# SECTION II

## ANALYSIS OF HOUSING POLICY

# 5

# CRITERIA FOR EVALUATING POLICY

## INTRODUCTION

Section II is concerned with an evaluation of housing policy. Many types of Government intervention can still be observed here. Government intervention refers to policy actions of the public authorities, whether central Government or local Government, even though the scale of some types of intervention has been reduced in recent years. This particular chapter is concerned with the criteria which are employed in Section II in evaluating policy. The types of Government intervention which can occur in housing can be categorised as follows:

(a) Regulations, e.g. on minimum provision of housing services: an example would be the powers which local authorities have to declare dwellings unfit, or the powers which local authorities have to regulate the standards of housing in the private rented tenure. Another example would be the case of planning requirements, which may require that a certain proportion of development is used for residential purposes.
(b) The provision of information to consumers and to producers.
(c) Subsidies given, or taxes levied, on producers which are linked to the construction or the improvement of dwellings.
(d) Transfer payments to households, in cash or in kind, which are designed to stimulate the consumption of housing services, including cases where transfer payments are given for improvements to dwellings.
(e) The direct provision of housing services on the part of the State, through the construction and maintenance of dwellings.
(f) The direct provision of loan finance for housing on the part of State agencies.

## CRITERIA FOR EVALUATING HOUSING POLICY

The criteria which are used in this report to evaluate the outcomes under housing policy are linked to the basic reasons why Governments intervene in housing markets. These reasons may be grouped into the following categories:

(i) A wish to make housing markets work more efficiently: this is essentially an intervention on grounds of "market failure"; on this, more below.
(ii) In order to achieve minimum housing standards.
(iii) A desire to promote either private or social ownership as something desirable in its own right.
(iv) In a world where markets and private ownership are dominant, the

achievement of a distribution of income other than that which would occur if market forces were to operate: this raises issues of equity.

In some instances, policies may be aimed at a regional or a local level. Governments may wish to intervene in particular housing markets. An example of this could be an urban objective, "reviving the inner city": although here, there are broad issues of efficiency (avoiding dereliction, avoiding losses from the housing stock) and equity involved.

## EFFICIENCY

The efficiency case for Government intervention in housing markets (item (i) above) is that private markets are unable to deliver the "optimal" amount of housing services, for a number of reasons. The reasons are as follows.

First, there can be so-called "external" effects which occur due to housing provision or its absence. That is, there are benefits conferred on others, or costs imposed on others, without prices being charged for such benefits or costs. Historically, an important example lies in the public health dangers which derive from inadequate housing and deficient sewerage disposal. If individual action in private markets leads to public health dangers, there can be grounds for public intervention to impose building codes. As will be seen in Chapter 6, the early direct provision of public housing occurred to improve sanitary conditions and public health. In Ireland such public health reasons are no longer significant as reasons for State intervention, though they are not entirely absent.

Of more importance now are different types of "external" effects. Such effects occur essentially because the prices of dwellings do not capture all the attributes of housing. In particular, persons other than the house purchaser may benefit from the provision of adequate housing facilities, in part because good housing is an inseparable part of adequate neighbourhood facilities. One example of this is the progressive urban decay which may occur in a spiral which began with house demolition and inadequate maintenance of housing. By contrast, in a neighbourhood where individual householders maintain their dwellings in good condition, there is an "external" benefit which flows from individual actions to the quality of the neighbourhood as a whole. This action of any one person benefits the neighbourhood as a whole and the quality of the neighbourhood services which other people obtain.

Second, there can be monopoly power in markets related to housing. One example of this which was relevant up to recent years was the monopoly power enjoyed by building societies. Related to this, building society interest rates did not reflect the balance of supply and demand in the mortgage market but were at levels associated with an endemic excess of demand for funds over the



availability of funds. Moreover, some people, or people wishing to buy houses in particular areas, would have had difficulties in obtaining loans. And there were uncompetitive practices such as collusion on interest rates, tiered interest rates and stipulations about insurance companies which would be accepted. With the deregulation of financial markets and the loss of relative fiscal privileges by the building societies, these sources of "market failure" are now less important than formerly.

