia has undergone many changes in the past three decades, some more profound than others. The economic and social impacts of the global financial crisis created strong challenges for the sector and revealed its weaknesses. The paper overviews the developments that have affected the Slovenian social housing after the country's transition to a market economy, it analyses its institutional framework and its functioning while it critically discusses its future sustainability.

Transition and post-transition period

The transition to a market economy in the early '90s radically transformed the housing sector in several Central and Eastern European countries (Turner et al. 1992; Hegedüs et al. 1996; Hegedüs et al. 2013). The fiscal pressures exerted by the high economic and social costs of the socialist economy had forced the governments to withdraw from the housing sector by way of a massive privatisation of the housing stock. In Slovenia, the privatisation of housing was initiated by the Housing Act already in 1991 with the privatisation of social enterprises that followed several years later.

Before the privatisation, the social housing sector represented about 33% of the total housing stock in Slovenia, with the figure dropping to 11% within two years (Cirman 2003). The massive sale of the social housing stock was seen as a way out of having to deal with politically unpopular issues related to that stock such as the 'inalienable' right of housing for the sitting tenants, accumulated deferred upkeep due to low rents, several failed attempts to set average economic rents, and also as a way to raise the necessary revenue to solve new housing needs (Stanovnik 1994).

The new housing model established after 1991 changed the state's responsibility from a "providing" to an "enabling" approach. With this new paradigm in mind, the remainder of the social rental sector was characterised by very low rents, and eligibility criteria that targeted people with inadequate means to face their housing needs. In addition, the "non-profit rental sector" was introduced and envisioned as an independent and self-sustaining housing sector, with the expectation that it would be developed by private initiatives and earmarked for the middle-income social layer of the population (Cirman and Mandič 2013). However, the low rent in the social rental sector, deprived of housing subsidies, with hardly any capital subsidies, drastically exacerbated the financial position of the housing associations that provided social housing and, as a response, they often sold off the stock (Stanovnik et al. 2003). Furthermore, the idea behind the non-profit rental sector turned out to be unrealistic. The development of the new rental housing was marginal and additions to the stock limited to municipalities and their organisations as the rent was well below the cost-recovery level and the institutional framework was unattractive to private investment. Hence, the social and non-profit rental sectors were merged to form a single category and, in 2001, this sector represented a mere 6% of the housing stock.

Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

However, the strong need for affordable housing continued and the existing institutions were unable to meet the demand. The capital city Ljubljana issued several calls for the allocation of social housing between 1998 and 2001 but was only able to meet the needs of 8 to 10% applicants who matched the allocation criteria (Cirman 2003).

Before the crisis: A small step forward

A comprehensive National Housing Programme was accepted in 2000 after several years of debates. The programme recognised the importance and the responsibility of social housing in the moment in which its supply began to be perceived more broadly in terms of an efficient management of the entire system (Cirman and Mandič 2013). The programme was followed by a new Housing Act in 2003 (HA-1) that set a nation-wide legal framework for the running of the social rental sector, defined its status, outlined rental facilities and the eligibility criteria in the social rental sector, stipulated only open-term leases, and established the amounts of rent and subsidies. The Act also recognised the National Housing Fund as a central institution to support the implementation of the programme in the social housing field.

Following a ruling of the Constitutional Court, non-profit rent was precisely defined within HA-1 as a fixed share of the value of the housing units and set at a maximum of 4.68% of the value of a particular housing unit. The newly defined non-profit rent was higher than the rent previously charged and also unified the hitherto different rent levels (average rent for housing units built over 60 years before was 2.9% and 3.8% for those less than 60). Non-profit rent took into consideration the following elements: upkeep and maintenance (up to 1.18%); cost of management (up to 0.4%); depreciation for the life period of 60 years (up to 1.67%); and the capital cost of investment (up to 1.5%). Moreover, housing subsidies were introduced. Tenants below a certain means-tested income level could apply for a rent allowance of up to 80% of the non-profit rent. The subsidy is paid from the municipal budget.

