



The Future of Council Housing

An analysis of the financial sustainability of local authority provided social housing

Executive Summary



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The changing role of council housing

For most of the period since social housing was first built in Ireland in the late 19th Century, local authorities have been its main providers. Local authorities have provided 365,350 council houses and flats since then and these dwellings accounted for 22.2% of the total Irish housing stock in 2016. These dwellings have made a major contribution to providing affordable, good-quality and secure accommodation for low-income households, and also to improving the quality and increasing the size of the Irish housing stock.

The last three decades have seen a significant reduction in the traditional role of council housing as the primary source of accommodation for low-income renters however. In 1994, council housing tenants accounted for 73.2% of the low-income renting households in receipt of government housing supports. By 2016, this had fallen to just 53%.

In part, this development reflects the decline in council housing output following the sharp contraction in the funding available to this sector after the economic crisis commenced in the late 2000s. Total public funding for new council housing fell by 94% between 2008 and 2013. It also reflects longer term factors such the tradition of selling council housing to tenants which dates back to the 1930s. In addition since the 1980s governments have relied increasingly on other sources of housing for low-income households. These include: not-for-profit sector approved housing bodies (AHBs) and government subsidies for private rented housing such as Rent Supplement and Housing Assistance Payment (HAP).

Research rationale and aims: the financial sustainability of council housing

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

Several government commissioned analyses have concluded that government subsidisation of private rents is a more cost effective and also more flexible way of meeting the housing needs of low-income households than providing them with council housing. The practice of selling council housing to tenants is a central consideration in these calculations because dwellings are sold at a discount of between 40 and 60% of market value, therefore the proceeds of sales are never sufficient to cover their replacement costs. Unsurprisingly, concerns about the challenges of funding council housing provision became particularly acute since the recent economic crisis and, as mentioned above, spending on this new council housing provision contracted very significantly in the five years after 2008 following a period of relatively high spending in the early 2000s. However, the declining importance of council housing and sharp peaks and troughs in investment are not recent phenomena – they are evident at least since the 1980s. This indicates that council housing's funding problems are not solely related to the economic crisis of the late 2000s crisis, but rather are more deep and persistent in nature.

These funding challenges raise questions about the capacity of the government to fund the delivery of sufficient additional council housing to accommodate applicants for social housing and homeless households as is

envisaged in *Rebuilding Ireland*. They also raise more fundamental questions about the financial sustainability of the council housing sector, its associated long-term decline and whether this decline can or should be reversed. Can a better way of funding council housing be identified which ensures that the sector can deliver housing in a consistently fashion which avoids sharp peaks and troughs in supply?

The project was inspired by these concerns about the capacity of the council housing sector to meet the housing needs of low-income households in Ireland in an affordable and efficient way. It aims to assess the financial sustainability of council housing and generate recommendations to increase its future financial sustainability so that the supply of dwellings in this sector can be increased in a way which is affordable for the government and provides the high quality and affordable housing service for tenants.

Research methods

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

CONCLUSIONS

- **More council housing is required, particularly in urban areas.**

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

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

- **Arrangements for funding the capital costs of council housing provision have effected an inefficient, boom/bust pattern of output**

The report flags strong concerns about the financial sustainability of the current model used to fund the capital costs of council housing provision. These costs are currently met funded by central government grants which cover the full costs of building or buying council housing ‘up front’ in a lump sum.

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

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

- **The funding model requires the selling of council housing at a loss**

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

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

- **Rents generate inadequate funding for council housing management and maintenance**

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

The evidence presented in this report indicates that rents do not generate enough money to maintain council housing property. Almost all of the rental income received is devoted to 'response maintenance' (i.e. responding to tenants' maintenance requests) and there is underinvestment in 'planned maintenance' (i.e. planned repairs and upgrading necessary to protect the fabric of dwellings and improve standards). There is over-reliance on central government funding schemes for estate regeneration and refurbishment

of empty dwellings to fund repairs to dwellings which would usually be carried out as part of planned maintenance programmes. This is an inefficient and costly approach because the costs of deferred maintenance do not simply accumulate, they multiply - dwellings which have not been maintained for twenty years, require much more spending to upgrade than dwellings which are regularly maintained.

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

- **National housing policies for local housing problems**

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

However, the model for funding council housing is the same in both urban and rural areas which many interviewees felt was inappropriate. Some representatives of rural authorities felt a more efficient and less intrusive version of the central government grant system would be adequate for their needs in terms of delivering sufficient council housing supply. Urban local authority representatives complained that the property tax system redistributes income raised in urban areas to rural local authorities which in practice means that revenue is redistributed from areas of high housing need to areas where housing need is lower. They argued that urban local authorities should be allowed keep a higher proportion of property tax revenues if it is spent on council housing provision. Some interviewees suggested that, together with rents which reflect the costs of housing provision, revenue from property tax could be used to service loans to build council housing. This would approach would help to smooth out the peaks and troughs in investment in this sector, and higher rents would incentivise local authorities to ensure that their dwellings were quickly re-occupied after tenants leave.

RECOMMENDATIONS

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

Minor management and administrative changes

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

Medium scale reforms

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

Radical restructuring of arrangements for funding council housing

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