An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental

No. 138 June 2014

An Oifig Náisiúnta um Fhorbairt Eacnamaíoch agus Shóisialta
National Economic & Social Development Office NESDO

National Economic and Social Council

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2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairperson appointed by the Government in consultation with the interests represented on the Council, and

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   - Four persons nominated by business and employers' organisations;
   - Four persons nominated by the Irish Congress of Trade Unions;
   - Four persons nominated by community and voluntary organisations;
   - Four persons nominated by environment organisations;
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Membership of the National Economic and Social Council

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Abbreviations

AHB
Approved Housing Bodies

ALMOs
Arm's-length Management Organisations

CALF
Capital Advance Leasing Facility

CAS
Capital Assistance Scheme

CSO
Central Statistics Office

DECLG
Department of the Environment, Community and Local Government

EIB
European Investment Bank

ERDF
European Regional Development Funds

ESB
Electricity Supply Board

EU
European Union

GGB
General Government Balance

HAP
Housing Assistance Payment

HFA
Housing Finance Agency

HLM
Habitation á Modéré

LPHA
Limited-Profit Housing Associations

MHCs
Municipal Housing Companies

LLPs
Limited Liability Partnerships

NDFA
National Development Finance Agency

NESC
National Economic and Social Council

NIHE
Northern Ireland Housing Executive

NTMA
National Treasury Management Agency

P&A
Payment and Availability

PRTB
Private Residential Tenancy Board

PSBR
Public-Sector Borrowing Requirement

RAS
Rental Accommodation Scheme

REITs
Real Estate Investment Trusts

SEGIs
Service of General Economic Interest

SDCC
South Dublin County Council

THFC
The Housing Finance Corporation

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We benefitted from the expertise of Dr. Eoin O'Sullivan of Trinity College Dublin, Mr. Tom Dunne of the Dublin Institute of Technology, Mr James Pike of O'Mahony Pike Architects and Mr. Bill Nowlan of Hibernia REIT. In addition we had useful meetings with staff from several other organisations: the Irish Council for Social Housing, Threshold, Respond, Fold, Clúid, Focus Ireland, CBRE and Savills.

Executive Summary

Ireland's approach to social housing is at the crossroads. In *Construction 2020*, the Government says it will develop a comprehensive strategy for social housing when setting out a vision for the sector. This report is an input to formulation of that new strategy.

Serious problems are evident in each of the main channels of social-housing provision. Among these are:

- **Local authorities:** lack of supply because of borrowing constraints and costs not covered by differential rent;

- **Housing associations:** small uptake of CALF and P&A, state exposure to rising private rents, capabilities to undertake large-scale investment and development;

- **Provision through the private rental sector:** increasing rents, exit of low-income tenants, creating a risk of overcrowding and homelessness, state exposure to rising private rents, limited availability of secure, affordable, long-term tenancy.

An issue across all three channels is institutional arrangements for planning housing provision, land management, development, and long-term protection of a rental stock capable of providing affordable accommodation for a significant share of the population.

In devising responses it is vital that policy is informed by housing economics and international housing research. These show that housing markets differ significantly from the standard conception of a perfectly competitive market and from casual ideas of 'supply and demand'. Around one-quarter to one-third of the population will not find satisfactory housing through the market alone. Housing research reveals big differences in the way rental systems work, depending on whether 'profit rental' or 'cost rental' prevails. European countries with more stable, affordable and socially inclusive housing systems generally provide modest support for large-scale provision of secure rental accommodation, mostly by non-profit bodies, in which rents reflect costs, not the maximum that market pressures will sustain.

Irish policy must now devise effective new approaches on three fronts:

i. Financial mechanisms capable of funding the quantity and quality of housing we require;

ii. Policies to grow cost-rental provision that will gradually shape the overall rental sector; and

iii. Direct public-policy influence on housing supply and urban development.

These three are strongly interdependent, as shown in the figure below.

To fund social-housing provision on the scale needed will require creation of public-housing institutions capable of attracting finance without adding to the national debt. Such housing providers would need an adequate rental-income stream to meet Eurostat's test of being in the market sector rather than the government sector.

This, and our overall analysis, underlines the importance of cost rental. Cost-rental provision with secure occupancy to a significant share of the population is the best available response to the dynamics of rental systems and housing markets. A movement in this direction will require complementary adaptation of housing-assistance payments on two fronts: limiting the state's current exposure to rising rents in the private-rental sector, and ensuring affordability for tenants currently paying differential rent.

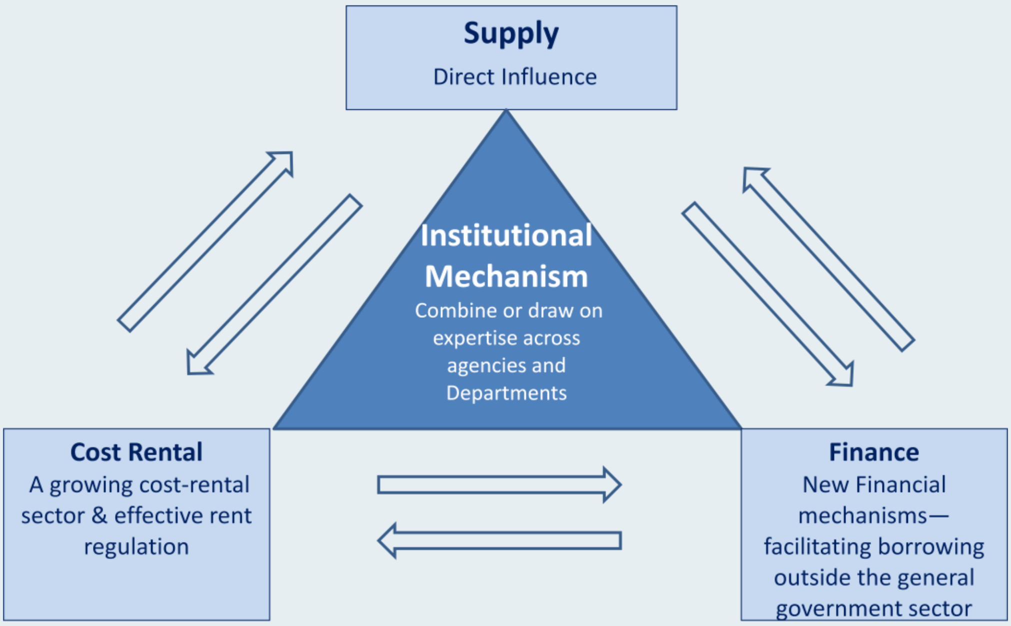
The third pillar of a new approach is increased direct public-policy influence on supply. Experience shows that in housing there are limits to reliance on passive, arm's-length incentives, however smartly designed. If, as Government wishes, housing provision is no longer to be developer-led, it will have to be led by some other identifiable actor or actors.

The report outlines a number of ways of combining finance, cost-rental and active supply through: (i) local-authorities or a national-housing corporation, (ii) housing associations and (iii) 'soft finance' to private investors willing to provide secure long-term homes, at cost-related rents, to 'intermediate households' whose incomes are too high for social housing.

New institutional arrangements will be required to move policy in this direction. Creation of a 'financial aggregator' or special-purpose vehicle, to facilitate borrowing and onward lending, will only address *one* of the three pillars. Such a vehicle will require an engine capable of planning, driving, delivering, allocating, protecting and maintaining the supply of affordable rental homes. Many of the required capabilities are now present in the Housing Agency, NAMA, the local authorities and other bodies. Government should immediately establish a high-level task force to explore these requirements and design institutional arrangements capable of providing a coherent and mutually reinforcing combination of *all three* pillars—finance, supply and rental policy.

The approach suggested here involves something of a departure from a number of the elements of Ireland's traditional approach to social housing. The analysis has implications for the long-term evolution of Ireland's social housing. The conditions that made the elements of our traditional approach—fully funded local-authority provision, differential rent in a secure local-authority tenancy and tenant purchase—effective and sustainable have largely disappeared. As a result, policy relies on a strong queuing system and greatly increased, and unsatisfactory, reliance on the private rental sector. We see an unstable policy compromise involving retention of differential rent and tenant purchase, with pressure to limit spending on rent supplement and leasing through limiting the maximum payment available and restricting supply. This is not the best balance between economic reality and social solidarity. We suggest a reframing of the issue to support more constructive deliberation and consensus on the direction of Irish social-housing policy.

Interdependent Pillars of a More Unified, Cost-Effective and Sustainable Model and Need for New Institutional Arrangements



Chapter 1
Introduction

Ireland's approach to social housing is at a crossroads. In *Construction 2020*, the Government states its intention of developing a comprehensive strategy for social housing during 2014, and sets out a vision for the sector (Government of Ireland, 2014: 14). This report is an input to the Government's formulation of that new strategy. The Council is continuing its work on other aspects of housing policy and will publish that work later in the year.

The approach to social housing explored in this report is, first and foremost, informed by the extremely difficult housing situation that now confronts many on low incomes in our country. Second, it is a response that takes account, as it must, not only of the current fiscal situation but of the fact that Ireland's debt ratio will have to be on a downward path for several decades to come. Third, it is a response that is greatly informed by the approach to housing in a number of European countries, societies in which housing policy has played a part in achieving economic and social outcomes to which Ireland aspires. Fourth, it is informed by Developmental Welfare State thinking: in particular, the refusal to accept the low expectations and life-time marginalisation that is inherent in residualist and passive conceptions of social protection (NESC, 2005). Drawing on these elements, we seek to provide a framework for a positive, ambitious approach to social housing in the years and decades ahead. This, we believe, will allow a more creative and progressive combination of economic principle and social solidarity than we are currently achieving. Consequently, we suggest that a fair assessment of our argument, and any alternative, must be equally based on current relevance, economic realism, long-term sustainability, empirical workability and social cohesion.

In Ireland over one million households own their own homes, slightly more than half of whom still have a mortgage. The remainder, just under half a million households, live in some form of rented accommodation. The state provides direct housing support for about 130,000 people through local authorities, some of which is leased from the private sector. The state also provides rent supplement for just under 80,000 people who are renting directly from the private sector. Together, the cost to the state associated with housing supports is over €1bn per annum. In addition, the state provides significant tax benefits to home owners and investors, including cost of providing mortgage interest relief, which in 2011 was €1.1bn (DPER, 2012).

Despite this investment Ireland does not have a cost-effective—for the state or individuals—sustainable system of housing provision. The system provides little protection against the vagaries of housing and financial markets. This exposure is now evident in several ways: the number of mortgages in distress; long waiting lists for housing; rising homelessness; and rapidly rising rents, particularly in Dublin. In this report we argue that Irish housing policy must achieve three main goals in the coming years and decades:

i. Affordable house purchase in a stable market that prioritises housing for occupation rather than as a speculative asset;

ii. Affordable and secure rental accommodation available to a significant share of the population;

iii. Future supply and a growing stock of homes in well-designed sustainable neighbourhoods available to those on lower incomes.

It is a real challenge to identify the policy instruments, actions and arrangements that will achieve these goals and, in any case, the best approach cannot be set out in one attempt. In this report we only discuss the second and third of these core goals—the challenge of social housing broadly defined. In its ongoing work the Council will consider the overall balance between owner occupation and rental tenure. Some countries, notably Norway, pursue social goals by supporting access to home ownership.

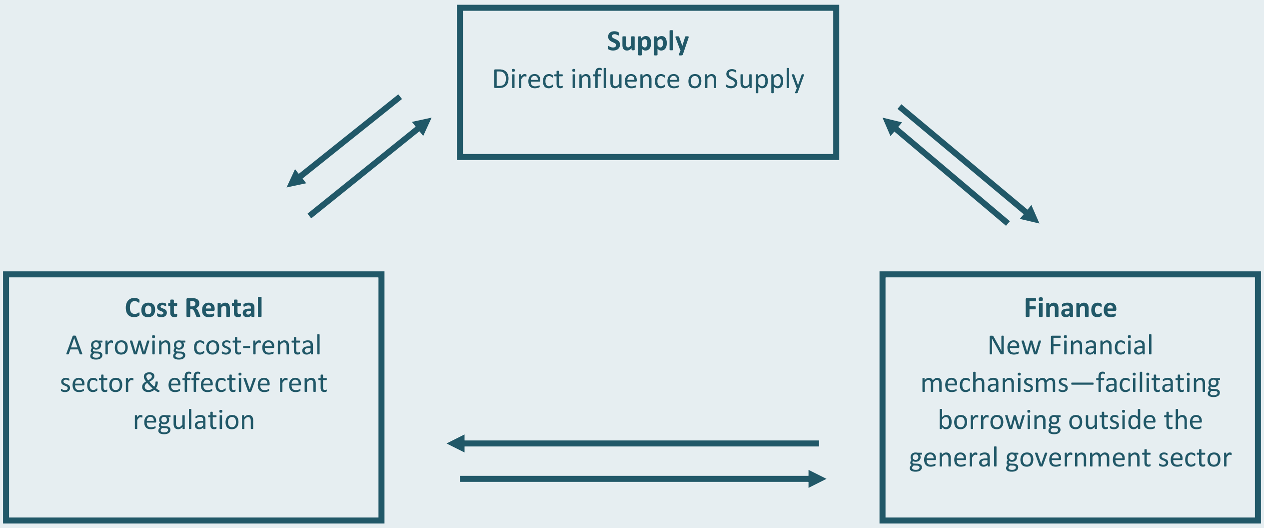
This report examines the three main channels of social and affordable provision—local authorities, housing associations and State support for tenants and landlords in the private rental sector. It identifies the key issues and challenges facing each, and argues that to achieve the broad goals set out above we need to work out effective approaches on three fronts depicted in Figure 1.1. These are:

i. Financial mechanisms capable of funding the quantity and quality of housing we require;

ii. Policies to grow non-profit cost-rental provision that will gradually shape the overall rental sector; and

iii. Direct public policy influence on housing supply and urban development.

Figure 1.1: Interdependent Pillars of a More Unified, Cost-Effective and Sustainable Model



Our analysis leads to a further critical requirement:

iv. The need for new institutional arrangements for housing, housing finance, planning, land development and construction.

We suggest that these three interdependent pillars, and an institution to combine them, are the best way to think about social housing in Ireland in the coming decades. We appreciate that much thought needs to be given to the detail and sequencing of such a strategy. We also recognise that more immediate actions are necessary to address the acute housing pressures now in evidence, pressures we discuss in Chapter 2. While the three pillars of our approach—investment, direct influence on supply, and cost rental—would take some time to have an impact, we believe the ideas set out in this report can assist, and be consistent with, immediate responses. Given Ireland's experience and complex current housing situation, it is of great importance that we adopt short-term measures that move the housing system in a desirable and sustainable long-term direction. In addition, if the current problems are not to recur soon, it is important to start early on the implementation of a new long-term social-housing strategy.

Indeed, while this report names major challenges, it also identifies some positives that can provide a basis for moving forward in this area:

- The expertise that exists now in agencies like NAMA, the Housing Agency, local authorities, the Department of Social Protection and other bodies;
- A significant amount of land now owned by the state;
- A stock of largely debt-free local-authority housing;
- Financial expertise in the Housing Finance Agency, the National Treasury Management Agency, and the National Development Finance Agency;
- Important initiatives taking place, such as the plan, being developed jointly by Government and local authorities in Dublin, Cork and Limerick, to attract finance for refurbishment and stock transfer of local-authority flats (discussed in some detail in Chapter 5).

Thus, while the challenges are significant, many of the expertise and capabilities may be available, if somewhat hidden from view. One challenge, posed towards the end of the report, is about how these strengths can be most effectively identified and co-ordinated. This institutional issue seems critical in working out a unified, cost-effective and sustainable approach to Irish housing policy.

Finally, it is important to note that significant research and policy work is ongoing, including the recent publication of a new Construction Strategy and research in the ESRI, the Private Residential Tenancy Board (PRTB) and other organisations.

The report is structured as follows.

Chapter 2 provides a summary of Ireland's current social-housing policy and identifies the key issues and challenges in each of the three channels: local-authority housing, provision by the housing associations, and public support for tenants and landlords in the private rental sector. In each case, we identify the primary issues and some secondary and related problems.

Chapter 3 outlines key understandings of housing markets and rental systems that the Council draws on in its work. This is important because economic analysis has identified some distinctive features of housing that show it to differ significantly from the standard conception of a perfectly competitive market and from casual ideas of 'supply and demand'. Housing research has revealed important differences in the way rental systems work, depending on whether 'profit rental' or 'cost rental' prevails.

Chapter 4 reviews aspects of social housing, including rent control, in selected European countries and makes comparisons with Ireland. This highlights the way in which many successful EU member states use modest levels of subsidy, combined with cost rental and housing benefit, to provide affordable long-term rental accommodation for a large share of their citizens.

In Chapter 5 we outline the Council's proposal for linking finance, cost rental and a direct public influence on the supply of affordable rental housing in Ireland—as summarised in Figure 1.1. We outline ways in which this approach might be used to drive investment in three channels: through local authorities, or a public housing corporation, housing associations, and private investment in long-term rental provision for intermediate households. We also explore what new institutional arrangements may be necessary to achieve this.

We are aware that the approach suggested here involves something of a departure from a number of the elements of Ireland's traditional approach to social housing. Consequently, Chapter 6 reflects on the implications of the analysis, and the direction the Council suggests, for the long-term evolution of Ireland's social housing. We consider the way in which the balance between economic reality and social solidarity was struck in Ireland's traditional social-housing model, is struck in the current much-altered regime and might be modified in the approach explored in this report. This, we argue, can support more constructive deliberation and consensus on the direction of Irish social-housing policy.

