

## **Opening Statement to the Joint Oireachtas Committee on Housing, Planning and Local Government.**

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### **Introduction:**

We would like to thank the Joint Oireachtas Committee on Housing, Planning and Local Government for inviting us to discuss the findings of our report on *The Future of Council Housing: an analysis of the financial sustainability of local authority provided social housing* which was published in July. This opening statement sets out the objectives of the report, explains how it was researched and summarises its key findings and recommendations.

### **Rationale and Objectives of Research**

The research was funded by two anonymous donors via the Community Foundation for Ireland, we are very grateful to these individuals and to the Community Foundation staff for their support.

The project was inspired by the severe shortage of social housing in Ireland currently and the problems regarding housing affordability and homelessness which this has caused. In the past local authority provided council housing would have been used to meet these housing needs. However, the last three decades have seen a significant reduction in the traditional role of council housing as the primary source of accommodation for low-income renters. In 1994, council housing tenants accounted for 73.2 per cent of the low-income renting households in receipt of government housing supports. By 2016, this had fallen to just 53 per cent.

In part, this development reflects the decline in council housing output following the sharp contraction in the funding available to this sector after the economic crisis commenced in the late 2000s. Total public funding for new council housing fell by 94 per cent between 2008 and 2013. It also reflects longer term factors such the

tradition of selling council housing to tenants which dates back to the 1930s and increased reliance on other sources of housing for low-income households such as: not-for-profit sector approved housing bodies (AHBs) and government subsidies for private rented housing such as Rent Supplement and Housing Assistance Payment (HAP).

The various housing policy statements which have been published since the 1980s flag several reasons this increased reliance on alternative means for accommodating low income households. Among these, the affordability of funding the sector for the Exchequer and the value-for-money achieved for this investment is the most intractable problem raised.

These funding challenges raise questions about the capacity of the government to fund the delivery of sufficient additional council housing to accommodate applicants for social housing and homeless households as is envisaged in Rebuilding Ireland. They also raise more fundamental questions about the financial sustainability of the council housing sector, its associated long-term decline and whether this decline can or should be reversed. This research aims to answer these questions by assessing the financial sustainability of council housing and generating recommendations to increase its future financial sustainability so that the supply of dwellings in this sector can be increased in a way which is affordable for the government and provides the high quality and affordable housing service for tenants.

## **Research Methods**

To implement the research an extensive series of interviews with housing policy makers were conducted, together with case studies of the funding, management and maintenance of council housing in five local authorities. These case studies examined spending on council housing provision, management and maintenance issues, allocations policy, rental income adequacy, sales of dwellings to tenants and associated policies and procedures. The preliminary findings of the research was also debated at a half day seminar with council housing managers and policy makers in March 2018.

## **Conclusions**

### *More Council Housing is Required, Particularly in Urban Areas.*

The report indicates that council housing plays a critical role in housing low income groups, particularly in urban areas where rents are high and housing supply limited and subsidies for private rented housing such as Rent Supplement and HAP are difficult to operate. AHB social housing provision also plays a valuable role in housing low-income households but homelessness cannot be addressed successfully without higher rates of council housing output.

Both the central and local government officials interviewed for this report agreed that funding for new council housing provision had been cut too far during the economic crisis of the late 2000s and was increased too slowly as the economy and public finances recovered afterwards.

### *Arrangements for Funding the Capital Costs of Council Housing Provision have Effected an Inefficient, Boom/Bust Pattern of Output*

The report flags strong concerns about the financial sustainability of the current model used to fund the capital costs of council housing provision. This is currently done using central government grants which cover the full costs of building or buying council housing 'up front' in a lump sum.

This model is challenging for the Exchequer to afford particularly when the public finances are under strain. As a result, council housing output has also been strongly 'pro cyclical' in recent decades – it has increased as the economy (and the housing market) has boomed and declined radically during periods of recession. This is inefficient from an economic perspective because investment in council housing reinforced rather than counterbalanced the building bust in the late 2000s for instance. It also achieves poor value for money because spending is concentrated at the peak of economic cycles when land and construction costs are likely to be higher while during recessions, when costs usually fall, funding for council housing provision also declines. The 'boom/bust' pattern of central government investment also generates staffing inefficiencies because many local authorities radically reduced staffing in their housing delivery and design departments when funding for council housing output was reduced in the late 2000s and had difficulties in increasing their staffing again when funding increased during the economic recovery.

A large number of interviewees from the case-study local authorities expressed dissatisfaction with the Department of Housing's speed of payment of capital grants for council housing provision and the extent of its scrutiny of funding applications and questioned the value of this scrutiny. Whereas Department representatives argued that their controls were necessary to ensure adequate oversight over exchequer investment.

#### *Selling Council Housing at a Loss is Effectively Required by the Funding Model*

Despite the severe shortage of council housing in many parts of the country local authorities are obliged by central government to sell council housing to tenants at a discount of up to 60 per cent of market value. This study highlights a significant dependence by local authorities on their income from sales to fund council housing management and maintenance – therefore they gave a perverse incentive to sell council housing at a loss.