With HA-1, some elements of the supply of social housing that resembled the pre-transition period were at least partly eliminated, such as the life-time eligibility for below-market rents and a subsidisation on the account of the housing stock. The latter refers to the situation where housing associations that were forced to charge below-cost recovery rents and usually did not receive any capital subsidies or subsidies for their operations could only survive by selling off their stock, thereby limiting their ability to meet the future housing needs of eligible tenants. HA-1 also gave authority to the providers of social housing to periodically check the eligibility for non-profit rent. If a tenant no longer meets the eligibility criteria, the rent could be increased to the market level. However, the latter provision only refers to those tenants who entered the non-profit housing sector after 2003, not to those who entered it before.

Although HA-1 made several steps to abolish the hidden subsidies to the sitting tenants, to promote the social housing sector's efficient management, and to support the ambitious development targets for the sector as set by the National Housing Programme, the results lagged far behind. A number of reasons were attributed for this failure.

The new Act adopted the principle to recover rent costs. Yet this is not how the system actually works. Non-profit rent is set according to a regulated methodology to determine rent in non-

Critical Housing Analysis Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

profit housing by defining it as a percentage of the value of the housing unit. To value housing units, an administrative point-based evaluation methodology is legally established and ascribes a certain number of points to each housing unit. However, the methodology assumes the land and infrastructure were acquired free of charge from the local authority. Therefore, in the administrative assessment procedure the number of points given to each housing unit depends only on its size and building-cost-related parameters, without taking the cost of the land and infrastructure into account. Since local authorities rarely provide the land and infrastructure without cost or give corresponding capital subsidies to their housing funds and housing associations, the existing rent cost does not cover an important proportion of the actual costs of the unit.

Moreover, the value of a point is another element that works against the cost-recovery rent level. Its value was set by law in 2003 and established in German marks. Its value in Slovenian currency was therefore initially indexed to the German mark and later to the euro. Yet, upon Slovenia entering the euro area, indexation ceased and the value of a point was nominally the same as the legal provision for the value of a point, which was unchanged. Consequently, from 2006 to 2016 the point value and, along with it the actual rent, lost 26% of its actual value if measured by CPI, and 42% if measured by the change in the building cost index.

Except during pre-election periods, housing in Slovenia is considered a low priority issue at both national and municipal levels. The central government increased the National Housing Fund capital by only 12% of the funds foreseen by the National Housing Programme. At a municipal level, in the absence of the supply of substantial capital subsidies that would substitute the rent-setting regime in place, additions to the social housing stock in the period 2000–2009 only amounted to 20% of the target volume set by the programme (Cirman and Mandič 2013). In the period 2000–2009, municipalities and their housing funds built or acquired about 4,500 housing units, although the sector as a whole shrank. In 2000, the municipalities owned 21,260 units, and by 2009 the municipal housing stock had been reduced to just 15,728 units (Cirman and Mandič 2013).

Dealing with the crisis

The Slovenian economy suffered a serious setback during the financial and economic crisis in 2007–2009. Although the country's economy was not in recession at the outset of the global crisis, the Slovenian GDP shrank by -7.8% in 2009, one of the biggest falls in the European Union. After a slow, export-led recovery from the 2009 recession, the country's economy again slid into recession in the last quarter of 2011, with a negative growth of -2.7 and -1.1% again in 2012 and 2013. This second wave of recession has mainly been attributed to the drop in domestic consumption due to austerity measures, to the banking sector crisis, to the inability to implement economic reforms, and to the slowdown in export growth.

The long recession led to a huge increase in unemployment. Registered unemployment rose from 6.7% in 2008 to 13.1% in 2011. The crisis had also put the demand for social housing under great pressure. Given the small size of the sector and the institutional framework that lacked incentives (the regime by which rent costs were set, and the lack of supply-side subsidies) to expand it, the suppliers of social housing were unable to meet the demand. As an

Critical Housing Analysis
Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

example, the capital city Ljubljana has the largest and most active municipal housing fund in the country in terms of additions to the stock; still, there was a steep upsurge in the number of applicants. Although the fund received substantial capital subsidies from the municipality and was thus able to increase its investments to expand the stock during the crisis, on average it was able to meet the needs of just 11% of the applicants (see Table 1). In 2012, the Ministry of Environment and Spatial Planning estimated the shortage in social housing at 8,000 units.