In addition to this report, the NESC Secretariat has prepared two NESC Secretariat Papers which are available at www.nesc.ie:

- NESC Secretariat Paper No. 11, *Review of Irish Social and Affordable Housing Provision.*
- NESC Secretariat Paper No. 12, *Financing of Social Housing in Selected European Countries.*

Chapter 2
Ireland's Current Social-Housing Policy: Key Issues and Challenges

2.1 Introduction

This chapter identifies the issues and challenges arising in the three main channels of social-housing provision: local-authority housing, housing associations and support—through rent supplement, the Rental Accommodation Scheme (RAS) and other schemes—for tenants and landlords in the private rental sector.

To begin, it is useful to note the relative scale of the main forms of tenure. In 2011 there were just under 1.7m permanent households in Ireland. Approximately 450,000 of these did not own their own homes. Of these 275,000 or 55 per cent were in receipt of some form of state support for housing. Of those in the private rental sector, 37 per cent were in receipt of either rent supplement or RAS[1].

The remainder of this chapter identifies the key issues in each of the three main channels:

- Local authorities;
- Housing associations;
- Private rental.

The two major channels of social-housing provision in Ireland have been the local authorities and state support for tenants and landlords in the private rental sector. By comparison to both, housing associations have been a relatively small source in terms of overall supply. Table 2.1 summarises the key numbers and costs.

1 Under RAS, local authorities lease property from a private or voluntary landlord, to which they pay a rent related to market rates. The tenant pays a much lower, income-related rent to the local authority.

Table 2.1: Scale and Cost of Three Channels of Social-Housing Provision and Support

Channel	Additions 2012	Stock	Annual Cost (€m) 2012 (unless otherwise stated)
Local Authority	714* (of which 159 in Dublin)	107,000 24,000 (RAS) 4,737 (Leasing) Homelessness	249*[2] 125 67[3] 75.5[4]
Housing Associations	677 (of which 56 in Dublin)	27,000	52* 15[5]
Private Rental (Rent Supplement)		79,788[6]	372.8[7]
Total			**956.3**

Source: NESC Secretariat Calculations.
Notes: *based on DECLG, 2014.

Future demographic changes are predicted to increase overall housing demand further. A recent study estimates that 80,000 residential units would be required between 2014 and 2018, or 16,000 per year; almost half is required in Dublin and

2 Capital expenditure in 2012.

3 See http://www.kildarestreet.com/wrans/?id=2014-03-12a.43&s=rental+accommodation+scheme, downloaded 20 March 2014. It is not clear how many years of expenditure this figure covers.

4 This is made up of €45m allocated to local authorities for homelessness services by the Department of Environment, Community and Local Development in 2013, as well as HSE funding of €30.5m to homelessness services in 2012 (HSE, 2013). The HSE figure could be higher as the €30.5m applies to funding to the larger well-known homelessness charities that could be identified in the HSE's annual report. Stakeholders interviewed for this research also reported that local authorities in and near Dublin were spending over their D/ECLG allocation on homelessness services, paying for this through general local-authority budgets.

5 Expenditure on Capital Advance Leasing Facility (CALF) in 2011.

6 This is the number in receipt of rent supplement at the end of 2013, almost all of which are in private rental. This information was provided to the NESC Secretariat by the Department of Social Protection.

7 Provisional out-turn for 2013.

surrounding areas (Future Analytics Consulting, 2014). There are also a number of groups with special needs who are particularly reliant on social-housing supports, both to cover the costs of their accommodation, and to source accommodation that meets their specific needs. These include the homeless, people with disabilities, older people, and members of the Traveller Community. For further detail on the various channels of provision, see the NESC Secretariat Paper No. 10, *Review of Irish Social and Affordable Housing Provision*.

2.2 Local-Authority Provision

Local authorities remain the largest single providers of socially rented housing in Ireland, owning approximately 107,000 dwellings. Tenants pay differential rents, which are based on household income. The rents average about 15 per cent of this income, and in 2011 were €59 per week (CSO, 2012). This figure is low, and can be related to the increasingly low average income of social-housing tenants, as the stock of local-authority housing reduces and so is reserved for those with the lowest incomes. It is challenging for local authorities to maintain and manage their housing stock given the low level of rents—and not all of the rental income is allocated to expenditure on the local-authority housing stock; rental income is sometimes used for other local-authority services.

A reduction in capital funding and Part V[8] acquisitions has led to greater reliance by local authorities on private rented housing to meet social-housing needs. Part V is currently being reviewed by Government.

2.2.1 Key Current and Future Challenges—Local Authorities

Most of the considerable long-term strengths and particular weaknesses of Irish local-authority housing are well known and need not be discussed here. Since this form of provision has many positive features, the most important current and future issue is the constraint on new supply, arising from the constraints on public borrowing. Supply could be further constrained if Part V were to be reined back. It is largely because of these constraints that Irish policy now sees housing associations as the main conduit of social-housing provision and relies increasingly on rent supplement and other supports for tenants (and landlords) in the private rental sector. We discuss the challenges facing these approaches below.

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8 Part V of the Planning and Development Acts 2000 allowed local authorities to purchase up to 20 per cent of properties on larger sites zoned for housing development, at with the site element of the cost based on 'existing use' value rather than at 'development value', this results in housing that can be bought at below-market value. Developers can also provide land, serviced sites and financial contributions to make up Part V contributions.

A second set of issues arise concerning the system of differential rent, which has been an integral feature of local-authority housing for many decades. These include problems paying for housing maintenance and management within the local authorities and, more broadly, whether it is a good idea to extend the differential rent system into the provision via housing associations and supports for the private rental sector (discussed further below). The overall place of differential rent in Ireland's evolving system of social housing is discussed in Chapter 6.

A third issue arising in local-authority and other forms of social housing concerns the coherence of Ireland's policy approach to social segregation and disadvantage. On the one hand, as reflected in Part V and other measures, policy strongly resists any concentration of disadvantaged families and social groups; on the other hand, the overall approach to social-housing policy implies increasing residualisation of social housing. Not only may this lack policy coherence, it may also be based on an exaggerated view of the significance of neighbourhood effects relative to other factors (Gibbons *et al.*, 2013a). In a buoyant supply context this might not matter. But in the current situation it may be further limiting overall provision. At the limit, Irish policy may be saying that it would prefer disadvantaged people to be in unsatisfactory, unaffordable, housing—and possibly in a mixed-income neighbourhood with a transitory population—than to house them well near similarly situated families.

Fourth is the possibility of stock transfer from local authorities to housing associations. A number of factors and trends suggest that this may be a good idea. These include the need to find an institutional vehicle that can borrow without adding to general government deficit or debt.

A fifth issue is that reliance on other forms of housing provision may yield only standard housing and deny new housing developments, especially for people with disabilities, of the high-quality, tailored, design and development capabilities that the best local authorities accrued in the past two decades. Indeed, this is one dimension of a wider issue: with the reliance on non-local-authority channels of provision, what is the best use of the relevant human resources in the local authorities and other public bodies? This relates to a final issue that arises in all three areas of social housing—and, indeed, across the whole housing system—what institutional arrangements do we need to perform and co-ordinate key functions: planning, land management, finance, development, and construction and housing management?

Primary Issues:

***Supply**:* limitations on future supply reflecting borrowing constraints and threats to Part V;

Differential rent: its long-term suitability in housing provided by housing associations and the private rental sector.

Secondary and related issues:

Social segregation: does policy limit total provision and is it based on an accurate view of neighbourhood effects?

***Capabilities**:* best future use of the design and development capabilities in local authorities;

Institutional arrangements for planning and land management, finance, stock transfer, development and construction and housing management.

2.3 Housing Associations

There are around 300 Approved Housing Bodies (AHBs) in operation in Ireland, which manage around 27,000 homes. In 2011, the Government announced that new provision will involve a combination of capital and debt funding, rather than government grant funding. This has four major components:

- CALF (Capital Advance Leasing Facility): A capital advance from government, for a maximum of 30 per cent of the total cost. It is repayable with interest at the end of the term, usually 30 years.
- Debt Finance: debt finance from commercial banks or the Housing Finance Agency (HFA).
- Payment and Availability agreement (P&A): A legal agreement to make a property available for social housing for a set period of up to 30 years, and to manage and maintain it. The state agrees to pay 92 per cent of market rent for the property.
- Own Resources: These can also be used to support new provision.

In 2011, €15m was available for CALF and there were P&A agreements with six housing associations. In terms of debt finance, by 2014, the HFA had approved seven housing bodies for direct lending, for a total of €40m. Finance has also been raised through commercial banks. The associations have accessed total loan finance of around €70m to date.

This funding model is similar to that used to finance social housing in other European countries (see Chapter 4). However, the transition from close to 100 per cent state grant aid to a model based mainly on private borrowing has taken place in Ireland in a far shorter period than a similar transition in the UK.

In addition, housing associations can still use the Capital Assistance Scheme (CAS). This provides grant funding to construct or purchase homes for people with special housing needs, such as older people or people with a disability. Funding of up to 100 per cent of the approved cost is available. Expenditure on this scheme has been cut severely since 2008. A new tranche of funding has been made available for the 2014–2016 period, with €41m to be allocated in 2014.[9]

2.3.1 Key Current and Future Challenge Concerning Reliance on Housing Associations as the Main Providers

The Government housing policy statement of 2011 is very clear in stating that housing associations will be the main future providers of new social housing (DECLG, 2011). Consequently, it is of great importance to ascertain the existing effectiveness and potential of this approach. Our account shows that there has been a very limited uptake of CALF and P&A, and housing associations' dwellings constitute a small percentage of total social provision and a miniscule share of overall housing. In part, this may reflect factors at play in recent years—such as the limited involvement of the banks, design features of the various schemes, legacy planning, land and construction-sector issues and NAMA's gradually increasing involvement—which might be addressed. The housing associations are concerned about the risks involved in borrowing, the expectation that they contribute their own funds to new projects, and the lack of a planned development programme. In addition, the co-ordinating unit for voluntary and co-operative housing was abolished in 2009, making it more difficult for the housing associations to deal effectively with the multiple schemes in which they are involved. However, the limited response may also reflect the capabilities of the Irish housing associations, which might not be easy to change significantly. While regulation of the housing-association sector will improve the credit-worthiness of some associations, it will not turn committed niche providers into bodies capable of large-scale financial management and housing development. A central plank of Irish housing policy remains problematic.

A second major issue is that, where the new model works in yielding new supply, it will expose the state to meet the costs of rising private rents, since the P&A agreements commit the state to providing 92 per cent of private-sector rents.

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[9] See http://www.dublincity.ie/Housing/Documents/Circular%20Housing%205%20of%202014%20CAS%202014-2016.pdf accessed 29/05/14.

Exposure to market rents might not matter where there was a healthy supply of rental accommodation and, especially, where a large cost-rental sector provides a degree of discipline and stability (as explained in Chapters 3 and 4). But the existing overall policy approach does not seem to contain measures that can either (a) secure adequate supply in housing associations or the private rental sector or (b) control rents.

Indeed, as we discuss later, it may be that the policy of relying on housing associations can only work as part of a long-term strategic approach aimed at building the scale and 'solidity'[10] of a cost-rental sector. If so, it is important to explore the elements of such a strategy and to ensure that all short-term measures are consistent with this long-term logic. As noted above, and discussed further in Chapter 6, one necessary element might be an eventual departure from (or adaption of) the differential rent system. Stock transfer from local authorities to housing associations might be another necessary and feasible element of such an approach. We attach considerable significance to the current exploration of this possibility by the Government and local authorities in Dublin, Cork and Limerick, discussed in NESC Secretariat Paper No. 10 and in Chapter 5 of this report. As well as possibly providing a significant stock transfer and provision of refurbished apartments, this prompts us to reflect on the kind of institutional arrangements necessary to make the overall policy work. Although we have listed institutional arrangements as a secondary and related issue in the summary below, it may be the keystone without which the edifice of Irish social-housing policy—and, overall housing policy—will not stand.

Primary Issues:

Supply: small uptake of CALF and P&A, reflecting a range of factors, including the scale and capabilities of the housing associations;

State exposure to rising private rents, unless supported by measures that secure adequate supply and limit rent increases.

Secondary and related issues:

A strategic approach aimed at building the 'solidity' of a cost-rental sector with provision of affordable rental housing for more of the population;

Differential rent: rental income is key factor in cost rental system;

Institutional arrangements for planning and land management, finance, development, construction and housing management.

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10 As we explain in Chapter 3, solidity is defined by Kemeny *et al*. (2005) as the ratio of equity to market value of the property owned by a housing organisation. The lower the value of the debt relative to the value of the property, the higher the solidity.

2.4 Private Rental and Social Provision

In 2011, 320,319 private households were in accommodation rented from a private or voluntary body, 19.4 per cent of all households. Most landlords in Ireland are small-scale, with three-quarters renting only one residential property. The average weekly rent paid to a private landlord or voluntary body throughout the state in 2011 was €167, a decline since 2006. However, rents are rising rapidly again in large urban areas. In Dublin, rents have increased by over 15 per cent since their lowest point in quarter 1, 2011. The private rental sector is regulated by the provisions of the Private Rental Tenancies Act, 2004. This improved security of tenure by introducing four-year tenancy cycles, as well as allowing rents to be increased only once per year and only in line with market rates. While the 2004 Act and the creation of the PRTB were important steps, they provide limited protection in a rising rental market, since security of tenure holds only while tenants can afford the market rent. Later we note the close relationship between security of tenure and rent regulation.

NESC Secretariat Paper No. 10 reviews the various forms of support that exist for landlords and tenants. In relation to the latter it describes rent supplement, RAS, leasing and the new Housing Assistance Payment (HAP).[11] Under the latter three programmes the local authority pays rent, which is somewhat lower than market rent, to the private-sector landlord, with the tenant paying a differential rent to the local authority.

2.4.1 Key and Current Issues in the Private Rental Sector

Our account shows that a number of immediate and long-term issues arise concerning Ireland's increasing reliance on meeting housing need through support for tenant and landlords in the private rental sector. These arise from a central feature of this approach: it makes social provision significantly dependent on the quantity, cost, security and quality of accommodation in the private rental sector. But each of these elements has long proven both unstable and unsatisfactory—although improvements are evident. This is so, first and foremost, because Ireland's private rental sector displays all the characteristics of what is known in housing research and policy as a dualist profit-rental system. As we explain in Chapter 3, such a system includes insecurity of rental tenure as a long-term option; the prevalence of amateur landlords; challenges in attracting institutional investment and provision; unstable private rental supply and competition between rental and owner occupation. But several of these standard dualist rental system features have been exacerbated because of characteristics of Ireland's construction sector, planning system, macroeconomic management and banking system. While these

[11] HAP—this new scheme, currently being piloted, moves responsibility for all those with long-term housing needs to the local authorities. Those currently receiving rent supplement for over 18 months will move onto HAP. The scheme removes some employment disincentives that apply to rent supplement.

generally deepen the long-standing problems—for example, through the weak financial position of many buy-to-let borrowers—they may also, through the crisis they have generated, create an imperative and opportunity for fundamental reform.

The most immediate and disturbing issue is the sharply increasing rents in the private sector. This is putting some tenants on rent supplement and RAS in extreme difficulty, with some priced out in favour of tenants who can pay a higher rent. This has the potential to give rise to increasing homelessness, overcrowding and associated health and safety risks. For these people, and therefore for us, this is a housing crisis.[12] And for many above these income levels, the increasing scarcity and rents in the private rental sector are extremely problematic, with many negative consequences, including limiting labour mobility and inhibiting the functioning of the economy and society.

A second significant issue is that this approach—through rent supplement, RAS and HAP—tends to expose the state to the costs of rising private rents, generating increasing exchequer cost. As noted above, without measures that can secure increased supply and limit rent increases, this means that either the state could have to pay increasing benefits or offer tenants less, or, as happened in recent years, a bit of both. Furthermore, while the State incurs the costs of providing accommodation, housing assets are not acquired. This implies that maturation of the asset—that is, the declining real value of outstanding debt on a stock of dwellings[13]—will not help in meeting social-housing needs in the future (see Chapter 3 for an explanation of maturation).

This relates to a third issue, noted above: the extension of the traditional local-authority system of differential rent to housing provided by associations and private landlords. On rents, Irish policy faces in two different directions that may lack policy coherence and militate against long-term effectiveness: it asks tenants to pay differential rent, while generally offering landlords rent levels generated in the profit-rental sector, with the taxpayer liable to pay the increasing difference between these two. The other side of this coin is that on social-housing provision, Irish policy has faced in two different directions for several decades: to those who were accommodated when local-authority social housing was in good supply, it offers secure and highly affordable housing, and for many the prospect of tenant purchase; to those on low incomes setting up home since the late 1980s, it offers a range of much less secure and affordable options. The extension of differential rent to these new channels of provision through the private rental sector is an attempt to maintain an element of formal equality. These aspects of the evolution of Ireland's model of social housing are discussed further in Chapter 6.

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12 At its meeting of May 20th 2014, the Government adopted the *Implementation Plan on the State's Response to Homelessness.* This involves key stakeholders, including the Department of the Environment, the Department of Social Protection, local authorities, and other agencies working together on an inter-agency basis in the area of homelessness.

13 Chapter 3 discusses maturation in more detail.

Primary Issues:

Housing crisis facing many on low incomes in the private rental sector;

State exposure to rising private rents, unless supported by measures that secure adequate supply and limit rent increases.

Secondary and related issues:

The private rental sector: development of a strategic approach aimed at building the 'solidity' of a cost rental sector capable of providing affordable rental housing with secure tenure for more of the population;

Institutional arrangements for planning and land management, finance, development, construction and housing management.