In accounting terms, the real costs of selling houses to tenants are also disguised because the market value of council housing are not recorded on local authorities accounts and the proceeds of sales are recorded as revenue. This conveys the impression that sales actually generated a profit whereas, in fact, the sale price does not cover the cost of replacing these dwellings.

#### *Rents Generate Inadequate Funding for Council Housing Management and Maintenance*

The revenue costs of council housing management and maintenance are funded to rents which are determined on the basis of tenants' incomes. This model has significant equity and anti-poverty benefits particularly in view of the low average incomes of tenants in this sector. However it is problematic from the point of view of the efficiency of the housing service because there is no guarantee that it will generate adequate revenue funding to manage and maintain dwellings. Indeed there is no relationship at all between rents and the costs of providing council housing.

The evidence presented in this report indicates that rents do not generate enough money to maintain council housing property. Almost all of the rental income received is devoted to 'response maintenance' (ie responding to tenants' maintenance requests) and there is underinvestment in 'planned maintenance' (ie. planned repairs

and upgrading necessary to protect the fabric of dwellings and improve standards). There is over-reliance on central government funding schemes for estate regeneration and refurbishment of empty dwellings to fund repairs to dwellings which would usually be carried out as part of planned maintenance programmes. This is an inefficient and costly approach because the costs of deferred maintenance do not simply accumulate, they multiply - dwellings which have not been maintained for twenty years, require much more spending to upgrade than dwellings which are regularly maintained.

Arrangements for funding the revenue costs council housing provision have played an important role in shaping these inefficiencies. This is because the very low level of rent charged to council housing tenants and the complete disconnect between the rents charged and the costs of the housing service means that local authorities have neither the resources nor the incentive to maintain dwellings efficiently or to ensure they are swiftly re-let when they become vacant.

#### *National Housing Policies for Local Housing Problems*

There was also a strong consensus among interviewees that there are significant regional differences between the needs of urban and rural authorities. In the case of authorities with rural operational areas, price pressures were less and housing could be procured from the market reasonably efficiently and subsidies for private renting households such as HAP and Rent Supplement operate reasonably effectively. In urban areas by contrast the costs of council housing provision and maintenance were much higher, affordability problems were more acute so the subsidies for private renting households were difficult to operate and demand for council housing was much stronger.

However, the model for funding council housing is the same in both urban and rural areas which many interviewees felt was inappropriate. Some representatives of rural authorities felt a more efficient and less intrusive version of the central government grant system would be adequate for their needs in terms of delivering adequate council housing supply. Urban local authority representatives complained that the property tax system redistributes income raised in urban areas to rural local authorities which in practice means that revenue is redistributed from areas of high housing need to areas where housing need is lower. They argued that urban local

authorities should be allowed keep a higher proportion of property tax revenues if it is spent on council housing provision. Some interviewees suggested that, together with rents which reflect the costs of housing provision, revenue from property tax could be used to service loans to build council housing. This would approach would help to smooth out the peaks and troughs in investment in this sector, and higher rents would incentivise local authorities to ensure that their dwellings were quickly re-occupied after tenants leave.

## **Recommendations**

The report sets out a comprehensive suite of recommendations intended to strengthen council housing's financial sustainability so that the supply of dwellings in this sector can be increased in a way which is affordable for government and provides a high quality and affordable housing service for tenants. These recommendations range from: minor administrative changes to funding arrangements which could be implemented quickly and easily but yield significant benefits in terms of improving the financial sustainability of council housing; to more fundamental reforms, which would require significant changes to funding arrangements, but would place the sector on much more secure long term footing. :

### *Minor Management and Administrative Changes*

- Require local authorities to ring fence income from rents to spend on council housing.
- Remove maximum rents from council housing rent determination schemes.
- Allow for the compulsory deduction of council housing rents from social welfare payments.
- Regularly conduct comprehensive condition surveys of the council housing stock.
- Review the *Local Government Accounting Code of Practice* to bring it into line with international standards of transparency and disclosure for councils' housing operations.
- Value the council housing stock and record valuations in local authorities' accounts.
- Condense and streamline the Department of Housing's approval process for new council housing developments.

### *Medium Scale Reforms*

- Suspend the tenant purchase scheme for council housing.
- Remove the availability of successor tenancies (ie. the ability to inherit a council housing tenancy).
- Build smaller council housing units to enable tenants to downsize.
- Enable urban local authorities to keep more property tax revenue to spend on council housing.
- Use income from property taxes on council housing to establish sinking funds.
- Extend the shared services model to organise some council housing services on a regional basis.

### *Radical Restructuring of Arrangements for Funding Council Housing*

- Link rents to the cost of council housing provision not to tenants incomes. Make HAP available to council tenants who can't afford to pay these 'cost rents'.
- Enable local authorities to borrow some or all of the costs of council housing provision. These loans would be remunerated using cost rents and the proceeds of property taxes.