Table 1: Applications to calls for social housing in Ljubljana

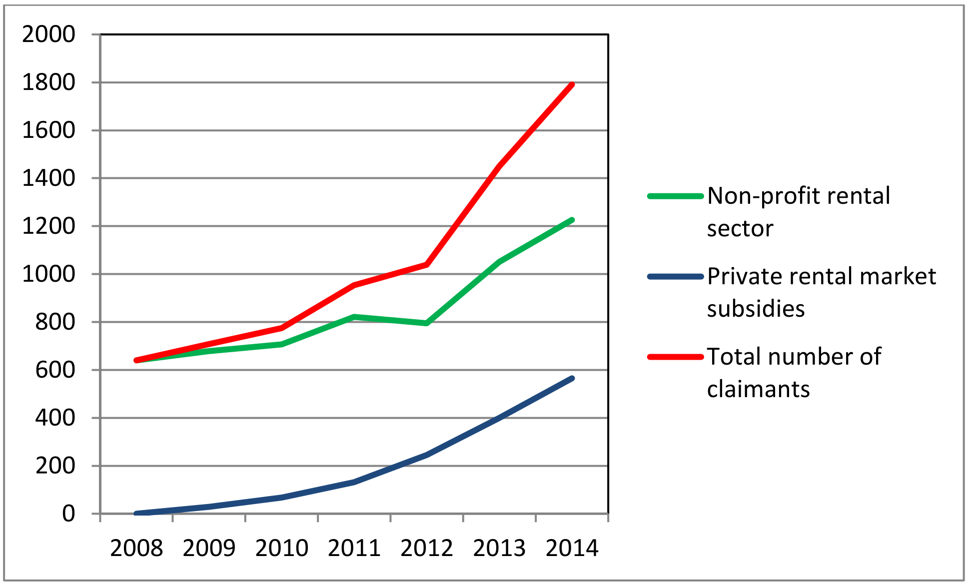
Year of call for non-profit dwellings	No. of available housing units in the call	No. of applicants	No. of allocated dwellings	Success rate in %
2004	230	1666	234	14.0
2005	150	1532	159	10.4
2006	300	1615	330	20.4
2007	300	2130	294	13.8
2008	370	2909	358	12.3
2010	450	3985	456	11.4
2012	390	4028	392	9.7
2014	425	3432	424	12.3

Source: Municipal Housing Fund of Ljubljana.

Due to the limited power, inability, and lack of incentives of the social housing suppliers to increase the overall social housing stock coupled with the soaring social needs, in 2008 the government amended the Housing Act (HA-1). These amendments introduced housing subsidies also for people accommodated in the private rental sector. Applicants who had qualified for social housing but had not been successful due to the lack of available units, were eligible for a rent allowance that covered the difference between the eligible market rent and the non-profit rent, even up to 80% of the non-profit rent. Consequently, the demand for subsidies rose sharply (see Figure 1 for Ljubljana).

Critical Housing Analysis
Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

Figure 1: Increase in the number of subsidy claimants



Source: Municipal Housing Fund of Ljubljana.

Although the extension of the subsidies to the private rental sector meant that a larger share of the population had access to affordable housing, several other amendments to HA-1 and other legislative changes actually worked against the suppliers of affordable social housing. In 2008, amendments to the Act on Public Funds limited the debt capacity of all public funds, including housing funds, to 10% of its capital and 10% of its annual revenues. Consequently, even the municipalities with active housing funds were either unable to raise debt with the National Housing Fund or, as was the case in Ljubljana, had to deleverage. The city of Ljubljana eventually eased the pressure to deleverage by recapitalising the Fund; however, the Fund's capacity to acquire external funding at the moment remains equal to zero.

The amendment to HA-1 also introduced a subsidiary responsibility for the housing stock's owners regarding the utility charges of their tenants. Due to this extra responsibility, owners of the housing stock have to pay for their tenants' utility bills when they are either unwilling or unable to pay. In addition, the institute of personal bankruptcy was introduced and the combination of these two has further burdened the housing funds. In Maribor, Slovenia's second largest town, the said additional liabilities amounted to 10.4% of the total revenues in 2013 (Cirman and Gorenčič 2016).