Chapter 3
Understanding Housing

3.1 Introduction

There are many analytical issues relevant to housing policy. We begin this chapter by outlining a number of key insights and orientations that, in the Council's view, are critical in addressing the challenge of social housing but also in framing housing policy in general.

These orientations highlight particular features of housing markets, which, as the Council argued in 2004, suggests the need to draw on international thinking on comparative housing systems, particularly influential work on the nature and evolution of rental systems and the way they shape a country's overall approach to housing. The chapter finishes by outlining some of the key concepts from that literature: unitary and dualist systems, cost rental and rent control.

3.2 Key Understandings and Orientations

This section outlines a number of orientations that the Council believes must guide the response to the immediate pressures facing the housing system and social-housing provision and longer-term housing policy.

Housing as a system

In devising policy it is important to see housing as a system in which the 'sectors'—home ownership, the private rental sector, finance, planning, public provision and construction—are interdependent in complex ways. In Ireland, the nature of the private rental sector means that there is a shifting boundary between it and home ownership. This does not imply that there is one interdependent *national* market; there can be fairly segmented regional markets, but in each there will be interactions between the 'sectors' discussed in Chapter 2. But, equally, the systemic dimension of housing extends well beyond housing itself, since housing can have significant impacts on overall output, wage determination, employment, labour mobility and the public finances.

Long-run secular changes

In thinking about housing it is necessary to take account of some long-run or secular changes in context, which are particularly relevant:

i. The return to a context of national debt reduction, which will severely constrain public borrowing in the decades ahead;

ii. The transition from an inflationary to a low inflation context: this may be an important change, given the role of inflation in facilitating house purchases and investment in earlier decades;

iii. Changes in finance: these are less easy to characterise and predict, but could imply that the traditional channels of mortgage borrowing are less available and less suitable;

iv. Internationalisation and globalisation: there are increasing signs of international investment in houses and apartments, reflecting financial market integration and the global search for returns.

Planning conditions everything

A precondition for a good housing policy is effective policies for planning, transport and infrastructural development and land management. Although obvious, Ireland has had to learn this the hard way. The Council's 2004 report emphasised that planning and land issues were not just desirable add-ons to housing policy. They were integral to it. The creation of adequate transport corridors that would have allowed higher densities would have required an integrated land use strategy for the Greater Dublin Area, supported by major transport decisions at national government level. This would have required the public authorities to have operated on a similar time horizon to that adopted by the most sophisticated private development companies, i.e. 15 to 20 years (NESC, 2004: 190). In Ireland, the issue of planning tends to be reduced to the issue of zonings and permissions. But the more important lesson of experience is that severe problems arise when the long-term development needs of cities and towns are not strategically identified and acted upon.

Policy coherence

A critical requirement, not easily achieved, is policy coherence across the following kinds of policy instrument:

i. Demand-side subsidies and incentives;

ii. Supply-side subsidies and incentives;

iii Regulation; and

iv. Direct action by public agencies (often in partnership with social or private entities).

To increase the chance of policy coherence, or limit the unintended negative effects of policy that contains elements of both demand-side and supply-side elements, a number of precepts are helpful:

- Avoid the temptation to rely too heavily on supply-side and demand-side subsidies without accompanying regulation and/or direct action;

- No subsidy without conditions (such as regulatory requirements) that are closely oriented to the ultimate goals of policy (such as affordable purchase, cost rental or quality housing and neighbourhoods);

- Where feasible, direct subsidies through intermediate organisations that have a mission directly related to the goal of policy, even where private companies are a key part of delivery.

Housing for occupation

As far as possible, policy should focus on housing for occupation, limiting the ability to use housing as a speculative asset. The more policy favours occupation, the less will be the inter-temporal and expectational effects that give rise to instability.

Housing is a 'market' in a special sense

Take account of the ways in which economic analysis of housing shows it to differ significantly from the standard conception of a perfectly competitive market and from casual ideas of 'supply and demand' (NESC, 2004):[14]

- Supply, on its own, will not necessarily lead to desired policy outcomes, such as increased affordability;

- Price movements will not necessarily lead to predictable changes in supply and demand;

- The existence of property—whether houses, apartments or land—is not the same as its availability or effective supply, and there are complex factors that can limit supply in any of these spheres;

- Consumption and wealth dimensions interact in complicated ways: since every person needs shelter, increases in house prices simultaneously change the market value of wealth and increase the costs of future housing;

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14 Housing economists identify the following distinctive characteristics: the longevity or durability of the housing stock; the spatial fixity of housing, which gives each house (or at least each small neighbourhood) a degree of monopoly; the importance of financial markets; the cyclicality of housing markets, which can arise from the time delay between demand and construction, macroeconomic cycles, and market speculation and associated asset price bubbles in which demand feeds on itself; the volatility of house prices that can have significant effects on wealth and consumption; the lumpiness of purchase and consumption, which financial markets can only smooth to a certain degree (and sometimes with negative consequences); tax treatment: the complex interaction of the property market with the tax system is widely regarded as an important feature of housing markets (Miles, 1994; Meen, 2001).

- Over 37 per cent of the occupation in the private rental 'market' is funded by the state through rent supplement and other supports;
- 'Market' trends should not necessarily be seen as natural phenomena that are immutable;
- The nature of the *organisations* active in construction and housing business—landowners, builders, developers, funders, planners and estate agents—matter;
- Incentives designed without attention to the nature of the organisations that will respond to resulting incentives are likely to yield disappointing results;
- Actors' response to arm's-length incentives can be unpredictable (not because people do not respond to incentives, but because they are complex and not always obvious);
- It is not possible to reliably infer people's preferences (for dwelling type or location) from their behavior in the housing market.

It is vital that these and other distinctive features of housing are taken into account in making and implementing public policy.

The market alone will not meet the needs of a quarter to one-third of the population

It has been observed over the past century in modern liberal democracies, including Ireland, that the market for owner-occupied and rental accommodation is unlikely, on its own, to meet the housing needs of those on low incomes or with special housing needs. This derives from four general features of liberal market economies—the pattern of income distribution generated in labour markets, the core features of housing and land markets, the scale of social need and the persistence of social disadvantage. This central proposition is based on empirical observation and economic and social analysis. It is strongly borne out by Irish experience. In a period of unprecedented economic growth, prosperity, employment creation and unemployment reduction from 1994 to 2004, those on low incomes and with special needs faced increased, rather than decreased, difficulty in the markets for home ownership and rental accommodation.

In the Irish context, some of the relevant features of land and housing markets were well summarized by Dunne, in his evidence to an All Party Oireachtas Committee in 2003. 'Inevitably, when prices are high those at the bottom end of the market will be priced out. When prices are low, supplying those at the bottom end of the market will not be profitable' (Dunne, 2003). Consequently, the Council reiterates its earlier argument that a significant level of public-policy support for housing, active land management and integrated planning should be seen as ongoing features of Irish social and economic development.

If not developer-led, who leads?

If, as Government wishes, the system of housing provision is not to be developer-led, as it has been for several decades in Ireland, it will have to be led by some other identifiable actor or actors. Some spheres are adequately governed by 'guidelines'; housing and urban development are not among them.

The relationship between quantity and quality

Contrary to casual observation, there is not a determinate inverse relationship between housing quantity and neighbourhood quality, or between price and sustainability. The relationships between these are created by the institutional context and are, therefore, contingent, not determinate. Thus, in its 2004 report, the Council argued that the absence of a clear strategy for dealing with housing shortages in Ireland's growing cities, combined with systems that failed to create transportation and utility infrastructure, effectively 'exported' housing demand from cities to the surrounding counties. Only in this institutional context were supply response, sustainability and affordability conflicting objectives. In an altered policy and institutional context, the goals of housing provision, sustainability and social integration could be complimentary (NESC, 2004: 80–1).

Housing, disadvantage and inequality

Housing inequality, disadvantage and segregation sit within wider systems of economic and social inequality and segmentation. The negative aspects of much traditional social housing, assumed to arise from the concentration of low-income households, may reflect other factors, such as poverty, unemployment, poor neighbourhood design, infrastructure and housing management, and educational disadvantage (NESC, 2004). While there are complicated factors involved, the most sophisticated research does not find significant neighbourhood effects associated with social housing (Gibbons *et al.*, 2013a; 2013b; Weinhardt, 2013). Indeed, other aspects of housing can either exacerbate or moderate overall inequality in several ways. The inequality-enhancing effect of the way wealth and access to credit allow some to use housing as a mechanism to accumulate wealth is probably stronger than the effect of class concentration. A shortage of affordable rental accommodation with secure tenure, in either social housing or the private rental sector, can have serious social effects, by imposing an economic burden, over-crowding, uncertainty and, at the extreme, homelessness. As noted in Chapter 2, in its wish to avoid any concentration of low-income households, based on a particular reading of past experience, Irish policy runs the risk of exacerbating the shortage of affordable accommodation. In general, there is a good case for adopting the principle that the inequality in housing occupation and housing wealth should each be less than the inequality in income.

Short-term measures with a long-term logic

Given Ireland's experience, the factors listed above, and the complex current housing situation, it is of great importance that we adopt short-term measures that move the housing system in a desirable and sustainable long-term direction. Measures that seem to address immediate bottlenecks could create long-term problems and make it harder to achieve an effective housing system. But neither should the idea of unintended consequences be cited as a reason to do nothing, to resist 'intervention in the market'. The 'market', which is thereby left alone, is a market in only a special sense as noted above, and cannot be assumed to display the kind of efficiency and stability of unregulated competitive markets, with many negative consequences (Arnott, 1998). The first key is to identify the long-term logic, derived from a desirable future system of housing and urban development. The second, reflecting the precepts above, is to seek policy coherence by ensuring that policy-influenced incentives are accompanied by sufficient direct public action and regulation.

3.3 International Thinking on Housing Systems

NESC's 2004 housing report sought to bring international thinking on comparative housing systems to bear on Ireland's housing system, in particular the influential studies by Kemeny (1992; 1995). These studies highlighted the impact of the rental system on the overall housing system, the key role of cost rental and the nature and impact of rent control and regulation.

3.3.1 The Dynamics of Unitary and Dualist-Rental Systems and the Role of Cost Rental

The core of Kemeny's approach is identification of an underlying economic dynamic, what he calls the 'maturation process'. The inflation of construction and land costs means that houses currently being constructed cost much more than those erected earlier. Maturation refers to the falling real value of the outstanding debt on a stock of dwellings. It is measured as the ratio between the average debt per existing dwelling and the average debt per newly acquired dwelling. For example, if the ratio is 1:2, this means that the average debt per existing dwelling is half that of the average debt for new dwellings, and this indicates a degree of maturation.

Kemeny argues that the process of maturation and policy responses to it is central in understanding the dynamics of housing systems. In identifying these dynamics, he makes a distinction between 'profit renting' and 'cost renting'.

- Profit renting refers to a situation in which a landlord charges the maximum obtainable rent for a dwelling, regardless of the historic cost;

- Cost renting refers to a situation in which rents cover only the actual incurred costs of providing the dwelling (Box 3.1 provides further details).

Kemeny argues that various housing systems can be seen as a result of the strategic policy response to the maturation process. The maturation process reaches a point at which cost renting, such as the public rental system, begins to compete strongly with other forms of housing, particularly profit renting and owner occupation. This is reflected in falling real rents and lengthening waiting lists for cost-rental housing. This creates pressure for some policy response. One response is to increase the supply of cost-rental housing, cater for wider and wider groups of households, and use its high level of maturation to compete with profit renting. The market that results from this policy strategy is termed a 'unitary rental market' (see Box 3.2 for an account of this process). In this system, renting provides a realistic alternative to owner occupation by making it attractive for a significant proportion of households to remain in the rental market. In a well-functioning rental market where there is a reasonable degree of security of tenure, the price of rental property will reflect the rental income it is able to generate. Vacant possession price will play a marginal part in determining values.

Box 3.1: Cost Rental Explained

Cost renting is defined by Kemeny as 'all rental housing, irrespective of ownership, the rents of which cover only actual incurred costs of a stock of dwellings' (1992: 34). The basic idea of cost rental is that a social-housing provider raises the finance to provide accommodation and charges rents that are sufficient to cover current and capital costs. Because of maturation, these costs tend to fall in real terms over time, allowing cost-based rents to fall also. Cost renting may involve pooling the historic costs of individual dwellings across a large housing stock.

Generally, cost rents will be lower than profit rents. Maturation is key in facilitating lower rents. Cost renting may involve charging lower rents on older dwellings to reflect their lower costs or rents that reflect a pooling of cost across a large housing stock. The fact that rents are based on incurred costs rather than the maximum rent that the market will bear normally leads to cost rents being lower than profit rents.

Cost rental is supported by public policy in various ways. Forms of support that are used in different European countries include public guarantees of borrowing, interest subsidies, and low-interest loans to cover some of the cost and grants. Subsidies only cover a limited share of the costs. Where subsidies are provided, rents would normally be designed to cover costs less subsidies received. Low-income tenants for whom the cost rents would be too high would use a housing benefit payment to help pay their rent.

Cost rental providers use a mix of financing sources. The predominant source of finance is private borrowing. Other sources that are used across different countries include equity provided by the social-housing providers themselves, low-interest public loans, and grants.

While Kemeny emphasises the central role of maturation of the cost rental sector in achieving desirable outcomes, there are potential benefits from cost rental that do not depend heavily on maturation. In the case of Austria, cost rental operates at the level of each individual housing development; i.e. the costs (net of subsidies received) of each development are covered by the rents charged.

Box 3.2: The Path to a Unitary-Rental System and the Critical Role of Cost Rental

Analysis of the evolution of housing systems in a range of European countries reveals the critical role of an increasing cost rental sector in the path to a unitary-rental system (Kemeny *et al.*, 2005).

- **In general, unitary rental markets begin with a small and embryonic non-profit rental sector in which debt accounts for close to 100 per cent of market value;**
- **At this early stage, non-profit housing providers are not necessarily able to offer lower rents than profit-maximisers;**
- **The unitary nature of the market will initially often be sustained by means of subsidies and tax advantages for the infant non-profit sector, initially to ensure its survival, then later to develop it to the point at which it can begin to offer real competition across the whole rental market;**
- **Rent regulation will be a common means of providing security for tenants in markets that non-profit renting is unable to competitively influence (we discuss rent control further in the next section).**

From his analysis of the evolution of three unitary-rental systems, Switzerland, Sweden and the Netherlands, Kemeny emphasises how long it takes for non-profit housing to achieve a degree of 'solidity' equivalent to that of the profit-rental sector. Solidity measures the ratio of equity to market value. It typically increases over time, both through amortisation of the debt and the appreciation of market values, the process known as maturation. Solidity takes a long time to increase because maturation is a very long-term process. And it is seriously reversed by subsidised disposal of public and non-profit housing to tenants or others, as happened in Ireland and, at certain times, in a unitary system such as Sweden's. He argues that Europe's non-profit housing providers are only now, more than half a century on, beginning to even approach the levels of solidity of many profit-rental companies.

The alternative policy response is to undermine or reverse the maturation process by hiving off cost-rental units and limiting cost renting to a public rental sector that is a strictly controlled minority form of housing. This is done by selling off local-authority housing and limiting investment in new public-housing stock. Kemeny terms the rental system that results from this a 'dualist-rental system', since its distinguishing characteristic is the existence of parallel public and private rental systems subject to increasing divergent forms of provision and conditions of tenure. In this dualist system, the residential property market is dominated by heavily subsidised owner-occupier housing. In this context, vacant-possession prices will be more important in determining the market value of rental property and the high level of subsidisation of owner-occupied housing will make it worthwhile to sell rental housing into owner occupation. Another way of putting this is that the owner-occupied housing market penetrates the rental market to such an extent as to undermine the autonomy of the latter. This is one important factor in the drastic decline of private renting in home owning societies with dualist-rental systems.

The long-term strategic orientation of state policy is decisive in determining what form the rental market and the overall housing system will take. A dualist-rental system is found primarily in English-speaking countries: Britain (particularly England), Ireland, the US, Canada, Australia and New Zealand. It is also found in some other countries, notably Iceland and Finland. International research since NESC's 2004 report traces the evolution of housing systems in a range of countries and largely confirms the picture (Hoekstra, 2010).

These features of a dualist system in which the small social-housing sector segmented from the rest of the housing market has numerous disadvantages. First, 'dualist systems result in artificially induced housing shortages' as 'profit renting has never in any period of history been able to satisfactorily meet the demands for rental housing and when cost renting is structured in such a manner as to limit its availability then rental housing shortages are almost inevitable' (Kemeny, 1995: 152). Second, dualist systems provide 'no viable alternative to owner occupation for most households' (*ibid.*: 70–1) and as such create a major source of inequality for those unable to access owner occupation in home-owning societies. Third, dualist systems reinforce inequality because as rents tend to rise to reflect the current market value of property, it is 'the landlord and not the tenants benefits from the maturation process' (*ibid.*: 42). A fourth disadvantage is that 'by structuring housing choice in such a manner that favours owner occupation a built-in bias in favour of two-income households which can afford to buy is created' (*ibid.*: 70). Single-income households, especially those among lower-income earners, will be severely disadvantaged in gaining access to housing. A fifth, related disadvantage is that countries with dualist-rental systems have lower levels of gender equality.

3.3.2 Rent Regulation and Control

For several reasons, the issue of rent control arises in consideration of the challenges facing Irish housing policy. It arises most urgently because of the crisis generated by strongly increasing rents in Dublin and, to a degree, other cities. It is increasingly recognised that a well-developed and efficient rental market providing a viable alternative to ownership plays a balancing role by alleviating house-price pressures and smoothing housing-market dynamics. This is especially the case when it proves to be an affordable platform for young and low-income households, providing them with a viable alternative to a hasty first step onto the property ladder (Cuerpo *et al.*, 2014). The issue of rent control also arises more strategically when we consider the relative long-term characteristics of unitary versus dualist-rental systems.