Other instances where there can be, and is, uncompetitive practice remain — in the ancillary services of surveying and conveyancing in relation to house purchase. The professional practices in relation to charges and the stipulations of the building societies with regard to surveying, are incompatible with competitive behaviour.

Third, households may have less than full information about the availability of dwellings of particular types, and about the characteristics of those dwellings. Problems of information and uncertainty arise in part because house purchase is infrequent, and in part because housing is fixed in location. For both of these reasons, there is limited opportunity for "shopping around" and consumers may make decisions on information which is out-of-date. Moreover, they may make inadequate allowance for housing attributes (e.g. adequacy of heating facilities, structural soundness) because of the difficulties of getting information which is provided in an independent manner.

## EQUITY

The criterion of equity is item (iv) above on income distribution. There are two broad ways in which this can be looked at. These are not mutually exclusive and are as follows:

(a) Horizontal equity or equal treatment of equals: that those who are in all relevant senses identical should be treated identically — for example, equal treatment for those in a particular income group and with a particular family composition.

(b) Vertical equity deals with the treatment of people with different income. Take the case of the net benefits received through the system of taxes, and cash plus non-cash transfers. There are a number of possibilities.
   - progressivity (or progressive redistribution of income): net benefit as a proportion of income decline as income rises, thus, those on lowest incomes are the people who gain most in relative terms from the policy;
   - regressivity (regressive redistribution): benefits as a proportion of income rise as income increases — in this case, those on highest incomes are the people who gain most in relative terms from the policy;
   - proportionality: net benefits are the same ratio of income throughout the range of incomes.

There are two interpretations of equity (again not mutually exclusive) which are often used — at least implicitly — and which relate to the above criteria. First, there is full equality, that is equal treatment for everybody.

However, this raises the question: what does one mean by equality? Some would define it was equality of opportunity in some broad sense. Others would define it as equality of access, more tightly defined, to ensure that elements such as income or sex or family background do not form a barrier to provision; or equality of access with special provision for those with special needs, irrespective of ability to pay. Second, there are minimum standards. This implies that nobody should fall below a certain level of income or of consumption.

One other point on redistribution: one should look at the net or final impact on redistribution. This is, account should be taken of the incidence of the taxes which are levied in order to finance the benefits received. Suppose that a benefit which is directed at low income households is financed by a regressive tax: then the ultimate incidence is ambiguous.

## TARGETING

Equity is concerned with achieving the most desirable distribution of goods and services among the members of society. This raises the issue of efficiency in redistribution: how to achieve a given income redistribution in the most efficient and cost-effective manner from the point of view of maximising output in the economy. Alternatively, there may be a desire to achieve a given redistribution in the most cost-effective manner from the point of view of Government expenditure. Hence, targeting can be elevated as an objective. A targeted measure is one aimed at, say, a particular group with the aim of confining most of the benefits to the members of that group. There are potential problems with targeting:

— It can be counter to social consensus and social solidarity between the members of society. For instance, benefit paid as a social right rather than depending on individual need is the basis of most social insurance schemes: while benefits could be targeted more effectively at those in "need" (however defined), solidarity could be weakened and with it the willingness to finance these transfer payments.
— There could be increased problems of the "poverty trap". This term describes the case where a household would lose a good deal, or possibly all, of a gross pay increase, due to increased direct taxes (income taxes plus employee social insurance contributions) and reductions in benefits received. That is, there could be high implicit tax rates on people who increase their earnings from a low level, partly due to the loss of means-tested benefits. This could lead to efficiency losses (reductions in work



effort and hence in potential output) unless there is an effective interaction between the tax system, the social welfare system and housing benefits.
— To the extent to which targeting involves a reliance on means-tested benefits, there may be a low take-up due to a combination of lack of information about entitlements and the stigma which can often attach to means-tested benefits.

