Dr Rory Hearne, Lecturer in Social Policy, Applied Social Studies, Maynooth University.

Presentation to Oireachtas Joint Committee on Housing, Planning and Local Government

November 9th 2018

This presentation draws on my almost 20 years of academic research in the areas of social policy, economics, planning and sociology, and as a housing and community practitioner experience. It draws from recent work of mine such as:

- Book: '*Public Private Partnerships in Ireland; Failed experiment or the way forward?*' (Manchester University Press in 2011
- Journal Paper: An absence of rights: homeless families and social housing marketisation in Ireland, *Administration,* Vol. 66, No. 2, pp. 7–29 (Hearne, R. & Murphy, M. (2018)
- *Policy Report: Investing in the Right to a Home: Housing, HAPs and Hubs (*Hearne, R. & Murphy, M. (2017)
- *Policy Report: 'Home or wealth generator? Inequality, financialisation and the Irish Housing crisis*' (Hearne, R in TASC, 2017).

The lessons and experience of PPPs in social housing

The question of financing of social housing is an important one. The mechanisms we use are key. My research into Public Private Partnerships shows that the government and the Irish state should not be pursuing that approach. The only guarantee of funding that can ensure that we have social and affordable housing built quickly and to the sufficient amount required is if the state either allocates capital funding, undertakes borrowing or supports not-for-profit entities to borrow. I would argue that in the current crisis this is what we should be doing as a priority. The commercial Public Private Partnership approach has not been proven to work on scale anywhere.

Under 'traditional' public service and infrastructure delivery in Ireland the service/infrastructure would be designed and planned in-house within the public sector, then either directly built by public labour or, more commonly, contracted out to a private construction company to build. It was then taken back and managed and maintained by the public sector. By contrast, PPPs involve the commercial private sector at all these stages. For example, they now get involved in financing, building and operating public infrastructure/services. My 2011 book on PPs details the mechanisms in these processes and projects. PPP proponents (government, Department of Finance, financiers such as AIB, Barclays, private consultants such as Farrell Grant Sparks, PriceWaterHouseCooper, Deloitte, KPMG etc.) stated that PPPs would have the following benefits over traditional delivery:

1. Greater access to finance (PPP payments were current expenditure – rather than capital – essentially like a mortgage)

2. Greater effectiveness and efficiency of service delivery by introducing the efficiencies of the private sector into public service delivery (innovation in design and so on)

3. Transfer of risk (if projects ran into problems) to private sector

4. Greater value for money

The evidence from my research detailed in the book shows significant problems were found in some PPP projects such as poor construction, the conflict of the private partners' commercial imperative – its profit-maximisation requirements - with social objectives.

Social requirements are de-prioritised in PPPs– the focus is on securing the private interest and finance in order to deliver the project - this means bending the project to meet the needs of private finance and developer i.e. most likely reducing the level of social housing provided and that market units provided will be completely unaffordable and expensive.

The PPPs (and leasing) are, generally, twenty-five year projects and therefore require massive legal contracts between private and public partners that cover all eventualities. This has meant huge fees for lawyers but problems for the operators. For example, the school principals explained how it is impossible to run a school according to a fifty page legal document. If a window broke the document would have to be consulted to see who was responsible to pay for it –the private operator or the school. We could see a similar situation in Social Housing Leasing – who is responsible for maintenance? Who can the tenant go to? Who will pay for refurbishment?

The collapse of the social housing regeneration PPPs in 2007 and 2008 is the most tragic example of the costs of risk in PPPs materialising, being borne by the State, and in this case, most acutely by communities. PPPs were planned to deliver the regeneration of disadvantaged social housing estates across the country. In Dublin, Dublin City Council developed the most extensive PPP scheme. These schemes were based on a transfer of public land (existing social housing estates) to private developers who could build private apartments and return social housing units and community facilities to DCC and the local community. It was based upon the principle of the continuous growth of the property market, and the obvious denial of market failures and boom and busts. Of course, any basic critical analysis of property and financial markets demonstrates markets fail and have intermittent crises - increasingly so in this globalised turbulent world. This policy was therefore, at best, a shortsighted and naive gamble, or at worst opportunism around the dislocation of communities and privatisation of public land. Analysis of the financials of these projects also demonstrated a huge public donation to developers if they had gone ahead. Based on analysis of just six of the planned PPP regeneration projects the state was going to give developers over €300 million in gains. They were going to receive public land worth €545million and return social housing and community facilities worth just €214million.