Here we identify some of the key aspects of rent control and tenure regulation:

- The need to place rent control in the context of overall regulation of the private rental sector;
- The fundamental relationship between tenure security and rent regulation;
- The distinction between first, second and third-generation rent control;
- Rent control in the evolution of unitary-rental systems;
- Economic revisionism on rent control.

Rent control as a part of wider regulation of the private rental sector

Cuerpo *et al.* (2014) note that rental-market regulation in Europe covers a number of issues, including the following:

i. The degree of flexibility in setting rental levels for new contracts;

ii. Methods of updating rents within tenures;

iii. The efficiency of judicial proceedings in relation to rental disputes;

iv. Deposit requirements for tenants;

v. Justified reasons for tenant eviction;

vi. Eviction notification requirements; and

vii. Duration of contracts.

These they group into three types—first, the rent-control element (the first two); second, the elements that define the tenant–landlord relationship (numbers four to seven); and third, the efficiency of judicial procedures to deal with breaches of the tenant–landlord contract. Across the EU they find a variety of combinations of these regulations. They identify a number of countries with higher tenancy protection. These include Denmark, Austria and Germany, which support this through higher rent controls; and Lithuania, Belgium, Spain, Portugal and the Netherlands, which support it through a pro-tenant bias in contract regulation. Sweden has the highest degree of tenancy protection, both through rent controls and pro-tenant contract regulation. On the other side of the spectrum, Slovakia, France, Belgium, the UK and Finland have lower rent controls, and a balance of tenant–landlord protection in contract regulation. Meanwhile Ireland, Italy, Latvia, Greece and Poland have both lower rent control, and contract regulation, which seems more favourable to landlords than to tenants.

Fundamental relationship between tenure security and rent regulation

It is important to recognise that there is a fundamental relationship between tenure security and regulated rent updating. Hubert underlines the point that these two features are intimately related—a point that is obvious but easily overlooked:

> In the absence of some binding rule for the updating of rents for sitting tenants, a landlord could easily circumvent tenure security by a sufficiently drastic raise in rent (economic eviction). And whenever the contractual rent for a sitting tenant falls below the initial rent for new contracts, protection against eviction is necessary to prevent the landlord from giving notice to quit (Hubert, 2003: 69).

In other words, if making the private rental sector an attractive long-term housing choice requires security of tenure, it would also seem to require some form of rent control of equivalent length. But, as we discuss below, the nature of rent control has evolved considerably over the past century and the stringency and duration of rent control can be lessened the more there are effective policies driving the overall supply and availability of cost-rental accommodation.

The distinction between first, second and third-generation rent control

In considering rent control it is important to take account of the diversity of possible regulations. Housing analysts distinguish between first, second and third generation rent control (Arnott, 1998: 859).

First-generation rent control was typically introduced in wartime emergencies. It usually involved rent freezes and attempted to force a transfer from the landlords to the tenants. This 'transfer model' of rent control usually had partial coverage, being limited to existing stock, certain regions, certain types of dwellings, or old leases. Although such controls lasted many decades, outside of an emergency context it was often considered to have negative effects on the quantity and quality of rental accommodation. However, the decline in the private rental sector in many countries over the last century during times of rent freezes can also be related to a significant increase in provision of social housing, and to supports for home ownership.

These first-generation controls were removed in many countries from the 1970s onwards, and replaced with second-generation rent controls, which are more flexible. These allow rents to be increased by a defined annual amount, usually related to the general cost of living. The permitted increases also aimed to cover the costs of maintenance and repair. Since the 1990s, a third generation of rent control is also evident. It regulates rents within an individual tenancy, but not between tenancies. The introduction of housing allowances for those on low incomes also supported the introduction of second and third-generation rent controls as they helped provide housing for those with affordability challenges, without jeopardising investment in rental property overall (O'Sullivan & de Decker, 2007). In a recent review of the regulation of the private rental housing market in Europe, O'Sullivan and de Decker conclude that 'most countries now allow for various forms of rent indexation linked to consumer price inflation and rent adjustment clauses' (*ibid.*: 100). It is interesting that the form of rent control in place in most European countries after several decades of gradual deregulation, is still stronger than that in place in Ireland after several decades of very gradually increasing regulation of the private rental sector.

Rent control in the evolution of unitary rental systems

The analysis of rental systems suggests that in viewing the role of rent control and tenure regulation we need to take account of how integrated or dualist the overall rental system is. As noted above, in the early development of a cost-rental sector both public subsidy and general rent control play an important part. Even in integrated rental markets there remain important potential state interventions. The state may, for instance, impose eligibility rules for access to certain kinds of non-profit housing generally in exchange for subsidies. Most integrated rental markets will also continue to be characterised by a degree of tenant protection, in terms of some kind of market-sensitive rent regulation and security of tenure. Security of tenure is a fundamental requirement for an integrated rental market to attract and hold households to renting as a sustainable long-term housing solution.

But it has been observed that as the cost-rental sector grows, and integration proceeds, rent control tends to be phased out in favour of a looser regime of rent regulation. Kemeny suggests that, broadly, more rigid rent control is replaced with regulation that allows full market rents to come into play when rental housing is vacated, but that still provides protection from full market rents to sitting tenants. A common feature of the unitary-rental markets in Switzerland, Sweden, the Netherlands and other countries is continuing rent regulation, even though there is a tendency towards relaxing regulation (Hoekstra, 2010: 84).

This has two important implications. First, there is no static right or wrong position on rent control; its value and effects depend on the state of the overall housing system as well as on detailed design of the regulatory system. Second, we should not necessarily read the partial relaxation of rent control in certain European countries as a move to a deregulated, private-housing system; it can also be a reflection of the scale and success of the non-profit cost-rental sector in influencing, and even dominating, the profit-rental sector.

Economic revisionism on rent control

While rent control was traditionally seen by economists as an example of regulatory folly, a significant ''revisionism on rent control'' has emerged in the past two decades (Arnott, 1995; 1998). Revisionism on rent control within the academic profession was fostered by progress in the theoretical analysis of imperfect markets, particularly search-cost, information problems, and mobility-cost. The is no doubt that these play a major role in the housing market. Hubert argues that some of the more realistic models of the housing market were developed in an attempt to improve understanding of rent controls (Hubert, 2003). As it turned out, when accounting for the particularities of the housing market the analysis came up with some rigorous arguments in favour of the intervention. Hubert outlines three lines of such reasoning, each addressing one of the important features of rent control: the rent ceiling of the transfer type, tenure security, and regulation of rent reviews (*ibid*.: 71). Consequently, he suggests that there is little doubt that the revisionism on rent control is built on arguments firmly based in established economic theory.

The credibility of the new, cautious arguments in favour of certain forms of rent control is further enhanced by the fact that they have been derived from assumptions that can explain empirical features of the housing market, such as 'tenure discount' and cycles in the turnover rate, which cannot be explained in the framework of perfect, competitive markets.

One important aspect of this revised view is that real-world rent controls are more complex than assumed, with their impact depending to a large extent on the details of the regulation (Arnott, 1998). In addition, empirical evidence is fragmented and far from conclusive and it is increasingly accepted that housing markets suffer from imperfections, which create scope for well-designed rent control to improve efficiency (Hubert, 2003: 63; Jenkins, 2009).

Chapter 4
Social Housing in Selected European Countries: Some Comparisons and Lessons

In thinking about how to respond to the issues identified in Chapter 3, there is much to be learned from the approaches to housing provision in countries that are recognised to have relatively effective housing systems that support good social and economic outcomes. In the accompanying NESC Secretariat Paper No. 11, *Financing of Social Housing in Selected European Countries,* the Secretariat provides an overview of social housing in Austria, the Netherlands, France and England.[15] The paper describes the financing of social housing, the government supports provided and the approach adopted to rent-setting in social housing. The main findings from the NESC Secretariat Paper are presented in this section. In addition, the related issues of rent control and security of tenure in rental housing generally are addressed.

4.1 Financing and Government Support

A feature of the context of social housing in other European countries is that the major social-housing providers are not classified as within the general government sector, as defined by Eurostat and applied in EU fiscal policy rules. This means that their borrowing does not add to the general government deficit or debt. This is a significant difference to the situation here: Ireland's largest providers of social housing are classified in the general government sector so that borrowing for local-authority housing adds to the deficit and debt. This issue is explored further in Chapter 5.

Over time, capital grants provided by governments have generally declined or disappeared as a means of financing social housing. This form of support remains of some significance in England and France. Capital grants are provided in France on a structured basis with the higher grants provided for the lowest-income social housing; social housing for higher-income groups does not receive grants but benefits from lower-interest rate loans. In the case of Finland, capital grants are

[15] The paper drew on a study for the European Social Housing Observatory (CECODHAS, 2013); this also included Finland and Germany.

provided for social-housing projects targeting special groups, such as students, people with disabilities, and elderly or homeless people.

Ireland's traditional model of 100-per-cent capital grants for social housing is not used now by any of the countries covered in a study by the European Social Housing Observatory (CECODHAS, 2013); it was previously used in the UK. Nonetheless, it is worth noting that there is one advantage to the provision of 100-per-cent capital grants. Typically, the state is in a position to borrow at the lowest cost so that funds raised by the state and provided as grants to social-housing providers will usually represent the lowest-cost finance that can be raised for social housing. In Ireland, this financing model was adopted in conjunction with the differential rents charged in social housing. On the basis of these rents, it is not possible to develop new social housing without a high level of capital grants. As outlined in Chapter 2, for housing associations this has been changed by the introduction of an additional revenue stream in the form of Payment and Availability (P&A) agreements in recent years.

The larger part of the finance for social housing in European countries is from lending. A range of sources are typically combined to finance social housing:

- Equity or own funds of the social-housing provider;
- Public grants;
- Public loans;
- Private loans or bonds;
- Tenant equity.

Subsidisation of lending has become the most common way for the public authorities to provide support for public housing. In the case of Austria, this is achieved through the provision of public loans at long-term low-interest loans (0 to 2 per cent interest) that cover on average 35 per cent of the costs. These loans are used by Limited-Profit Housing Associations (LPHAs) to partially fund social housing at moderate rents. Interest-rate subsidies are provided in four of the six countries (France, Finland, Germany and Austria) in the European Social Housing Observatory study. In the case of Austria and France, this is achieved through the use of tax incentives. In Ireland's case there is also subsidisation of lending in the form of low-interest-rate Capital Advance Leasing Facility (CALF) loans. The terms of the CALF loan are more generous than comparable public loans available elsewhere, in that repayments of both interest and capital can be deferred for up to 30 years.

The provision of loan guarantees has become an increasingly used form of public support for social housing. This applies in the Netherlands, France, Finland and some German Länder. In the case of the Netherlands, the public guarantee has never been called upon as the social-housing associations have their own system of guarantees. A public guarantee for social housing has recently been introduced in the UK and this has reduced the cost of funds for housing associations. This leaves Austria as the only one of the six countries in the CECODHAS study without a form of public guarantee.

Access to private funding is increasingly important for social housing providers. Providers in the Netherlands and England are now rated by international rating agencies. Larger UK housing associations are able to issue their housing bonds. The Housing Finance Corporation (THFC) in the UK 'aggregates' the credit needs for smaller associations and raises finance to meet these needs. It then lends on this money immediately to housing associations on similar interest and repayment terms. This makes it possible for associations to avail of finance on more attractive terms than would be available from banks.

The provision of land at discounted prices to social-housing providers is another important way that social housing is supported. In an English case study in the CECODHAS (2013) study, the land-cost element of the project (in London) was reduced using the system of planning obligations. Without this element, the cost per dwelling would have been far higher (by €306,000). This arrangement is comparable to Ireland's Part V obligations and is also used in the Flanders region of Belgium.

Another important support for social housing in many countries is the provision of favourable treatment in the tax system. These include reduced VAT rates, reduction or exemption from property tax, and income/corporate tax.

Finally, all of the countries in the CECODHAS study provide housing allowances or benefits to low-income tenants in both the private and social-rental sectors. Although not a support for social housing *per se* (in that it is not targeted on the social-housing sector), these allowances are significant in the financial sustainability of social-housing providers. This is particularly the case for the UK, while Austria has a very low share of households receiving housing benefits. Importantly, these payments are considered by Eurostat as part of an organisation's sales revenue; even if these payments are a substantial part of the budget of a social-housing provider, they do not lead to it being classified within the government sector.

4.2 Rents in Social Housing

How rents are set for social housing and their relationship to costs and to market rents varies across Europe. In Austria, France and Finland, rents in social housing are cost-based. In the case of Austria, it is a requirement to balance costs and revenue at the level of the individual development. In France and Finland, there is some provision for the costs from one development to be partly met from other revenue. In addition to requirements to relate rents to costs, in Austria and France there are also limits on the maximum rent that can be charged, set by the specific funding scheme, and these obligations are not time-limited. In the case of Finland, the obligation to charge cost rents lasts for a given period (usually 45 years) and after that providers can sell the dwelling or charge market rents. In Germany, rents depend largely on the production cost and funding modalities. The funding arrangements in Germany are complex as there is not a single national system. Social-housing rents in England are set using a formula based on property values and manual wages. The main form of new social-housing provision in England at present is 'affordable rental'. In this model, rents are set at up to 80 per cent of market rates. Housing benefit is important in allowing tenants to pay these rents. Finally, both private and social rents in the Netherlands are governed by a points system that measures the quality of a home based on a range of factors including size, facilities of the home and location. Rents in the most desirable private homes are not controlled. The social-housing associations are not subsidised so that rents, on average, cover costs. Rents on new social housing may be below costs. Housing associations cover the losses on new homes by partially funding new development with their own funds.

Ireland differs in relation to the nature of rents paid and the related provision of subsidy. On the one hand, social-housing rents paid in Ireland are lower than elsewhere, where rents are an integral part of the funding of social housing including new social housing. In Ireland, the rents paid by tenants are not normally used to finance new social housing. Instead, they are used for maintenance and management and also contribute to the general housing budget of some local authorities. Housing allowances or benefits are available elsewhere to assist lower-income tenants in paying the higher rents charged. In Ireland, no additional housing benefits are paid by the state, meaning that while local-authority tenants pay low differential rent—which is very important to them in ensuring that they can manage their housing costs without undue financial hardship[16]—there is no payment to bring the revenue received by the local authority from housing-rental up to cost rental levels.

Examples of social-housing rents charged are presented in Table 4.1, which draws from the CECODHAS study. In some cases the figures are for cities, while some are national averages, but they give an indication of the types of rents paid. In Ireland, the average rent paid by local-authority tenants in 2011 was €2600 annually or €217 monthly (DECLG, 2014).

16 Research by the Vincentian Partnership for Social Justice (2014) shows that accommodation costs for a variety of family types with at least one parent in employment take up a larger proportion of family income, when that family is housed in the private rented sector.

Table 4.1: Rents in Social Housing in Five European Countries

	Vienna	London	Bremen	Helsinki	France
Monthly rent per m^2 dwelling (€)	7.99	7.44	7.50	10.55	6.80
Monthly rent assuming 77 m^2 dwelling (€)	615	573	578	812	524

Source: (CECODHAS, 2013).
Note: Rents include service charges. Rents for Vienna include utilities while rents for Helsinki include heating. Rents for France refer to the averages across the country.

4.3 Rent Control

In addition to the regulation of rents in social-housing systems, rent control has been used more widely at different stages in many countries, including Ireland, and continues to feature in several countries today—as discussed in Chapter 3. Germany provides an interesting example. A form of market-related rent control and strong security of tenure for tenants have been consistent with the development of an unusually large rental sector, with over 60 per cent of the housing stock rented. Box 4.1 provides more details.

Box 4.1: Example of Rent Control and Security of Tenure: Germany[17]

In Germany, provision of public subsidies, available to both the public and private providers (including for profit providers), is linked to the regulation of rents for a specified period. This is 20 years for newly built dwellings and 12 years for renovated dwellings, though loss of social-housing stock after the lock-in period is a significant problem.

Non-subsidised housing is also subject to a looser type of rent regulation. For new rental contracts, there is considerable freedom to negotiate rents. In general new rents cannot be more than 20 per cent above the maximum of a comparable dwelling in the area although it is possible for rents to be above this limit provided the landlord is not asserting 'clearly disproportionate power' (Fitzsimons, 2014: 30). Rent increases in existing contracts are controlled. There are a number of methods through which it is possible to legally implement rent increases. One option is to state the actual amount of rent to be paid in future years. A second option is for the contract to state that rent increases will be linked to an official cost-of-living index. Neither of these methods is widely used. If these are not used, rents can be

17 This box draws on Fitzsimons (2014).

increased in line with locally comparable rents. This can be done in three ways. First, rent increases can be based on the official rent guide for the areas (the *Mietspiegel,* literally mirror rent). Second, the landlord can engage a housing expert to independently assess the local rent market. Third, the landlord can identify three examples of comparable dwellings at higher rent. The most widely used approach is to base rent increases on the *Mietspiegel*.

In a rising rent market, there will be rent increases for existing tenants. However, there are a number of factors that moderate the rise in rents in this scenario. First, the Economic Offences Act places a general ceiling on excessive rent increases. Second, the *Mietspiegel* covers rents for the past four years rather than just the immediate past; this implies that there is a lag in the effect of rent increases on reference rents as measured by the *Mietspiegel*. Third, if the two-yearly update of the *Mietspiegel* is based on inflation, this may be less than the increase in rents in a rising market. Fourth, there is a limit of a 20-per-cent increase in rents over three years.