## CONFLICTS BETWEEN OBJECTIVES

Conflicts can arise between the achievement of the various objectives. "Trade-offs" can occur between the achievement of efficiency in markets and the pursuit of equity objectives. For instance, greater reliance on user charges could make markets work more efficiently, by giving an incentive to users to economise in the use of a scarce resource. But would increased reliance on user charges lead to decreased consumption by those who are least able to afford to pay? If so, could these people be compensated by other methods? Another trade-off which can arise is that more redistribution through higher benefits in cash or in kind may lead to efficiency losses — for instance, through worsening the poverty trap.

## EXCHEQUER FINANCES AND INDIRECT EFFECTS OF STATE INTERVENTION

There has been an increasing recognition of a dilemma posed by State intervention. This often involves explicit Government expenditure or the foregoing of tax income. While there may be a *prima facie* justification for such intervention on efficiency or other grounds it may have side-effects as follows:
— tax rates may rise as a result, bringing with them efficiency losses in the form of reduced output or reduced work effort;
— the position of the Exchequer finances may worsen further.

Hence, there is need to be sensitive to the indirect effects of Government intervention, including the impacts of policy on the Exchequer finances.

## IMPLICATIONS FOR POLICY EVALUATION

In summary, the implications of the above for the following chapters, which deal with particular aspects of policy, are that the following questions need to be asked. What is the rationale for Government intervention, on efficiency or equity grounds? Given the nature of the "market failure" or of the redistribution objective, are the methods chosen appropriate? Do they have indirect effects on efficiency, equity or the public finances?

# 6

# THE PUBLIC SECTOR: PROVISION AND ALLOCATION OF HOUSING

## INTRODUCTION

This chapter deals with housing allocation through the public sector. There is an overview of local authority allocation of dwellings — how people can acquire dwellings for rent. The change in the number and nature of applicants for local authority housing in recent years is then outlined. The building mix by size is then considered, followed by an outline of some key issues in allocations policy. Finally, some principles on the need for rented housing and on priority estates in the public sector are considered.

## HISTORICAL ORIGINS

In 1883, local authorities began to provide cottages for agricultural labourers. The first move to provide housing for working classes was with the founding of the Dublin Artisans' Dwellings Company, a philanthropic body, in 1876. This was followed by the beginning of housing provision by Dublin Corporation in the 1880s. Up to the early 1900s, little was accomplished in the field of housing by the local authorities, except the provision of urban housing and slum clearance under the *Housing of the Working Classes Act* 1890. This was the establishing Act for the provision of urban housing. It empowered councils to provide working class houses. The first Act which provided for State subsidies for urban housing was the *Housing of the Working Classes (Ireland) Act* 1908. Houses were built by local authorities with loans repayable over 40-60 years.

An important turning point in the legislation occurred with the *Housing Act* 1919: the optional power hitherto given to local authorities to build houses was transformed into an obligation to provide for that part of the housing need of the working classes which was not provided for by other agencies. A considerable amount of Exchequer subsidies were provided for this task.

Action to clear slums on any scale did not occur until the 1930s. The *Housing Acts* of 1931 and 1932 provided for the subsidisation of loan charges on money borrowed by local authorities for housing. The local authorities by 1946 had replaced the private sector as the principal suppliers of housing.

Between 1932 and 1942, over 11,000 condemned houses were demolished by local authorities as well as by private people. This was the period when some of the largest estates of local authority housing were built in the Dublin area.

The immediate post-war nadir of housing completions was followed by an upsurge in completions. In the fifty year period up to 1947, 180,000 dwelling had been completed, of which 65 per cent had been put in place since 1932. In turn, 53,000 of those post-1932 dwelling had been provided by local authority capital expenditure was halved in the space of two years between 1956 and 1958. This reflected a view that housing needs had been met. The influential report *Economic Development* of 1958 (Ireland, 1958) said:

> "Private housing needs have been largely met, while local authority housing programmes have already been completed in a number of areas and are expected to be completed in all areas outside Dublin within three or four years".