So, when the inevitable crash happened, the hopes of the communities whose estates were to be redeveloped were shattered. Some communities have been permanently destroyed.

The process of emptying estates such as O'Devaney Gardens, St Theresa's Gardens, and St Michael's.

The value for money (VFM) aspect of these PPP and leasing projects is extremely dubious. The method of analysis of VFM used by the public sector is not released, as it is deemed 'commercially sensitive'. Therefore there is no evidenced way of showing these projects actually are value for money.

We are entering highly risky period when trying to access private finance –a deeply uncertain time with Brexit, Trump etc. What happens when you are two or three years down the road of a PPP and the private developer decides it's no longer viable and pulls out- you are handing over all control to a highly risky private market.

We can see this with the latest PPP housing projects –another major delay. The Dublin PPP Lands Initiative sites are the same – they started over three years ago and there is still no building. **If the state just built on the land itself four years ago - today it would have tens of thousands of extra social housing units now.** Furthermore, this land when sold and transferred is gone.

Advertisements were placed in the media early in February 2015 seeking participants to a technical dialogue to explore options for developing some large Dublin City Council owned lands.

- *"Responses indicated that the market in Dublin is interested in working with the Council to develop some of its land for a mix of housing types and tenures" but…*
- *"It is nervous about becoming involved in mixed tenure private rental and below cost rental unless there is a safety net of guaranteed lease funding in the event of a shortfall in rental income to repay Return on Capital Employed to investors"*

We can see from this how developers and investors have an undue influence on how and when public land developed. As a result of this approach we have ***public land still lying idle in the midst of a crisis while the state engages in this form of market speculation with its land.***

The land development agency is operating under the same failed principle – it is about incentivising and making it financially viable for the private sector to get involved – using state land as a leverage – to **deliver social housing at 'no cost' to the exchequer. It's a myth. It's a massive transfer of wealth from state and people of this country to private sector** as was the case with the PPPs in 2008. This land should be used completely for genuinely affordable housing. It is economically wrong, and morally and ethically unacceptable that any market housing which will be sold at unaffordable rates is built on public land.

Rebuilding Ireland (Department of Housing 2016: 17) included this 'new approach to housing provision' through 'mixed-tenure housing development on State lands, including local authority lands'. Essentially it takes the principle of the failed Public Private Partnership approach developed by Dublin City Council in the period of 2001-2007 (Bissett 2008; Hearne 2011; Norris and Hearne 2016) and applies it as the central strategy for state-supported housing provision into the future. It involves public land being handed over into the private ownership of private developers, with 70% of the housing being developed as private units for sale or rent and only 30% as social housing. It is highly likely that the private investors will sell or rent the housing at prices beyond the affordability range of a majority of Dublin households. This approach hands the power of development and time-line of delivery of housing on public land over to private finance enabling them to dictate the pace of development, the make-up of the master plans, level of affordable housing provision etc. It also entails a large transfer of public wealth to private investors.

Part of the justification of the privatisation of public land is that it achieves 'a better mix between private and social housing, rather than the reliance on large mono-tenure public housing projects'. However, a tenure mix does not guarantee a social or income mix. A social mix requires a more complex policy that combines the social provision of housing with job creation and educational access.

The other justifications include the lack of funding to enable local authorities develop social housing on a wide-scale basis on their land, and that providing this state-owned land at a lower cost to developers will reduce the cost of building and thus make house building viable and increase the 'supply' of 'affordable' housing.

A flawed private market theory

These developments are part of the government's macro-level approach within housing and economic policy, based on a flawed market theory which has focused on providing an array of policy measures including private market 'incentives' and 'demand-led' policies in the hope of increasing the profitability of house building for private finance and developers and thus expecting to increase housing 'supply'.

Ideology and who really benefits from this marketised approach to social housing delivery?