German tenants enjoy strong security of tenure. Contracts are typically of indefinite duration. Landlords can only terminate contracts in very limited circumstances. The tenant can object to the termination of a contract on the grounds that it could cause unjustified hardship. A key safeguard for tenants is that sale of the property does not end the lease. An exception is that the landlord can end the lease prior to a sale if the landlord would lose out by at least 20 per cent due to the lease.

The relatively large size of the German rental sector is attributed by some to the favourable tax regime (Haffner *et al.*, 2009: 145). According to Fitzsimons 'with other investment looking risky, such as gold and equities, pension funds see the stability of the private rental sector as a perfect investment class' (Fitzsimons, 2014: 70).

Chapter 5
Towards a More Unified, Cost-Effective and Sustainable Model in Ireland

5.1 What Irish Housing Policy Must Achieve in the Decades Ahead

Taking the housing issue as a whole, Irish policy must achieve three main goals in the coming years and decades:

i. Affordable house purchase in a stable market that prioritises housing for occupation rather than as a speculative asset;

ii. Affordable and secure rental accommodation available to a significant share of the population;

iii. Future supply and a growing stock of homes, in well-designed sustainable neighbourhoods, available to those on lower incomes.

As noted in Chapter 1, in this report we only discuss the second and third of these core goals. Our analysis suggests that to achieve these goals, we need to work out effective approaches on three fronts:

i. New financial mechanisms capable of funding the quantity and quality of housing we require;

ii. Policies to grow non-profit cost-rental provision that will gradually shape the overall rental sector; and

iii. Direct public policy influence on housing supply and urban development.

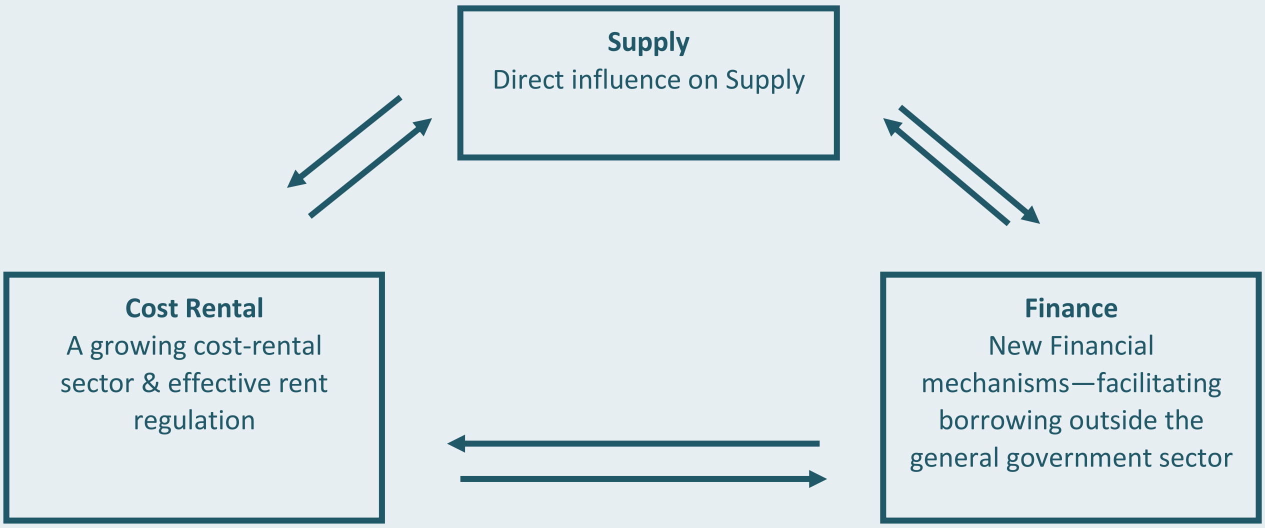
Our discussion of these leads us to a fourth key requirement:

iv. The need for new institutional arrangements for housing finance, planning and land management, development, construction and housing management.

5.2 Towards a New Combination of Finance, Cost-Rental and Managed Supply

From the review of key current and future challenges in each of the channels of social and affordable provision—local authorities, housing associations and private rental—we suggest that there are three critical interdependent requirements for a social-housing strategy. Figure 5.1 captures these as elements of a more effective overall approach showing that the three pillars are interdependent, each requiring the other.

Figure 5.1: Interdependent Pillars of a More Unified, Cost-Effective and Sustainable Model



A key feature of this model is the deep interdependencies that exist between these pillars. Each of the elements depends on features of the others, for example:

- Renewed supply of housing for those on low and modest incomes requires, first and foremost, new financial mechanisms that facilitate borrowing outside the general government balance;
- New financial mechanisms will underpin supply, but only if there is a direct public-policy influence on development;
- Strong public agency is critical to supply and underpins financial mechanisms;

- A healthy level of supply at a reasonable cost makes cost-based rental effective and means that rent regulation will work with, rather than against, the market;

- Cost rental, supported for a time by various subsidies, makes it possible for housing providers, such as associations or a public body, to take up and service available loans.

Conversely, each of these will prove ineffective or unfeasible without the others. For example:

- Sufficient supply will not happen unless new financial mechanisms are developed;

- The take-up of financial mechanisms is unlikely to be sufficient and cost-effective, unless public policy has direct influence on supply;

- A steadily growing cost-rental sector is not possible without sufficient supply;

- Without adequate supply, regulation to create secure occupancy will generate pressures in the rental sector.

Here we discuss each of the pillars in turn and, in Section 5.6, how they could be combined to drive a resumption of provision of affordable cost-rental accommodation.

5.3 Pillar One: New Financial Mechanisms

Ireland is different from other European countries in that the main providers of social housing (local authorities) are not in a position to borrow on their own account using rental income to service borrowing. As noted in Chapter 3, this is because Ireland is unusual in having its main form of provision of social housing—local-authority housing—is classified within the general government sector, as defined by Eurostat and used in applying the fiscal rules of the EU and euro area. This is explained in Box 5.1. An implication of this is that, under existing definitions, borrowing to fund new local-authority housing represents an addition to the government deficit. In current economic circumstances—as in those that prevailed in much of the 1980s and 1990s—Ireland's high government debt level sets severe limits on borrowing to fund public-housing provision.

The strong commitment to reduce the government deficit has resulted in very limited government capital expenditure on housing in recent years. Housing associations are outside the general government sector so borrowing by these associations does not add to the government deficit.[18]

If social housing within the public system is to be reclassified as outside the general government sector, it would need to be organised as either a public corporation or a quasi corporation. This could take the form of a new public institutional entity or entities for the provision of social housing. An advantage of this is that if social housing is within a dedicated organisation, with a clear focus on the provision of housing, it could also promote improved management performance on various dimensions. If public-sector social housing were be to in a position to undertake borrowing outside general government borrowing, it would need an income stream to fund this in addition to sufficient income from rents to pass Eurostat's market income criterion (see Box 5.1). This could take the form of a payment and availability agreement or rental-assistance payments currently used to secure private rental accommodation for those in housing need.

In contrast, other European countries use a variety of public and private institutions for the provision of social housing (see Box 5.2 for overview of public housing in Sweden). A common feature is that the social-housing providers are generally outside the general government sector. They typically have greater autonomy and an ability to undertake borrowing on their own account. In France, social housing is provided by HLM organisations (HLM stands for Habitation à Loyer Modéré—housing at moderate rent). Some of these are in the public sector and others in the private non-profit sector, but all are outside general government. In the UK, social housing is provided by councils and housing associations. Housing associations in the UK are outside the general government sector (as in Ireland) but unlike Ireland, council housing in the UK is also outside the general government sector. In some cases, UK council housing has been moved to separate 'arm's-length management organisations' (ALMOs). These are separate legal entities and classified as public corporations. In other cases, council housing remains legally within the local authority but is organised as a distinct entity with its own accounts and is classified as a quasi corporation. The ALMOs and the quasi corporations are outside the general government sector while being inside the public sector (Kellaway & Shanks, 2007). Likewise, the Northern Ireland Housing Executive is a public-sector institution classified as outside the general government sector. Unlike other EU countries, the key borrowing measure adopted for public finances in the UK is the public-sector borrowing requirement (PSBR) rather than the general government deficit. Borrowing for council housing adds to the PSBR and this borrowing is

18 Housing associations are starting to borrow from the Housing Finance Agency (HFA) and other sources. The HFA itself is classified within the general government sector. Borrowing by the HFA for onward lending to housing associations adds to the general government gross debt. An exception to this is if the HFA borrows from the National Treasury Management Agency (NTMA) because this is an intra-governmental loan. Borrowing by a housing association from the HFA does not add to the government deficit since the associations are outside the general government sector. The loans made by the HFA are viewed as an asset of the government sector and included in the computation of net government debt. If a housing association borrows from other banks, there is no impact on either general government debt or deficit.

limited in scale; housing associations have become the main providers of new social housing in the UK.

Box 5.1: Classification of Social Housing in Ireland's National Accounts

To understand why local-authority housing is classified differently in Ireland, it is necessary to examine the concept of general government.

The general-government sector is defined by Eurostat as all institutional units engaged in either the production of *non-market* output financed by taxation or the redistribution of income or wealth. Publicly owned corporations engaged in market activity (like the ESB or Coillte) are in the corporations' sector rather than general government. In addition, public-sector producers that can be recognised as quasi corporations, 'market entities keeping a complete set of accounts and whose economic and financial behaviour is similar to that of corporations'(Eurostat, 2002: 9), are also outside the general government sector.

The critical factor for Eurostat in determining whether an institutional entity is in the general government or corporations' sector is the market test: 'If the unit is financed by sales of goods and services at economically significant prices then it is market producer. Market producers are classified in the corporations' sector' (Eurostat, 2013: 13). Eurostat defines economically significant prices as prices that generate sales that cover more than 50 per cent of production costs. Production costs are defined as expenditure on purchase of inputs, employee compensation and consumption of capital.

In some situations, sales include payments from general government. Of relevance to social housing is the fact that payments from general government to a public-sector producer are classified as sales revenue 'when prices paid by the general government to public producers in respect to actual services provided are also applied to similar services (of the same quality) provided by private producers, who accept to sell services to general government on the basis of these prices', (*ibid.*: 14–15). This means that a payment by central government to local authorities for housing would be classified as sales by the local authority if the payment were available on similar terms to a private producer. In the UK, housing-benefit payments by central government are part of the sales revenue of council housing.

More generally, the cost and terms of financing has a large effect on the cost of providing social housing. For cost rental to provide moderate rents, access to reasonably priced finance is a necessary condition. Other countries use a range of measures to facilitate social-housing providers in achieving access to finance on favourable terms. In five of the six countries covered in the CECODHAS study, cited in Chapter 4, government guarantees are provided on the borrowings of social-housing providers. This is a worthwhile option for Ireland to consider. The provision of such guarantees involves a risk to the state but this is worthwhile if it reduces the costs of finance by substantially more than the likely costs to the state;

if the Payment and Availability (P&A) agreements were based on cost rents, the cost reduction would be a direct saving to the state.

Box 5.2: Public Housing In Sweden

Over half of rental housing in Sweden is provided by municipal housing companies (MHCs). In most cases, the municipality owns all of the shares. These companies are classified in the public corporate sector rather than the general government sector so that their borrowing does not add to the government deficit (Hawksworth & Wilcox, 1995). The borrowing of these companies is sometimes supported by municipal guarantees (Oxley, 2009).

In the past, these companies received subsidies but this is no longer the case. Investment is financed from income generated from rents. There are no income limits governing eligibility for municipal housing.

The application of EU internal market principles to housing has had implications for the MHCs in recent years. Conforming to EU law offered Sweden two broad choices regarding the treatment of MHCs. The first option was for the companies to act as long-term private owners, while the second option was for the companies to provide housing only for lower-income people who have difficulty finding housing on the market. The second option was termed the 'social housing option' and was rejected. Legislation was enacted to implement the first option. Under this Swedish legislation the MHCs are required to act in a 'businesslike way' and to have a 'public purpose'. There has been debate in Sweden regarding the interpretation of these terms (Elsinga & Lind, 2012).

The Housing Finance Corporation (THFC) in the UK combines the credit needs of the small housing associations and raises the finance to meet these needs as described in Chapter 4. There is potential to develop such a 'financial aggregator' in Ireland—as discussed further in Section 5.6. In a planned regeneration project involving stock transfer of 2,000 local authority flats in Dublin, Cork and Limerick it is intended that a financial aggregator would be established and would borrow money from the EIB and lend this on to housing associations. The European Investment Bank (EIB) has the benefit of a triple A credit rating and hence is in a position to raise finance on very attractive terms. If successfully established for this project, an aggregator would then be in a position to finance further projects.

In addition, Austria and France use tax incentives to facilitate the flow of savings to social housing. Two-thirds of funds from the Livret savings accounts used in France are loaned to social-housing organisations. The Livret savings accounts have similarities to the savings accounts offered by An Post at present; in both cases the interest received is tax-free and state-guaranteed although the tax-free An Post accounts are for longer terms than the Livret accounts. Could a similar arrangement be used to raise finance for social housing here? One possibility would be to use some share of the existing An Post savings for social housing. This could be done by the NTMA lending on some of these savings to the Housing Finance Agency (HFA). The HFA would lend the money to social-housing providers with a moderate fixed mark-up on the interest paid to savers. This would result in a fairly low interest rate for the social-housing providers. It would not be fixed but it would be stable; the interest rate paid on An Post savings is decided within the public system.[19]

Table 5.1: Classification of Social Housing Actors in various European Countries

Country	Primary Agency	Sectoral Classification
France	HLM	Private & Public corporations
Germany	Non-profit companies	Private & Public corporations
Netherlands	Housing Associations	Private corporations
Sweden	Local Housing Companies	Public corporations
United Kingdom	Council Housing & ALMOs Housing Associations	Public corporations Private corporations
Ireland	Council Housing Housing Associations	Local government Private corporations

Source: (Hawksworth & Wilcox, 1995). Information updated for the UK and added for Ireland by NESC Secretariat.

19 The money in An Post savings accounts is placed with the NTMA. An Post is an agent of the NTMA.

Box 5.3: New Ways of Financing Housing—Scotland

A feature of the Scottish response to the shortage of housing and constraints on public finances is a focus on finding more innovative ways to elicit new supply. Current policy includes three initiatives:

- **National Housing Trust: This leverages private-sector funding and council borrowing to support the delivery of homes for intermediate rent. Limited Liability Partnerships (LLPs), comprised of the council, developer and Scottish Futures Trust, pay between 65 per cent and 70 per cent of an agreed purchase price to the developer.**

- **New Supply Shared Equity scheme: This allows homes to be bought for between 60–80 per cent of the cost price. The remaining cost is funded by the Scottish Government in the form of an equity share. When the property is sold, the Scottish Government receives the relevant share of the sale price.**

- **Innovation and Investment Fund (£50m in 2011–2012): This is used to support developments of new social housing by councils and housing associations and also to support innovative schemes of any type from both the social sector and private bodies, provided that they increase the provision of affordable housing.**

It is expected that all three initiatives will deliver 18,000 new affordable homes over three years. To date, contracts have been signed with developers to build over 1,150 affordable homes for rent in different parts of Scotland. In addition, there is a stated commitment to examining and piloting new ideas that are emerging, such as:

- **exploring the potential for shared funding of developments, with contributions from land-owners/ developers, housing associations/co-operatives and central or local Government; and**

- **encouraging multi-tenure housing developments with developments for private sale or rent cross-subsidising the social rented sector.**

There is also strong policy focus on widening the sources of funding for investment in affordable housing, including through the EIB, development of a Scottish Housing Bond and pension funds and other investors. In the longer term, there are plans to establish an Infrastructure Investment Loan Fund and a National Housing Investment Bank to mobilise all possible sources of funding for housing investment.

Source: (The Scottish Government, 2011).

It is also important that the search for solutions would include innovative financing mechanisms and potential new sources of funds. This is a strong feature of the Scottish approach to social housing, which includes a National Housing Trust, shared equity scheme and innovation fund (see Box 5.3). Irish policy should consider these types of innovation. Other innovations, which would merit further consideration, include:

- Real Estate Investment Trusts (REITs) as a potential vehicle for investment in social housing;[20]
- Pension funds and retirement savings schemes, where housing offers a stable and secure yield on pension savings at a time of extremely low annuity rates;
- Cooperative equity share or partnerships in which householders pay affordable rents and have the option of acquiring an equity share either upfront or subsequently (NABOC, 2013; Pike, 2014);
- Impact investment in which investors intentionally seek to create both financial return and measurable positive social or environmental impact (WEF, 2013).

We have noted that to ensure affordable and secure rental accommodation, several of the most prosperous European states provide subsidies—often in the form of interest subsidies and sometimes supported by favourable tax treatment—to non-profit associations or public corporations. In the past decade, an issue that has arisen is whether this form of subsidy contravenes EU state-aid rules. This is related to the issue of what are know as services of general economic interest, to which normal internal market rules apply in a modified form. While some member states have had to adapt their housing supports, as we explain in Box 5.4, it does not seem to be the case that EU rules would prevent Ireland from developing housing supports along the lines discussed in this report.

5.4 Pillar Two: Cost Rental and Rent Regulation

For a number of reasons, we believe that the cost-rental perspective should figure in the current discussion of Irish housing policy, and social housing in particular. It was considered in some detail in the Council's 2004 report, which argued that policy should explore the development of a cost-rental segment in the Irish housing system. In 2007, Focus Ireland conducted a series of workshops exploring the possibilities for rental reform and the development of a unitary-rental system (Brooke & Downey, 2007). Those discussions identified many of the issues and

[20] The Finance Act, 2013 enabled REITs to be introduced to Ireland.

challenges in seeking to start and drive a transition to a more unitary-rental system in Ireland.