This was a period when, with a high rate of net emigration, there was a sharp rise in the number of vacancies in local authority housing estates. In 1961 the output of local authority housing in Dublin was barely a tenth of its level in 1951.

In the 1960s, reflecting a reassessment of housing needs in the White Papers of 1964 and 1969, there was a marked rise in housing completions by local authorities. In 1965, Dublin Corporation began the Ballymun scheme of high rise dwellings, where over 3,000 dwellings were built. In the 1970s, further increases in the rate of completion of local authority dwellings occurred.

## ACCESS TO LOCAL AUTHORITY HOUSING: THE CURRENT SYSTEM

Access to the local authority tenure occurs in a number of ways. First, there is inheritance. On the death of a tenant, the tenancy is usually given to the spouse regardless of family size of circumstances. On the death of both parents, the tenancy is usually given to a son or daughter, again irrespective of family size, but subject to the requirement that the son or daughter has been living in the house for a specified period. Only if no family member is qualified to succeed to the tenancy will the tenancy go back to the local authority pool of dwellings and be available for re-letting.

Second, a local authority dwelling may be made available due to the condemnation, demolition or acquisition of the previous residence of the household. Cases where dwellings are declared to be dangerous or where they are required for development take priority over applicants on the general waiting list. In 1985 the respective allocations were as follows:



| | |
|---|---|
| to families living in unfit houses | 1,355 |
| to families living in overcrowded conditions or involuntarily with other households | 1,644 |
| to elderly persons | 591 |
| to families othewise in need of rehousing | 1,480 |
| Total | 6,038 |

The most important means of entry to a local authority dwelling is through the general waiting list. In order to be considered for a tenancy or for a place on the waiting list, the applicant or a member of his or her family must usually have been resident for a minimum period in the local authority area. For instance, for Dublin Corporation (which accounts for some 40 per cent of the dwelling stock in the state) the applicant, if a native of Dublin City, must have been residing for at least 6 months continuously in Dublin City or County at the time of application. If the applicant is not a native of Dublin City he or she must be residing in Dublin City for at least 2 years continuously at the time of application.

The key criterion in the allocation of tenancies is that of housing need. The definitions of need vary from one authority to another, but the key elements are as follows: family size and composition, the degree of overcrowding in the existing accommodation, the sharing of facilities with another family, the physical state of the accommodation, medical factors, compassionate grounds such as eviction by court order from the previous accommodation, and length of time of the waiting list. In recent years there has been less emphasis on unfitness. In a small number of local authorities, there is an income limit, currently £10,000 per annum for the sole earner in the household in the case of Dublin Corporation. The income limit is adjusted for subsidiary earners and dependants.

In 1948 the *Housing Acts* envisaged that newly-weds would have special category status on the waiting list. Subsequently, this status was extended to the elderly and to travellers.

In the case of Dublin Corporation, persons over 60 years of age may apply for housing. Those under 60 years may apply if there are special circumstances. Dublin Corporation also says that "homeless families will be considered as urgent cases for accommodation in certain areas where vacancies more often occur provided the Corporation is satisfied that they are genuinely homeless". Dublin Corporation also states that single persons over 40 years of age who are homeless may be offered accommodation; single persons under 60 years of age who are not homeless may only be considered if they have serious medical or social problems and their existing housing conditions are such that it is desirable that they be housed by the Corporation.

The main changes in the total number of applicants and of lettings and in their composition in recent years can be summarised as follows: Here and elsewhere, the data on applicants cover approved applicants who have a claim to be met some day by the local authorities.