Turnaround in social housing strategy after the crisis

The National Housing Programme is a key strategic document in the Slovenian housing policy. The programme from 2000 expired in 2010 and its implementation left a lot to be desired. After several years in attempting to adopt a new housing programme, the Resolution of a National Housing Programme 2015–2025 was passed in 2015. In the social housing area, the Resolution once again tries to base the operations on a cost-recovery level. The document estimates the hidden annual transfer to households due to the existing rent-setting model (below cost

Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

recovery), about EUR 25million, which is chiefly covered by disinvestment of the existing stock or by deferring its upkeep. That is why the model has to be redefined to increase transparency in the use of public funds and to provide a fairer access to public housing. Since that would increase the rents for tenants, many of whom are unable to afford any higher housing costs, the Resolution also introduces housing allowances to support the most vulnerable. According to the Resolution, access to housing allowances is means-tested without any exceptions. The Resolution also aims to discontinue the negative trend in the overall size of public rental housing. If a public dwelling is sold, it must be substituted with a new one.

The National Housing Fund is again given a central role in implementing the Resolution in the social housing area. The Fund is expected to move beyond its current role as the supplier of funding for the supply of social housing and becomes an active investor and provider of public housing. Unlike the municipal housing funds, the National Housing Fund will act on the whole country with most of its investments directed to areas with the highest housing needs. In addition, the institution is expected to become a social rental agency and to contribute to the supply of quality market rental housing. Namely, the current market supply of rental housing mostly only entails flats offered with short-term leases.

A genuine change?

The challenges in dealing with the outcome of the global crisis have revealed many problems in Slovenia’s social housing sector. It is characterised by several factors that Lux and Sunega (2013) identify as the primary causes for the lack of a sustainable, efficient, and effective social housing scheme in the post-socialist countries. The most common issues have been: the trap of privatisation, the paradox of decentralisation, the global economy’s impact on high building costs, the social legacy in allocation schemes, the rents set far below actual costs, as well as the financially and politically weak actors in the non-profit sector.

The Resolution on the National Housing Programme is expected to correct this and to put into practice a sustainable, efficient, and effective model of social housing that would also prevent its further cutback. The acceptance of the document is supported with a high level of consent by both those who are active in the supply of social housing and by academics.

The key issue of the Slovenian social housing sector is the unsustainable regime that sets the rents in the non-profit rental sector (Cirman and Mandič 2013; Lux and Sunega 2013). The solution of this issue is a huge political and financial challenge that fosters scepticism, i.e. that once the Resolution is put into practice would (see the National Housing Programme in 2000), it will merely result in certain steps being taken in the right direction but without any genuine change.

The Resolution is not a legally binding document. In order to become operational, it needs to be translated into the corresponding legislation and adequately funded. Yet, the increase of rents is extremely unpopular, even if accompanied by a housing allowance scheme. Given that no earmarked funds for housing are available or anticipated, the translation of the Resolution into real life would mean to enter into a competition with all the other groups interested in the available public funds.

Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

The economic growth coupled with the austerity measures adopted in the past, just managed to pull the country out of the excessive-deficit procedures with the European Commission. The politically strong and well-organised public sector trade unions and pensioners have already successfully shown a great desire to abandon the austerity measures still in place. The proposed housing allowance scheme will substitute the hidden subsidies and increase direct fiscal outlays; therefore, it competes with several other interests. Since vulnerable groups are numerous, fragmented, and in a competition with each other, the power of the interested organisations and coalitions that could make relevant policy demands, is weak and scattered (Cirman and Mandič 2013). The chances of increasing the rents to the full-cost coverage level to set the supply on a sustainable level, and at the same the introduction of a transparent, yet government-funded housing allowance scheme to ease the burden of the higher rents, remain slim. Although two years have passed since the Resolution was adopted, no legislative changes (systematic or at least partial) have so far been proposed and no provisions for an increased spending for any types of housing subsidies has been made by the budgets proposed for 2017 and 2018.