Box 5.4: EU State Aid and Social-Housing Support

The EU treaties ban state aid to organisations for carrying out specific tasks where this aid distorts competition. This raises the question of the extent to which state aid for social housing falls into this position.

Social housing is considered to be a service of general economic interest (SEGI). SEGIs are defined as:

> **economic activities which deliver outcomes in the overall public good that would not be supplied (or would be supplied under different conditions in terms of quality, safety, affordability, equal treatment or universal access) by the market without public intervention (Braga & Palvarini, 2013: 38).**

It is permitted to provide public resources for SEGIs including social housing under certain conditions. The very local nature of social housing limits the risk that the provision of public support will distort the internal market. EU legislation exempts the provision of aid to social-housing organisations from the requirement to notify the Commission that normally applies in relation to state aid. However, for this purpose social housing is narrowly defined as housing for disadvantaged citizens or socially less advantaged groups (*ibid.*).

In a Dutch case on state aid to housing associations, the Dutch Government and the EU agreed that this aid could be paid, providing that the housing associations rent only to a target group of disadvantaged households. The European Commission has given member states a wide margin in deciding the size of the disadvantaged target group for social housing. In the Dutch case, the target group was set at those with an annual income of €33,000 or less, which covers 43 per cent of the Dutch population. This is a much wider group than the current Irish equivalent, where the lowest-income quartile make up 52 per cent of local-authority housing tenants. This suggests many opportunities to rent Irish social housing to higher-income groups than those currently occupying it, which would help to move towards cost rental.

Tasan-Kok *et al.* (2011) argue that conflicts over provision of supports for social housing will not lead to national social-housing policies being dismantled by European institutions, but instead to restructuring of national social-housing policies on the principles of the single European market.

In our analysis of current Irish policy, in NESC Secretariat Paper No. 10 and summarised in Chapter 2, we identified as an important issue the increasing exposure of the state to rising private-sector market rents, without accompanying instruments capable of ensuring supply or controlling and moderating rents.

In Chapter 3, we outlined the distinction between profit renting and cost rental and their role in the evolution of dualist-and unitary-rental systems. Furthermore, in our review of housing policy in selected EU countries, in NESC Secretariat Paper No. 11 and summarised in Chapter 4, we saw that an attractive feature of the provision of social housing in several European countries is the ability to achieve moderate rent levels in social housing through the provision of a modest level of subsidy. Rents are frequently based on costs, as discussed above. In some cases, the affordability of such rental accommodation reflects both a degree of subsidy, through favourable access to capital, and rent pooling across a large stock with a high level of maturation. In other cases, such as Austria, each development covers its costs. But, in general, the fact that the level of subsidisation is lower than in Ireland facilitates a larger social-housing sector that can provide for a larger share of the population. Among other advantages, this makes it possible to combine a mix of income groups in social housing while also making adequate provision for those most in need of housing support.

Social housing in Ireland has generally operated on neither a cost-rental nor profit-rental basis. A critical difference between Ireland's social housing and a cost-rental system is that rents in Ireland's social housing are set a level below cost. Rents paid by tenants do not play any role in supporting the financing of new social housing. They are used for maintenance and management and sometimes allocated to fund other local-authority services (including homelessness services, for example). Since rents do not cover costs, Ireland's social housing has been dependent on the availability of capital grants to finance new construction. When government capital spending is cut, as happened in the 1980s and again after 2008, this leads to a very sharp fall in the provision of new social housing.

If social-housing providers were to charge cost-based rents that were sufficient to support new provision, a problem that would arise is that the resulting rents would be too high for typical social-housing tenants. In other European countries, lower-income tenants in both the social and private rental sectors can avail of housing benefits and hence are in a position to pay higher rents than the differential rents paid by social-housing tenants in Ireland. If social-housing tenants in Ireland were to pay cost rents, there would be a need to introduce a housing-benefit payment that would apply in the private and social-rental sectors.

We recognise that basing increased social-housing provision on growing a cost-rental segment raises issues about some key long-standing features of Ireland's system: public rental policy and differential rent; tenant purchase and the ownership of public housing; and approaches to social segregation and integration. We discuss these issues in Chapter 6.

5.5 Pillar Three: Managed Supply

The third pillar of a more effective approach is supply and, we would argue, a direct public policy influence on development. Housing output is presently at a very low level. There were only 8,300 housing completions nationally in 2013, 57 per cent of which were individual houses. Despite the recovery in the Dublin property market, there were only 1,360 completions in Dublin (city and county) in 2013, just 16 per cent of national housing output. Lack of supply is at the core of the current pressure on rent inflation and house-price increases.

A feature of Ireland's housing development is that it has often been developer-led rather than based on an integrated plan. In recent months, Government has stated that this mistake would not be repeated. However, in the current economic environment and institutional context it has become even more difficult to achieve plan-led development. According to a draft report from South Dublin County Council:

> The critical issue is that it has become more attractive, feasible and cost effective to build at low density, on a small scale, on a piecemeal basis on lands not subject to any plan, than in most designated development areas (SDCC, 2011).

Designated development areas refer to strategic lands subject to local area plans and designated strategic development zones such as Adamstown, which are often located on rail lines, with good transport links and plans to provide community infrastructure. Lands not subject to any plan are less likely to have these factors. Development levies or other obligations to fund new infrastructure in the designated development areas may be greater than for other areas. In the case of Adamstown, the State financed strategic local infrastructure while landowners co-operated in the funding and delivering of common local infrastructure, much of which was beyond what would normally be provided for an individual development site. Landowners were willing to do this in the context of rising property values. According to the report by SDCC, when this uplift no longer applies, 'it is not possible for the market to advance-fund infrastructure of the scale and type required to enable large-scale developing areas'. The SDCC report makes a number of proposals to facilitate development in designated areas. First, a rebalancing of development levies was proposed to reduce levies in designated areas while increasing them in other areas. It was recognised that this may give rise to inconsistency and would need to be co-ordinated at national or regional level to also avoid displacing development across county borders. Second, there is a need for a funding mechanism to bridge the gap that exists in the earlier phases of development between revenue from levies and expenditure needed on infrastructure and facilities in the initial phase. Third, the establishment of development companies for each designated development area is proposed; these would comprise key stakeholders and supporting agencies. Fourth, measures to encourage flexible, medium-density family housing (for a variety of household sizes) should be implemented. These concrete and expert suggestions underline the relevance of the institutional deficit, which, we argue, limits our ability to progress actions across the three core issues—finance, cost rental and supply.

As we have noted, supply is interdependent on financing and the development of a cost-rental and rent-regulation policy. However, the fact that the State owns significant amounts of land is also an important potential lever. Access to land, in appropriate locations and at a feasible cost, is one of the essential inputs for all forms of housing provision, as emphasised by NESC in 2004. In the years prior to the economic crisis, local authorities had been encouraged to buy land for the development of social and affordable housing using funding from the HFA. When local authorities used this land for social or affordable housing, the Department of the Environment, Community and Local Government (DECLG) would redeem the loans. If local authorities did not use the land in seven years they became responsible for the repayments.

To alleviate the financial burden on local authorities of servicing debt associated with the land they had acquired, a Land Aggregation Scheme was established in 2010. This allowed local authorities to transfer land for which they did not have development plans in the short to medium term to a central entity that would manage and maintain this land. Local authorities that transferred into the scheme could have their loans redeemed by the DECLG. However, budgetary pressure has resulted in an ending of transfers in this scheme. The land in this scheme is now held by the Housing Agency. The State now has considerable land resources that can be used for social housing. This consists of (i) land owned by local authorities; (ii) land owned by the Housing Agency; (iii) land under the control of NAMA; (iv) land owned by other public bodies that might be suitable for social housing.

It is regrettable that some of this land was acquired at high prices. However, the State's considerable land holdings are an important asset that can be used, among other things, for the provision of social housing in the broad sense. This is not a free resource: there is an opportunity cost in using this land and it is vital that it be effectively used. It is important to note that this is a resource that can now be used without adding to the government deficit, although it must be ensured that the mechanisms by which it can be used will fit with the state aid rules. The effective management of the State's land and property assets is a significant challenge. The purchasing of land in the past was often poorly managed. The Housing Agency has been asked to develop a strategy for the land in the land aggregation scheme. It would be desirable to develop a register of all State-owned land. As part of a strategy for social housing, it would also be desirable to identify suitable land for social housing and to make it available at low or nominal cost to social-housing providers. Part V is a mechanism for acquiring social housing while paying agricultural value for the land element of the housing.

It is important to recognise that there are two central resources involved here. The first is the land held by NAMA, local authorities and the Housing Agency. The second is the capabilities accumulated in NAMA and elsewhere. A key part of our argument is that optimal use of the first of these, as well as long-term development, is dependent on creating a public entity to hold and use these capabilities.

5.6 Combining Finance, Cost Rental and Active Supply

This section outlines three ways in which investment in social housing might be advanced:

- Investment in local authorities—existing and new stock;
- Investment and cost rental for new housing-association stock;
- Investment in long-term housing provision for intermediate households.

5.6.1 New investment in Local-Authority Housing

Local authorities are Ireland's largest single providers of social housing and it is difficult to see how social housing can be provided on the scale required without substantial local-authority provision. The primary reason for the huge fall in local-authority housing output in recent years is the limit placed on general Government borrowing.

As discussed above, if local-authority housing were reorganised in the form of a corporation or quasi corporation and was able to charge rents sufficient to cover its costs, then it would be appropriate to reclassify it as outside the general government sector. In other words, the adoption of a cost-rental model for local-authority housing would be consistent with the reclassification of local-authority housing outside the general government sector.

The section looks at how this could be achieved in practice. The implications of a cost-rental model would differ between the new or refurbished stock, and existing stock. Each of these is now considered.

New or refurbished stock

A local-authority housing or national corporation would finance the development or refurbishment of housing primarily through private borrowing, or possibly the issuing of bonds. As in other European countries and with housing associations in Ireland, a mix of financing sources could be used. This model could be supported by providing low-cost Capital Advance Leasing Facility (CALF) loans to meet some of the cost. The cost of borrowing could be reduced through the provision of a government guarantee. This method is widely used elsewhere, including Finland, France and the Netherlands.

The local authority or national housing corporation would meet the cost of its financing (net of any subsidies such as a CALF loan) and its other operating costs by charging cost-related rents. Provided costs are well controlled, such rents would be moderate. They would, however, be too high for low-income tenants. Therefore, some other mechanism would be needed to make cost rents affordable for those on low incomes. There are a number of models that could be adopted.

- The first possibility would be to continue to have tenants paying differential rents while providing a subsidy to the housing corporation that would cover the gap between the differential rent and the cost rent. This subsidy could be paid by adapting the payment and availability agreements currently used by housing associations. A model something like this was used in the Netherlands prior to the abolition of subsidies. It may be possible to use the new Housing Assistance Payment (HAP) as the mechanism for paying this subsidy.

- A second possibility would be to charge cost-related rents while introducing a general housing benefit to make these rents affordable for low-income tenants.

Pilot project on refurbishment

An important policy development in this respect is the plan underway to develop a project for the regeneration of 2,000 units of local-authority flats in Dublin, Cork and Limerick. We describe this in more detail in Section 5.7, when considering possible institutional developments. Here we focus on the financial element of the plan. It is to involve stock transfer to a number of housing associations. It is intended to finance this as follows: 25 per cent exchequer, 25 per cent European Regional Development Funds (ERDF) and 50 per cent EIB loan. It is a live project that seeks to examine how this development could be funded off the government balance sheet through the use of a financial aggregator which would borrow from the EIB and lend on the money to the housing associations. For the project to work the state will have to provide a payment in some form to service the rent. The borrowing involved would be modest and it is intended that this, rather than market rent, would be used to set the rents. The initiative is attempting to work around the design flaws in the structure of local-authority housing. It offers an opportunity to view how local-authority stock—with moderately higher cost-based rents and managed as an independent entity—might be maintained and refurbished in a more sustainable way (e.g. creation of sinking funds) and be based on borrowing that could be serviced from rental income. As discussed in Section 5.7, this project may provide the starting point for a more ambitious new national institution, capable of performing financial land management and development functions.

Existing stock

The changes required to use existing stock in movement towards a cost-rental model would be less pronounced. Since local-authority housing stock is largely debt-free, the costs are generally fairly low except where significant refurbishment is needed. On average, there may not be a large difference between differential rents and cost rents for the existing stock when one takes account of the fact that there is no financing cost to be covered. Conceptually, however, there is a major difference: differential rents are related to tenant income which is not the case for cost rents.

Options for using existing stock in movement towards cost rental include the following.

- A minimalist change would be to set the differential rent so that on average it covered costs for the existing stock, including the cost of making an adequate contribution to a sinking fund to meet the costs of periodic refurbishment.

- The same options could be used as described above for new stock. However, the actual level of the cost rent would be far lower for the existing stock so that the subsidies involved would also be modest.

5.6.2 Investment and Cost Rental for New Housing Association Stock

A similar form of financing, combined with cost rental, could be applied to housing associations. The move to cost rental has the potential to reduce State exposure to rent increases. This, and the potential to reduce overall costs of provision within this channel, are the key reasons why the application of cost rental to housing associations should be considered. This would not necessarily address the capacity challenges in the sector, though it does offer a more stable stream of funding, which may help address the concerns of some associations.

Ireland's current approach to funding housing associations links State payments to market rents as shown in Box 5.5. In this example the State pays €1,058 in year 1, or 92 per cent of market rent of €1,150.

Under the P&A agreement, the State is required to review rent every four years and to adjust in line with CPI rental index. If rent increased by 5 per cent per year, then, in four years, market rent would be approximately €1,398. If the state paid 92 per cent of this, it would be paying €228 (that is €1,286–€1,058) more for that house. This could be reduced to the extent that differential rents could also be adjusted in line with inflation. This is a significant additional exposure for the state but would be reduced by adopting cost rent as the basis for payment in new social housing developments. This approach was used in the Netherlands, as described in the NESC Secretariat Paper No. 11. Box 5.6 provides an example for Ireland.

Box 5.5: Payment and Availability Agreement and CALF—An Example

Housing Association Purchases Two-Bedroom Apartment in Dublin (Market Price: €180,000)

Capital Advance under CALF: 20%

Expenditure	80% Finance @ 5% (30 years)	€763
	Management and Maintenance	€175
	Total Expenditure	**€938**
Income	92% Market Rent (€1,150)	**€1,058(State Payment)**
	Differential Rent (Average)	€200
	Total Income	**€1,258**

Source: NESC Secretariat Calculations

Box 5.6: Cost Rental—An Example

Housing Association Purchases Two-Bedroom Apartment in Dublin (Market Price, €180,000)

Capital Advance under CALF: 20%

Expenditure	80% Finance @ 5%	€763
	Management, Maintenance & Refurbishment	€300
	Total	€1,063
Income	Differential Rent (Average)	€200
	Costs minus Differential Rent	**€863 (State Payment)**
	Total	**€1,063**

Source: NESC Secretariat Calculations.

On the expenditure side, the financing costs are assumed to be similar—though, as we will argue below, it is likely that these can be reduced—and other costs are higher, as they include an amount to cover refurbishment, resulting in cost rental of €1,063. The costs would have to be worked out and agreed, and include initial financing costs of provision, annual costs of management and maintenance, and costs of long-term upgrading and refurbishment.

To adopt cost rental, further work would be required to ensure that the approach to costs is broad enough for housing associations to continue to refurbish and upgrade stock, but also clear enough so that the State's exposure is defined and limited. The figure used in the example is €300 per month or €3,600 per annum, which is 2 per cent of the original cost of the development. While it is reported, based on work in the UK in the 1980s, that the proportion that needs to be reserved should be higher (3.25 per cent);[21] other work suggests this proportion in the Irish example may be appropriate. In an example from the Netherlands presented by AEDES (2003), cost rental on a new scheme (€130,000) was €9,950 per year (€830 month). Applied to a dwelling costing €180,000, this would be cost rent of €1,140. This is just €77 higher than the total expenditure figure (€1,063) in Box 5.6.

On the income side, the tenant would pay the differential rent, and the housing association would receive a payment to bridge the gap between the differential rent and the cost rent. The payment could take various forms, such as a revised P&A agreement or through a housing assistance payment or subsidy. The use of a single housing assistance payment available to all landlords, is less likely to breach state-aid rules.

In overall terms, this approach would reduce the State's exposure to market rents. As shown in Box 5.6, in high-demand areas such as Dublin, the initial subsidy would be around the same as that paid under current arrangements. In lower-demand areas, any payments made under cost rental are likely to be higher. But risks associated with this should not be overstated: there is little evidence to suggest that housing associations are inclined to provide where there is little demand. In any case it would be important that all applications for funding would include clear identification of housing need in the area. From the housing associations' perspective, the arrangement would be less generous than the existing terms offered for high-rent areas, particularly where rents look set to increase further.

Finally, an important feature of this approach is the focus it brings to funding costs. Box 5.7 shows the impact of financing at 3 per cent: the state's payment falls by €278 or around one-third. There is a clear incentive for the state to provide finance at the most competitive terms: to the extent that it can, expenditure on housing is

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21 Dibelius (2007) notes that in the UK the standard estimate for sinking funds is between 1–2 per cent and that in 1980 it was recommended that local authorities adopt a target of 1.5 per cent of the original 'all in cost' of buildings for sinking fund provision, and a further 1.75 per cent for management and maintenance (Circular H14/80 quoted in ICHS, 1995). In addition, Dibelius notes that in practice, housing associations were often only setting aside .3 or .4 per cent of the replacement cost, which she states was insufficient and unsustainable in the long run.

lowered. In the market rent model, the extent to which State, via the HFA or other means, can reduce cost of funding, is only captured by the associations. Put differently, the State's power as a borrower is leveraged by the associations or other providers, not by the state.