This is a question of what is the most efficient use of our national resources as a country – how can they best meet peoples social needs and rights? This approach does not meet them – and behind their continued use lies an ideological aversion to the state playing a major role in ensuring housing is genuinely affordable through provision and strong regulation of the private market. This is not just held amongst the Government and Ministers but deep inside our state institutions and local authorities. The core idea is that the state is not capable, and should not be the provider. Of course it is a clever trick – that suits the interests of the wealthy and various financial interests – because these PPPs and Social Housing leasing are a form of corporate welfare – where the state is providing billions in hand outs to the private commercial sector to wealthy investors and global finance. Because the state is focused as much on maintaining the current housing sytem and all the injustices and unaffordability within it – so that landlords and house prices and rents remain elevated – and the banks can continue to reap major profits – and to reboot the construction and finance industry.

If we tomorrow, turned around and said, ok we are going to set up a state housing company that will roll out the provision of genuinely affordable housing on a scale of building - say 20,000 homes per year. This is what we should do (which I explain below). But who would lose and who would benefit? Rents and some house prices would stabilise as people have a choice – and people would choose affordable rental over expensive market housing. We would have no need for PPPs and for Leasing or, over time, for HAP. **The property-finance industry of all those who feed off the carcass of the majority of people trying to be able to purchase or rent a home – they would lose.** The builders would be fine as they are given contracts by the public sectors to build. But the big developers and finance, landlords, estate agents, solicitors – investors landlords among the privileged, might lose. And so it is a question of interests. And who is the government prepared to act on behalf of? Leasing and PPPs and HAP are ruses – they give the impression the government is responding to social housing need and increasing social housing provision, but in fact they are property investor and landlord welfare, propping up and propagating a deeply unjust and unaffordable housing system. They leave the the structure of our deeply unequal housing system intact.

It is illogical and unethical to allow public land to lie idle in the midst of a housing and homelessness crisis. However, due to their ideological opposition to social housing and the capture by investor interests, the government and local authorities are trying to get private developers and global finance to develop the public land. This Public Private Partnership approach failed with disastrous consequences for communities and the taxpayer in 2008. Why are we repeating failed approaches? Rather than marketing public land to speculative investment the state should build social and affordable housing on it itself.

The government's social housing approach, therefore, rather than adding supply, actually worsens the housing supply crisis. It also effectively hands the private sector a monopoly of housing provision in Ireland – with all the attendant risks (that are being borne out) such as super normal profiting, control of land and supply etc.

Social Housing Leasing Scheme

The latest Social Housing Leasing Scheme (to provide 10,000 units under RI), " the purpose of which is to facilitate larger levels of private investment in social housing" where property owners are paid up to 95% of the market rate for 25 year lease agreements with the state (up from 80% in the last scheme) and the asset (property) is retained by the private sector with the state left with no asset at the end of the lease. Private investors have heavily influenced the nature of these social housing schemes which are being shaped, not in the long term interest of the Irish state and taxpayers, but the profitability requirements of private global investors and landlords.

The latest social housing initiative, the Social Housing Leasing Scheme (the leasing of social housing units from the private sector are planned to provide 10,000 units under Rebuilding Ireland) is a similar approach to PPPs.

There are a number of key differences between the existing long term lease and the enhanced lease, **the purpose of which is to facilitate larger levels of private investment in social housing** while ensuring that the capital investment is off balance sheet in respect of Government expenditure.

Under the enhanced lease arrangement, the owner is responsible for both structural maintenance and day to day repairs.

Social Housing Leasing also adds to the core of our housing crisis –adding further to the problem of the lack of genuinely AFFORDABLE supply. In leasing you are, like the Housing Assistance Payment scheme - taking supply away from the housing system – this otherwise could be for rental or home purchase. The state is through these leasing schemes taking from supply rather than adding to it. If you are doing it as a way to stimulate supply from the private market then that is an even worse situation because we know that private sector will only build if they can make a profit – so you are essentially giving them a profit so they will build. Why not just build through the state and not-for-profit housing associations and cooperatives, and thus you do not pay the additional cost of the profit and expensive private finance? And you don't have to have the risk of the entire project being delayed and collapsing?

My research with my colleague Dr Mary Murphy, in Report we produced last year, on Housing Assistance Payment scheme, which is a form of leasing, shows that HAP is actually a much more expensive form of social housing provision than direct-build social housing.