Moreover, the financial capability on the supply side is depleted after a long period of below-cost rents, due to its limited debt capacity. Without legislative changes that could introduce total rental cost-recovery, the suppliers of social housing will continue to reduce the non-profit rental stock by either selling or (as is ever more evident from recent calls published by the municipal housing funds) by converting vacant non-profit housing units into market rental units. Since tenants in the market rental sector who meet the non-profit rental sector eligibility criteria qualify for a rent allowance, the market rental sector might to a certain extent substitute the disappearing non-profit sector if no measures are taken. However, unlike the non-profit sector with its regulated target to the vulnerable, the market rental sector relies more on the discretion of the owner.

Since Slovenia is still marred with public debt, it is hard to expect that the housing funds will be further burdened with an increase of debt. The only institution currently endowed with the capacity to invest, is the National Housing Fund that was correctly redirected from providing affordable home-ownership housing to providing public rental housing. The National Housing Fund’s financial sustainability was recently analysed (Cirman and Gorenčič 2016). The study shows that if the Fund were to carry out its 2017–2020 business plan (authorised by the government) it would effectively deplete its financial capability by 2021. With the available funds and existing institutional framework, the Fund would be able to increase the stock of public housing by 1,100 units by 2020. However, to meet the target set by the Resolution and increase its public housing stock by an additional 3,500 units in the period 2021–2025, the Fund should require at least EUR 220 million more. The source of these extra funds remains unknown, which adds to the scepticism regarding any genuine change towards a social housing strategy with a long-term sustainability.

The sustainable, efficient, and effective supply of social housing requires a comprehensive system of policies and tools. It cannot be attained by simply adopting politically more appealing and financially less demanding commitments. Similar solutions might only postpone or conceal the extent of the actual problems since it will sooner or later reveal its unsustainable character which strongly contributed to the contraction of the social housing stock in the past. It might

Critical Housing Analysis
Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

further work to the benefit of current tenants at the expense of its potential development and undermine available affordable housing options for future generations.

Volume 4 | Issue 1 | 2017 | 102-111
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.1.329

References

Cirman, A. 2003. *Analysis of Financial Perspective and Housing Preferences as Determinants of Housing Tenure Choices in Slovenia.* Doctoral Dissertation, University of Ljubljana.

Cirman, A., D. Gorenčič 2016. *Analysis of financial sustainability of the National Housing Fund in its implementation of housing policy up to 2025*. Ljubljana: Centre of Business Excellence.

Cirman, A., S. Mandič 2013. 'Slovenia: The Social Housing Sector in Search of an Identity.' Pp. 278-291 in J. Hegedüs, M. Lux, N. Teller (eds.) *Social Housing in Transition Countries*. New York, London: Routledge.

Hegedüs, J. 2013. 'TheTransformation of the Social Housing Sector in Eastern Europe. A Conceptual Framework.' Pp. 3-30 in J. Hegedüs, M. Lux, N. Teller (eds.) *Social Housing in Transition Countries*. New York, London: Routledge.

Hegedüs, J., E. Mayo, I. Tosics 1996. *Transition of the housing sector in the east-central European countries*. Budapest: Metropolitan Research Institute.

Lux, M., P. Sunega 2013. 'New Social Housing Strategies in Post-Socialist States: Effectiveness, Efficiency and Sustainability.' Pp. 307-330 in J. Hegedüs, M. Lux, N. Teller (eds.) *Social Housing in Transition Countries*. New York, London: Routledge.

National Housing Programme. (2000). Ljubljana: Government of the Republic of Slovenia.

Stanovnik, T. 1994. 'The Sale of Social Housing Stock in Slovenia: What Happened and Why?' *Urban Studies* 31 (9): 1559-1570. DOI: https://doi.org/10.1080/00420989420081431

Stanovnik, T., Zupancic, D., Blaganje, D., Cirman, A., Nagode, P., Srdic, A., and Cebul, S. 2003. *Elementi neprofitne najemnine in njihovi deleži glede na vrednost stanovanja (Elements of Nonprofit Rent and Their Relationship to the Value of Housing Units)*. Ljubljana: Faculty of Economics.

Turner, B., J. Hegedüs, I. Tosics (eds.) 1992. *The reform of housing in Eastern Europe and the Soviet Union*. London: Routledge.