Box 5.7: Cost Rental—An Example

Housing Association Purchases Two-Bedroom Apartment in Dublin (Market Price, €180,000)

Capital Advance under CALF: 20%

Expenditure	80% Finance @ 3%		€603
	Management, Maintenance & Refurbishment		€300
	Total		**€903**
Income	Differential Rent (Average)	€200	
	Costs minus Differential Rent	**€703(State Payment)**	
	Total	**€903**	

Source: NESC Secretariat Calculations.

5.6.3 Investment in Long-term Housing Provision for Intermediate Households

A new combination of finance, cost rental and managed supply could also be used to provide accommodation for those who are too well off for social housing, that is, 'intermediate households'. The development of cost-effective means of providing supports for intermediate households could be a key means of both reducing the demand for social housing while offering an exit strategy for those in social housing. In this sense, the development of a cost-rental channel of provision for intermediate households, which would create moderate supports for more people without significant cost to the state, could also ensure that higher support can continue to be provided to those more in need.

To do so, cost rental would be used as a condition for the provision of 'soft finance' to any entity willing to provide accommodation at cost rents (i.e. on the basis of necessary costs, net of any subsidies received). They would be provided with finance at more competitive terms. Commercial providers may only be interested in such cost-rental arrangement if there were a time limit on the obligation to charge a cost rent. For non-profit providers, this approach could be used to secure accommodation that would be available on a cost-rental basis for the lifetime of the dwelling.

The tenant would pay a cost rent that would only increase in line with cost increases; as such the tenant's rent would be more stable.

If these two possibilities—cost-rental housing associations and cost-rental support for 'intermediate households'—were combined, it may be possible to adopt a model whereby all new social housing (other than RAS/HAP and leasing) would be developed on a cost-rental basis. This would provide significant stability for State expenditure and tenant rents. The examples discussed suggest that, overall per house, expenditure on social housing could be reduced.

In the interim, as part of the wider regulation of the private rental sector discussed in Chapter 3, carefully designed tax-based incentives may play a role in supporting landlords and in attracting new institutional landlords, while at the same time creating greater stability in rents. But, as noted in Chapter 2, experience suggests that caution should be exercised in relying on passive, arm's-length incentives unaccompanied by sufficient regulation and/or direct public-policy action.

5.7 New Institutional Arrangements

We argue that the central challenge is to create an effective and interconnected combination of finance, supply and cost rental. A critical question is: what institutional arrangements are necessary to achieve this and how can these be put in place?

Figure 5.2: Elements of a More Unified, Cost-Effective and Sustainable Model—Institutional Design

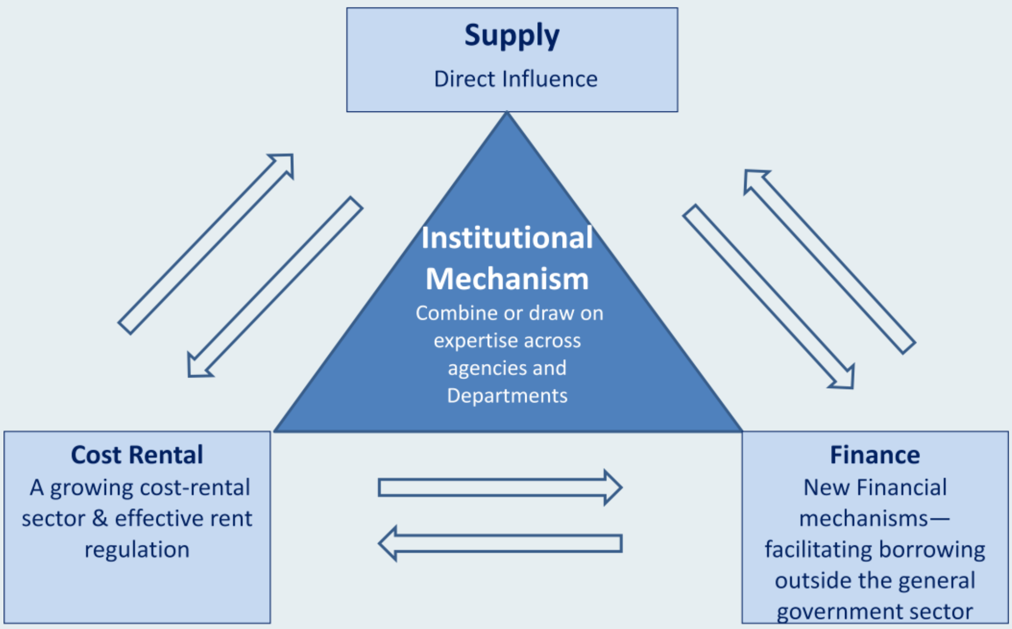

Figure 5.2 summarises the challenge as one of connecting more direct influence on supply, developing new financial means of supporting provision (and to this we could add, more sustainable finance for home ownership), and the development of cost rental and rent-regulation policy. Experience strongly suggests that these connections will not be established automatically or merely by creating some, apparently correct, incentives to unco-ordinated private or public actors.

To think about this challenge, it is helpful to identify the main development and housing functions that need to be performed by some actor or other, and to consider how they can be provided and co-ordinated. We can identify the following:

- Housing policy;
- Accounting that allows borrowing outside the General Government Balance (GGB): this is not so much a function as a legal/institutional prerequisite for a significant resumption of new housing provision for those whose needs are not met in the private market;
- Finance: this function has several dimensions, supply and demand, including the provision of long-term finance and management of large-scale borrowing by entities committed to cost rental;
- Planning—in several senses, ranging from assessment of future housing and urban-development needs to development control;
- Housing-project or programme-development and delivery;
- Construction;
- Housing allocation (incorporating general conditions and a particular focus on vulnerable groups);
- The landlord function; and
- Regulatory functions, covering the rental sector and construction standards.

In a number of documents on the future of Northern Ireland (NI) housing policy and the Housing Executive, a somewhat similar, though narrower, set of functions is considered. (Box 5.8 provides a summary of the Northern Ireland Housing Executive). Our wider list reflects the fact that here there are additional functions that have not been performed adequately over recent decades and that remain in doubt.

Box 5.8: The Northern Ireland Housing Executive

The Northern Ireland Housing Executive (NIHE) was established in 1971, and acts as landlord for approximately 89,000 social-housing dwellings. It is considered one of Northern Ireland's success stories, having transformed social housing there from poor to best-quality stock. It has also maintained the confidence of all sides of the community despite working in deprived and divided areas.

However, NIHE faces a number of challenges. Social-housing waiting lists had grown to 40,000 in 2011–2012, and approximately 2,000 social,housing units are needed per year. However, this need is unlikely to be met by Government funding. Due to public-sector cutbacks, a significant build-up of required maintenance now also exists in some areas. NIHE faces challenges in accessing funding, as it comes under the UK's public sector borrowing requirement (PSBR) rules, which limit the amount it can borrow.[22] Therefore, a review of NIHE was commissioned in 2010, with the aim of scoping out its role and future over the next 20 years.[23] In particular, the review looked at how to develop a financially sustainable model for the next 30 years.

The review, published in 2011, found that NIHE's everyday work as a social landlord had created a 'gravitational pull', which limited its ability to look at strategic issues. It therefore suggested a new model for NI social housing, with four main aspects:

- **a focused and innovative policy function;**
- **a strong independent regulator function for all housing tenure types;**
- **a strategic function with a holistic view of housing, and responsibility for key public sector-initiated programmes; and**
- **an effective and efficient landlord function.**

The review envisaged that policy would continue to be set by the Department for Social Development. The new regulator would take on governance and inspection work, and would also independently set rent levels for social housing. A larger strategic housing authority would continue to own the existing NIHE stock, and would also develop housing strategy, independently assess housing need, and promote energy efficiency, among other functions. This authority would be self-funding, and could apply for funding from Government and other private and public sources. The landlord function would be carried out by a new 'social enterprise landlord', which would have leasehold ownership of the authority's stock (for 35–50 years), for which it would pay a fee (suggested as £8m pa). It would be responsible for maintenance, community cohesion and safety. It would be established as a non-profit company, limited by guarantee and with charitable status, and governed as a mutual owned by tenants. This organisation would be self-funding, off the Government's balance sheet, and able to source and keep in reserve non-public-sector finance to cover maintenance.

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22 Local authorities in the rest of the UK are similarly limited, and several are lobbying to have the PSBR rewritten so that local-authority debt for housing is no longer part of the PSBR.

23 At the same time, a governance audit was carried out by the Department for Social Development, focusing on unauthorised land disposals, and related police investigations into alleged fraud.

The review foresaw some risks in the proposed new structures. One is that the social enterprise could become politically partisan. The new social-enterprise landlord body would also be less amenable to influence by elected politicians. Rents might also become higher, but the regulator would ensure that the rents set would reflect a fair balance between the needs of the tenants and the social enterprise.

All proposals were to be more fully worked through following the review, in consultation with all stakeholders. Subsequent stakeholder consultation has shown that they are in favour of splitting the strategic housing and l-andlord functions; and in favour of the new regulator and its functions. On stock transfer, while this appears to offer a solution to the finance challenge, neither tenants nor politicians support a total stock transfer, and some support retention of public ownership of social housing. The Department plans to model transferring some rather than all housing stock, with a detailed appraisal of all options. They hope that this will help address the concerns expressed. The Minister, meanwhile, plans to implement the proposals by 1 March 2015.

The existing institutional landscape of Irish housing policy and provision has evolved significantly in the past decade, reflecting new policy directions and the need to respond to the collapse of the banking and construction sectors. The main institutional actors are:

- the Department of Environment, Community and Local Government;
- Local authorities, with the authorities in the main cities particularly relevant to future housing issues;
- The Housing Agency;
- The Housing Finance Agency;
- The housing associations, known as Approved Housing Bodies;
- NAMA and NDFA (National Development Finance Agency);
- The commercial banks;
- International public financial entities, such as the EIB;
- Construction-sector enterprises;
- Other bodies with significant influence on planning, such as the National Roads Authority and Irish Water; and
- The Private Residential Tenancies Board.

These are the existing institutional resources available, which need to be allocated and combined and/or co-ordinated in ways that best perform the functions necessary.

In addition, there are a number of emerging institutional arrangements of great relevance to the issues discussed in this report. Perhaps the most significant is the ongoing joint work of DECLG and local authorities in Dublin, Cork and Limerick to finance refurbishment of existing Council flats. This proposed refurbishment would combine two emerging initiatives.

One is the development of a dedicated funding vehicle for the sector that can lend to the Approved Housing Bodies (AHBs) enabling them to leverage more affordable, long term private financing for social-housing projects. This funding vehicle (or 'aggregator') will enable Government to reduce the use of its balance sheet and stimulate private sector financing and delivery of social housing—similar to the model that exists in the UK where the THFC performs such a role. Another initiative is the use of ERDF[24] through grants or innovative financial instruments, to better leverage scarce public and private-sector resources to address low-energy efficiency performance in existing social-housing stock.

The DECLG and local authorities in Dublin, Cork and Limerick are developing proposals using these two initiatives to retrofit older social-housing stock that lacks adequate insulation and efficient heating systems. These buildings require substantial energy retrofitting to meet new building standards of energy efficiency.

This initiative contemplates the transfer of local-authority housing units to qualifying AHBs who will access ERDF and private-sector funding (channelled through the new funding aggregator) to complete the retrofitting works. As explained earlier, this funding would not be classified as public debt. If such an aggregator were created, its potential application would not be limited to this refurbishment project.

As noted above, we see this initiative as very significant and one that can provide a starting point for a more ambitious new national institution. It is useful to examine this, and to ask how this important initiative, combined with other institutional arrangements and actors, will perform the functions listed above. A central logic of this initiative is to create a vehicle capable of borrowing outside of the GGB and to access finance on favourable terms from bodies such as the EIB and the ERDF. The main elements of the model being developed are:

- At its centre, a 'financial aggregator' that would borrow money at low cost from the EIB and the private sector and lend it on to qualifying AHBs;

- Its sources of finance: the EIB, the banks, other private-sector non-bank finance such as residential REITs and the ERDF;[25]

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24 European regulations require that ERDF can only be used for energy-efficiency measures in social housing (and not, for example, for new construction).

25 The ERDF finance will not go through the financial aggregator.

- As a key housing mechanism: transfer of 2000 Council flats to a group of AHBs (1000 in Dublin and 500 each in Cork and Limerick);

- As its key activity: use of the newly generated capital to refurbish the dwellings, improving their quality and returning derelict properties to occupation;

- As long-term housing provision: management and ownership of the properties by housing associations, who become the landlords of existing and new tenants.

The first of these, the finance aggregator, provides access to low-cost finance without relying on government borrowing. This is an indispensible requirement for future supply. But in Ireland's situation, financial provision is not the only function that is in doubt and is, therefore, not the only constraint on resumption of a healthy level of supply and provision of affordable rental accommodation. Other critical functions include planning (for future housing and urban-development needs), management of large-scale borrowing, housing-project or programme development, maintenance, delivery, construction and regulation. In the case of the particular initiative discussed above, several of these functions are implicitly met because of the way in which the project is driven by central and local government. Below the surface of an idea described primarily as a 'finance aggregator', lie several key developmental and policy drivers—government, local authorities and several of the AHBs. We highlight this in order to make the point that, on its own, the necessary creation of the financial aggregator may not be sufficient to secure a sustained resumption of supply on the scale required, and at rental levels that will provide security. Beyond the context of this particular project, any financial special-purpose vehicle will need to have an engine capable of planning, driving, delivering, allocating, protecting and maintaining such supply. While the proposed financial aggregator could play a very important role in financing future projects, it will not encompass these functions.

What body or bodies will be the engine, performing the roles listed at the start of this section or co-ordinating their execution by others? This question is critical because there are enduring doubts about whether several of the functions listed above can be adequately performed by the existing actors. Despite their important role, which we expect will increase, we doubt the ability of Ireland's AHBs to undertake the necessary scale of borrowing and development. Beyond the shortage of capital, it is not clear what bodies have the responsibility and capability to analyse and plan the provision of housing in line with the changing needs of the society and the economy. Experience shows that existing rental, management and allocation policies make it extremely difficult to fund the upkeep of social housing and preserve the social-housing stock; and, on the other hand, the P&A agreements commit the state to providing 92 per cent of a market rent that can rise out of reach. It is not clear that the various construction-sector actors (contractors, builders and developers) will be in a position to provide housing and urban neighbourhoods at the scale, quality and cost that is required. In any case, history has taught us the limits of passive, arm's-length, tax-based and other incentives, which frequently do not achieve the real goals for which they were designed. Nor can we be sure that the Irish banking system will be in a position to fund either public or private housing in a satisfactory way. While there is, on paper, a strong logic for large international institutional investors, in search of stable long-term returns, to invest in rental housing provision, it remains to be seen whether this materialises. To these doubts must be added uncertainty about whether any existing body will be capable of achieving integrated housing, mixing income groups, on a reasonable scale.

These arguments suggest that creation of a finance aggregator and associated initiatives, sketched above, is important in addressing the provision of finance, *one* of the three interdependent pillars of a sustainable system. Beyond that, further institutional and organisational changes are required to create, for the years ahead, a complementary approach on the *other two* fronts—supply and cost rental. The challenge is to think through which institutional arrangements can secure supply and cost rental.

We believe our analysis provides an answer to one part of this question: we need to create institutions capable of achieving a resumption of provision by the local authorities or an equivalent body, such as a national housing trust. At the very least, this is likely to require a combination of the capabilities developed in the Housing Agency and NAMA. These and other steps seem necessary to what PwC, discussing Northern Ireland, describe as ‘a strategic function with a holistic view of housing and responsibility for key public sector-initiated programmes’ (Department for Social Development, 2011). In considering the need to create bodies with a direct influence not only on finance, but also on social renting and supply, a number of British developments are worth noting.[26] These suggest that there is a real logic to bringing in-house, or within the one business group, a number of the key financial, development and construction activities; in like manner, Irish experience tends to confirm that there are drawbacks to reliance on arm’s-length contracts and passive tax incentives in the housing area. By contrast, it seems less likely that the landlord or housing-management function should be taken inside the same organisational entity that plans, drives and delivers supply. To take this analysis further requires in-depth discussion with the appropriate experts and actors of the functions listed at the outset of this section.

We recommend that Government immediately establish a high-level task force to explore these requirements and design institutional arrangements capable of providing a coherent and mutually reinforcing combination of finance, supply and rental policy. Creation of appropriate institutional arrangements may be the keystone without which the edifice of Irish social-housing policy—and, indeed, overall housing policy—will not stand.

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[26] A number of the largest British housing associations have a direct influence through their ownership of building companies. Furthermore, the British insurer, Legal & General, having become a large investor in housing, has moved beyond provision of long-term finance to housing associations to direct investment in a number of housebuilders: Cala and Bannor Group (Cobley, 2014).

We do not believe that any new institutional arrangements should lead to the privatisation of social housing. There is a role for stock transfer to AHBs but the social-housing stock should remain in either public or non-profit institutions to ensure that this asset continues to be used in a way that contributes to housing affordability.

Chapter 6
Ireland’s Social-Housing Approach at the Crossroads

As noted in Chapter 1, the Council sees this report as an input to the Government's formulation of a new social-housing strategy. In this closing chapter we reflect on the implications of our analysis, and the direction we suggest, for deliberation on the future direction of Ireland's social housing. We characterise, in broad terms, the evolving nature of Ireland's approach and the contending pressures and compromises that are in evidence and likely to continue. We seek to provide a framework that will allow a more creative and progressive combination of economic principle and social solidarity.