If private market rents increase (as they have done in recent years), then the cost of HAP necessarily has to increase in time. In addition, at the end of a typical thirty-year borrowing period, the private landlord has accumulated an asset via HAP state payments. Social Leasing will have the same poor value for money over the longer term. In contrast, in direct-build social housing it is the state which has invested in, and accumulated, an asset. This asset can then either provide a further social housing home, where the state is then gaining an income in rent on the asset, or it can be used as collateral to draw down further borrowing for investment in social housing.

Furthermore, the strong institutional and state support for a deepening marketisation of social housing policy has been paralleled by reduced institutional support for local authorities to build social housing.

The proposals and work being done on PPPs, Private Leasing requires a large institutional effort and resources that is then not going into building and providing public housing.

This approach will worsen the wider housing crisis as it adds significant demand to those sectors and therefore pushes up rents and house prices.

The alternative approach

The real scale of the crisis is underestimated by policy makers. The level of housing need and distress is over three times the current waiting lists. If you include those homeless, on housing lists, in receipt of Rental Accommodation Scheme (RAS) and Housing Assistance Payment (HAP), home owners in long term arrears and renters with unaffordable housing costs and in buy-to-lets in arrears, it is a total of 270,000 households (likely to be over half a million people). When policies continue to deny and underestimate the real scale of need they are clearly going to be ineffective.

The core solution is for Ireland to do what the successful housing systems do in Europe, such as in Austria and Denmark, where social housing is provided for a broad range of incomes and anyone is entitled access social housing and municipalities and not-for-profits are supported by the state to borrow and build significant numbers of housing every year. In these countries, between 25 percent and 40 percent of their total housing stock is non-market, not for profit or social housing. In Ireland, just 10 percent of our housing is social housing.

This is what should be done in Ireland. The government should set out a new housing policy that involves using the massive state land bank to embark on a major provision of a new form of social and affordable housing. Let's call it public affordable housing. This new public affordable housing would be available to all incomes, including those on social housing waiting lists and middle and higher income workers and families. These would be excellently designed and planned and environmentally sustainable with different housing types ensuring high quality living for a range of households including workers of all incomes, families, students, the elderly, and those with disabilities.

Local authorities should be given the overall responsibility for design, planning and delivery via mechanisms such as cost rental housing, traditional social housing and affordable purchase under the cooperative housing model. The new units could be allocated in each development on the basis of a third of housing for those on waiting lists, a third for cost-rental for those earning above the current social housing limits (approximately €30,000) and a third for affordable purchase for those seeking to buy their home.

The local authorities should be financed and resourced sufficiently to build 20,000 of these public affordable homes per annum, including being allowed to access borrowing on the markets, and a major enhancement in capacity in terms of skilled personnel (architects, engineers etc) to deliver the programme and reform in management approach. They should bring in housing associations and cooperatives (such as Ó Cualann) to co-deliver and manage the programme and contract private builders to build the housing.

Sources of funding that would enable immediate increase in this funding are multiple – allow local authorities to borrow, use the funding being allocated to the rainy day fund, use the full fiscal space, use the Irish Strategic Investment Fund.

And this is where the government's flagship housing policy Rebuilding Ireland has been flawed from the outset. It does not include a state supply of affordable housing or significant social housing provision. An overwhelming majority of housing to be provided in the plan is to come from private sector supply. An incredible 85% of the 134,000 new social housing' to be provided in Rebuilding Ireland until 2021 are to be supplied from the private rental sector (eg. 83,000 from the Housing Assistance Payment, HAP), Public Private Partnerships or Part V or leasing new builds from the private sector. Just 15%, or 20,580 are new builds by Local Authorities and Housing Associations.

Based on the trajectory of current policy and trends the coming decade is going to witness a level of housing exclusion and rising inequality on a scale that is unrecognisable from the already very difficult situation now. Housing unaffordability will grow and homelessness increase as thousands of tenants from Buy-to-Let mortgage properties in arrears are evicted, home-owners in arrears are repossessed and the insufficient supply of social and affordable continues. Unfortunately the worst is yet to come in this latest Irish housing crisis.

The issue is not the absence of alternative policy options - it is government and state housing agencies' unwillingness to pursue with vigour and will (and fund) policies such as local authority building, tenant's rights, cost-rental and co-operative affordable housing. Inertia and lethargy dominate. Private market thinking (reflecting regulatory capture by the property-investor-finance class who do not want to see an increase in supply of state provided social and affordable housing) guides all policy.

We are in a defining moment for Irish housing and the country.