The approach explored in this report is, first and foremost, a response to the extremely difficult housing situation that now confronts many on low incomes in our country. This situation reflects problems in each of the three main channels of provision—local authorities, housing associations and reliance on the private rental sector. Second, it is a response that takes account, as it must, not only of the current fiscal situation but of the fact that Ireland's debt ratio will have to be on a downward path for several decades to come. Third, it is a response that is greatly informed by the approach to housing in a number of European countries, societies in which housing policy has played a part in achieving economic and social outcomes to which Ireland aspires. Fourth, it is informed by Developmental Welfare State thinking, in particular, the refusal to accept the low expectations and life-time marginalisation inherent in residualist and passive conceptions of social protection (NESC, 2005). Consequently, we suggest that a fair assessment of our argument, and any alternative, must be equally based on current relevance, economic realism, long-term sustainability, empirical workability and social cohesion.

We are aware that the approach suggested here involves something of a departure from a number of the elements of Ireland's traditional approach to social housing. Among these were the system of local-authority provision funded by 100-per-cent capital grants, differential rent in a secure long-term tenancy, tenant purchase and, more recently, a particular approach to social concentration. Our approach also has implications for a critical further element of overall Irish housing policy, the regulation of the private rental sector. We do not suggest a new departure because we do not value the elements of Ireland's traditional approach to social housing. Ireland's most successful housing-policy period was probably the decades in which public provision of high-quality homes and neighbourhoods constituted a large share of total housing supply. Differential rent has a number of advantages, as noted in Chapter 2. It is affordable to tenants and does not create unemployment or poverty traps. Tenant purchase played an important role in Ireland's economic and social development and social mobility and, in principle, a strong case can be made for asset-based welfare and redistribution (Fahey, 1999). Together these elements formed a somewhat distinctive Irish model of social housing; like any system it had its strengths, weaknesses and conditions for success and sustainability.

The old model of social housing has already changed

We suggest a new departure because the old model of Irish social housing has already changed profoundly. The conditions that made these elements—fully funded local-authority provision, differential rent in a secure local-authority tenancy and tenant purchase—effective and sustainable have largely disappeared. We are not so much suggesting a new departure, as asking that existing changes to the traditional model be acknowledged and reflected on.

Since the economic crisis of the 1980s, which saw a huge sell-off of local-authority housing, the level of investment in local-authority housing has been insufficient to meet social need. But removal of a strong flow of new supply weakened the conditions that made differential rent and tenant purchase effective parts of a sustainable system. Without adequate new supply, tenant purchase tends to become a strongly preferential asset transfer, when it materialises, and a formally 'equal', but unrealisable, 'right' for many others. Differential rent in a secure long-term tenancy becomes a privileged status unavailable to most families in equivalent circumstances. The increasingly preferential and privileged status increases the pressure, on grounds of justice, to have a strong queuing system in which those in greatest need are given priority. This deepens the residualisation of social housing that we have observed in recent decades. This, in turn, enhances loss of faith in social housing, even among local-authority officials, further undermining it. Attention then turns from provision of social housing to search for ways to weaken, and ultimately avoid, the geographic concentration of low-income and disadvantaged families.

While the advantages *to individual families* of tenant purchase and differential rent with secure tenancy remain as real as ever, they can hardly be seen as elements of a functioning and sustainable *system*. The case for a social-housing policy instrument must be social, first and foremost, and consistent with economic realities. If these elements no longer function as part of an effective and sustainable social-housing policy, the social case for them is surely weakened.

In response to the changes noted above, particularly the insufficient level of investment in new provision, there were policy responses that moved the system further from the traditional Irish model of social housing. These included greatly increased reliance on the private-rental sector, made possible through provision of rent supplement to wider groups and various leasing schemes (Rental Accommodation Scheme, RAS, etc.), the hope of using Part V to generate supply and new approaches to social concentration. This process was given a further fillip by the fiscal crisis, which put most elements of the policy under pressure. This is reflected in the Government's 2011 *Housing Policy Statement* (DECLG, 2011) which, among other things, declared that the Approved Housing Bodies (AHBs) will be the main future conduit of new social-housing provision.

Is the new equilibrium effective and stable?

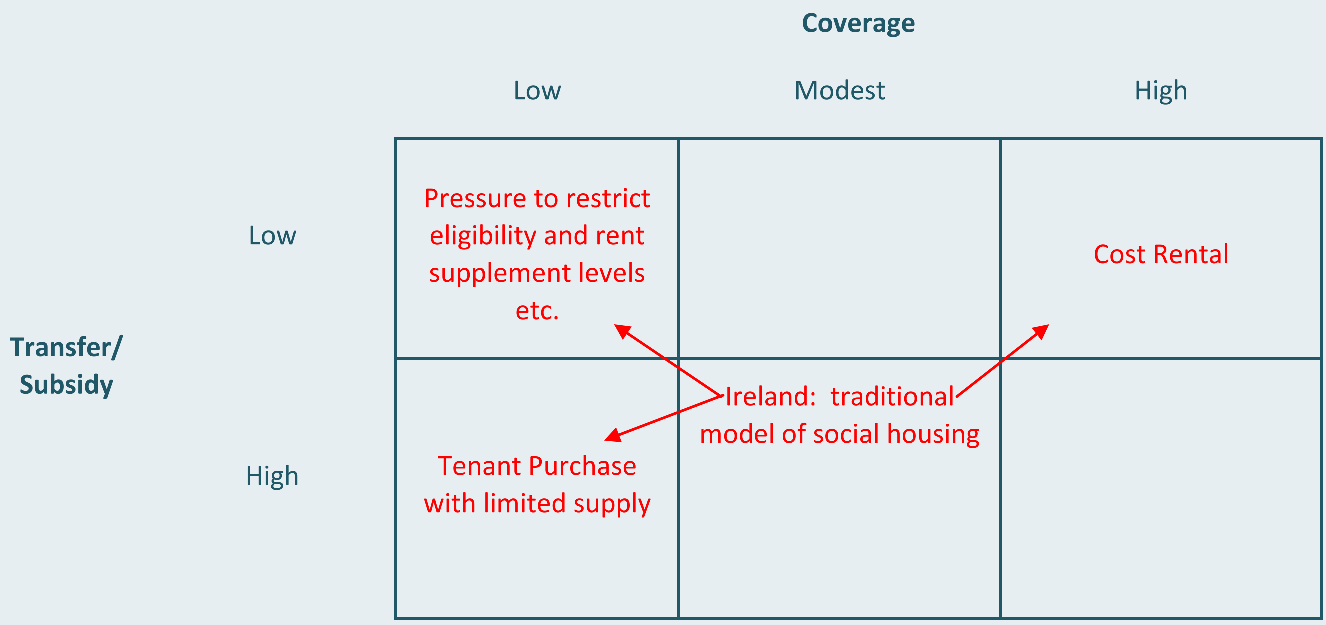
If these changes of the past decade and a half, added to the remaining elements of the old model, were effective and sustainable then we might have settled into a new equilibrium. But, as outlined in Chapter 2, there are serious challenges in each of the three main elements of current policy. Furthermore, the existing combination of traditional and new elements is inherently unstable; it generates pressure for further changes in some elements and defence of others (discussed below). In this context, two concerns tend to dominate in policy consideration:

- Concern to limit the ongoing fiscal cost of the leasing models, housing benefits and Payment and Availability agreement (P&A) agreements;

- An instinctive desire to protect those in differential rent with secure tenancy, particularly those in local authority housing who have grown up with an expectation of the right to buy, and to hold out the promise of tenant purchase to those in other schemes.

Each is valid on its own terms. Each comes from a somewhat different direction; but, importantly, each can accommodate the other. The compromise through which the elements are likely to accommodate each other is a retention of differential rent and tenant purchase, on the one hand, combined with constant pressure to limit spending on rent supplement, RAS and housing assistance payment (HAP), through limiting the maximum payment available and restricting eligibility on the other. This pressure for change is shown by the left-facing arrows in Figure 6.1. They depict the previous and continuing pressure to limit the share of the population covered by social-housing supports of various kinds and—when that proves hard to achieve because of the underlying economic and social reality of housing and the labour market—pressure to limit the size of the transfer available. Indeed, we have underlined the origin of the latter pressure in drawing attention to the State's exposure to increasing market-generated rents in the private rental sector.

Figure 6.1: The Coverage and Subsidy in Social Housing



We fear that the overall social-housing policy, as it has actually evolved, is an unstable equilibrium of this kind, with conflicting pressures for retrenchment and defence.

We must ask whether the compromise between understandable fiscal concerns and the solidaristic instinct, described above, is the best we can do. Is it a positive and creative compromise between economic reality and social solidarity? In the end, all social-housing policy has to involve such a compromise. This compromise looks more like the lowest common denominator of two divergent perspectives, each valid, but neither of which can prevail. In this sense, there would seem to a danger that we combine the worst, rather than the best, elements of economic reality and solidarity. As a consequence, the ongoing argument and tug-of-war between these is unlikely to yield better outcomes in the future than it has in the past. This is because this unstable equilibrium reflects a particular framing of the problem, one that combines elements reflecting the traditional Irish model of social housing with elements reflecting our fiscal constraints and a residualist conception of housing policy. To break out of this lowest-common-denominator compromise, the problem needs to be reframed.

Reframing the social-housing policy problem

There are three key elements underpinning such a reframing, each based on an informed economic and social understanding of housing and housing systems:[27]

(a) Recognition of the fact that around one-quarter to one-third of the population will not find satisfactory housing through the market alone;

(b) Decoupling investment in socially oriented housing from the periodic constraints on government borrowing;

(c) Recognition that cost-rental provision with secure occupancy to a significant share of population is the best available response to the dynamics of rental systems and housing markets.

Element (b) is widely accepted, since it is a direct implication of the current, severe constraints on borrowing that adds to Ireland's general government debt. But it needs to be seen in the context of elements (a) and (c). The first of these describes the nature and scale of the housing-policy problem, while the third (cost-rental provision) provides a key way to mobilise and fund investment that is decoupled from constraints on government borrowing. As frequently noted, movement towards a cost rental approach will require complementary adaptation of housing assistance payments on two fronts: limiting the state's current exposure to rising rents in the private rental sector and ensuring affordability for tenants currently paying differential rent. Thus, movement away from the traditional system of differential rent, towards rents that better cover costs and support long-term, large-scale provision, needs to be accompanied by an extension of housing-assistance payments to low-income households currently on differential rent. The Council emphasises that it is exploring the possibilities for cost rental as one pillar of a social housing strategy that would involve increased investment and a more active public role in driving supply of affordable accommodation.[28]

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27 In the Irish case, at least in current circumstances, there is a fourth key element, which we have discussed in Chapter 5: the condition of the housing associations, financial system, construction sector and planning system mean that policy cannot rely on incentives, however smartly designed, and arm's-length contractual relations to bring forth a supply of homes at the cost, composition and quality that is required. This, we suggest, requires new institutional arrangements.

28 We emphasise this because over recent decades a number of other countries, among them New Zealand and Australia, have undertaken reforms that could, on superficial examination, seem the same as those explored in this report. Those reforms included replacement of a system of rents based on household income, payable by public-housing tenants, with rent assistance or an accommodation supplement. As explained by Hulse, in those countries this was to assist tenants in paying market rents to private landlords or a public-housing agency operating on a fully commercial basis (Hulse, 2003). 'This type of assistance carries no specific guarantees in terms of affordability benchmarks or the quality and suitability of housing, all seen as matters of household preference. Governments assume that households will be able to access market housing with the additional purchasing power of housing allowances but without a high level of institutional support for the private rental sector' (*ibid.*: 40). This 'passive' approach differs significantly from that outlined by the Council in this report. First, rather than rely on what is provided by the existing private-rental sector, we see an active role for the state in driving supply through a public-housing corporation, through housing associations and large private investors. Second, rather than make public assistance to tenants vulnerable to the upward movement of market rents, we identify cost rental as the third pillar of a new approach.

Together (a), (b) and (c) allow us to frame the issues in a different way. They do not promote the economic over the solidaristic, or vice versa. Rather, they suggest that each perspective be articulated, pursued and combined in a way more suited to the realities of housing, government debt and the economy.

These alternatives are illustrated in Figure 6.2, which characterises approaches to social housing on two dimensions: how social solidarity is conceived and expressed and how the economic reality, that everything must be paid for by someone in some way, is embedded. The top left-hand quadrant represents the compromise inherent in Ireland's current social-housing policy, described above, a compromise that is unstable and not sufficiently effective. The bottom right-hand quadrant shows that a different combination of economic reality and social solidarity is also available. Economic realities and costs are, in the main, met by a combination of modest supply-side subsidy and cost rental, a challenge that is less demanding the larger and more mature the cost-rental segment of the overall housing system becomes. Social solidarity is inclusively conceived, recognising that a significant share of the population will face difficulties in an unregulated private rental or home-ownership market. This is supplemented by higher levels of support to low-income families, but the cost of this is moderated by the lesser residualistion, segmentation and non-participation that is achieved in the overall housing and welfare system.

We suggest that, in the formulation of the new social-housing strategy, the set of possible alternatives be widened in this way, including the policy suggestions outlined in Chapter 5. This is necessary given the reality of housing, constraints on government borrowing and international evidence.

We also suggest that this can be conducive to constructive deliberation and finding agreement on the direction of Irish social-housing policy. This view of the alternatives provides a context within which the undoubtedly difficult issues of differential rent and tenant purchase can be more constructively considered and debated. A focus on using new investment to drive increased provision of affordable homes, strategically increasing the size of a cost-rental sector, certainly raises questions about both tenant purchase and differential rent. While possible movement away from these can be cast as reversal of generous traditional welfare provisions, the overall approach would, in fact, be one of extended developmental welfare.

Figure 6.2: Reconciling the Economic and Solidarity Dimensions of Housing Policy

		Economic Approach	
		Rationed public provision & benefit to those in profit rental	Cost covering rental
Social Solidarity on Housing	Residualist	High transfers to an increasingly residual group, backed up with increasing recourse to housing benefits and payments to tenants and landlords in the private rental sector	
	Inclusive		Cost rental with a strong supply of affordable rental homes, with secure tenancy, supported by modest supply-side subsidy (and tax provisions) for mainly non-profit providers aimed at integrated housing.

To see this, note that elements (a) and (c)—that underpin the reframing earlier in this section—have several important implications for the version of both economic and solidaristic thinking that have prevailed in Ireland—shown in the top-left quadrant of Figure 6.2. For, despite their apparent differences, what these share is a belief that the public role in housing is purely about a residual group. Elements (a) and (c) of our reframing suggest that it is not adequate to view housing supports—such as rent supplement and eventually HAP—in the same terms as contingency-based payments, such as Jobseeker's Benefit or Jobseeker's Allowance. The economy can sometimes reach full employment, when working-age transfers will largely be confined to those frictionally unemployed and outside the labour force. But, as we have discovered in Ireland, even in full employment a large share of the population will not find affordable and adequate housing in either the private-rental sector or home ownership. For many decades Irish policy recognised this in its provision of widespread, high tax reliefs to support home ownership. Once we accept the general scale of the housing issue, it is no surprise that the numbers in rent supplement and similar schemes, and the numbers struggling to achieve or maintain home ownership, increased during Ireland's long economic boom and have proven very difficult to reduce in recession. This has less to do with inadequate design of eligibility conditions, or perverse incentives to recipients, as with the underlying nature of the housing market and the distribution of income and wealth. A better, though not perfect, analogy is with health or education. While eligibility for a full medical card is, correctly in current circumstances, rationed to those in most need, the rest of the population remains eligible for very significant health-service supports. As we saw in Chapter 4, countries that have effective housing policies use modest subsidy and regulation to ensure affordable secure rental to a significant share of the population, as shown in the bottom right-hand quadrant of Figure 6.2.

A related implication is that ideas borrowed from other spheres of welfare and labour-market policy—such as adopting a 'life-cycle' approach and the desirability of 'churn' (turnover of tenants) in social housing—need to be used carefully in the sphere of housing policy. Indeed, trying to visualise and apply these ideas to housing helps reveal this. The idea of seeking churn in social housing directly reflects the presumption that housing support is so scarce, and housing need such a variable contingency, that it is vital to recycle the support to those most in need. But for individuals and communities, housing churn is about the last thing that is wanted; and it the opposite of government policy as set out in *Delivering Homes, Sustaining Communities* (DEHLG, 2007).[29] But this is not to say that the motivation behind applying the lifecycle and seeking churn is not valid. The motivation is the economic cost of the main channels of provision. If it does not make housing, social or economic sense to seek exit and churn, it might well make sense to limit the state's exposure in other ways: by revising rent policy, controlling the increase in private rents that the state is committed to paying, increasing the supply of cost-rental homes and protecting the size of the overall cost-rental stock.

In conclusion, our attempt to reframe the housing-policy challenge suggests a number of ways in which consideration of the options in the formulation of a new social-housing strategy should be widened. In Figure 6.1 we summarised our view that Irish policy is in an unstable equilibrium, with pressures to both restrict eligibility and personal subsidy, on the one hand, and to defend traditional elements such as differential rent and tenant purchase, on the other—shown by the leftward arrows in that figure. The approach we explore in this report is an alternative, in which cost rental provides the basis for larger-scale affordable-housing supply, and hence wider coverage, with more modest subsidy in general. This is shown by the rightward arrow in Figure 6.1. The evidence in this report, combined with the alternative options and framings, is a contribution to policy development and strategy on one of the most critical issues facing Irish society and the Irish economy.

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29 There are, of course, ways in which lifecycle thinking can be applied in housing. One example is the advantage of developing neighbourhoods that accommodate a mixture of age groups and households types; this can facilitate people to move to appropriate accommodation over their lives, without having to lose neighbourhood and other connections.

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