1. The total number of applicants on the housing list has been falling in recent years. Between 1983 and 1987, the total number of applicants declined from 28,900 to 18,600, or by 36 per cent (Table 6.1). The decline in the waiting list reflects in part the marked increase in the number of vacancies for reletting in estates as a result of the take-up of the £5,000 grant scheme. It also reflects the take-up of local authority loans for house purchase.

2. Within the overall housing list there has been a decline in the proportion of family applicants. At the same time there has been a rise in the proportion of lone-parent family applicants (Table 6.1). Between 1983 and 1987 the number of applicants from families declined from 22,000 to 13,700. Families (including lone-parent families) represented 74 per cent of the housing list in 1987. In 1987, there were 3,900 applicants from single

**Table 6.1**
**Housing Applicants by Specific Groups, 1983, 1987 and Lettings to Specific Groups, 1987**

| | 1983 | | 1987 | |
|---|---|---|---|---|
| | Nos. | % of total | Nos. | % of total |
| *Approved Applicants:* | | | | |
| Elderly persons | 5,341 | 18.5 | 4,378 | 23.6 |
| Disabled persons | 132 | 0.5 | 123 | 0.7 |
| Travellers | 580 | 2.0 | 330 | 1.8 |
| Homeless persons (other than Travellers) | 392 | 1.4 | 129 | 0.7 |
| — single | n.a. | | 35 | 1.9 |
| — families | n.a. | | 94 | 0.5 |
| Single parent families | 2,818 | 9.7 | 3,931 | 21.2 |
| Other | 19,674 | 68.0 | 9,667 | 52.1 |
| Total | 28,937 | 100.0 | 18,558 | 100.0 |
| *Lettings to:* | | | | |
| Elderly persons | 1,046 | 12.9 | 1,266 | 13.1 |
| Disabled persons | 62 | 0.8 | 58 | 0.6 |
| Travellers | 124 | 1.5 | 147 | 1.5 |
| Homeless | 363 | 4.5 | 870 | 9.0 |
| — single | n.a. | | 631 | 6.5 |
| — families | n.a. | | 239 | 2.5 |
| Single parent families | 684 | 8.4 | 1,894 | 19.6 |
| Other | 5,896 | 72.6 | 5,405 | 56.1 |
| Total | 8,125 | 100.0 | 9,640 | 100.0 |

n.a.: not available.
Source: Department of the Environment.



parent families, amounting to 21 per cent of the total. This compares with 2,800 lone-parent families on the list in 1983, making up 10 per cent of the total list in that year. Between 1983 and 1987, the proportion of elderly persons (families and single persons) on the list increased from 18 per cent to 24 per cent.

3. There have been similar changes in the composition of the lettings over the past five years. In 1983, 5,900 lettings were made to families (excluding lone-parent families), amounting to 73 per cent of the total. In 1987, 5,400 lettings were made to families (excluding lone-parent families), amounting to 56 per cent of the total. In 1987, 1,900 lettings were made to lone-parent families, 20 per cent of all lettings: this compares with 700 such lettings, 8 per cent of the total, in 1983. Another contrast between the two years relates to lettings to lettings to homeless persons: in 1987, such lettings amounted to 900 or 9 per cent of the total with 600 going to single homeless persons: this compares with 400 lettings to homeless persons (4 per cent of the total) in 1983. The proportion of lettings which go to elderly persons was 13 per cent in both 1983 and 1987. In the case of Dublin Corporation, due to the difficulties experienced since 1986 in filling tenancies in certain areas, housing has been allocated in some cases to people who may not have qualified under the scheme of letting priorities but who were in need of housing accommodation. This was to avoid dwellings being left unoccupied.

4. There has been a decline in family size among applicants (Table 6.2). This reflects in part the decline in fertility outlined in Chapter 4 and the extent also to which the larger families on the waiting list were housed under the accelerated building programme which lasted until mid 1980s. In 1987, families with 3 or less children made up 70 per cent of the family housing

**Table 6.2**
**Family Applicants and Family Lettings by Size of Family, 1983, 1987**

| Size of family | Applicants: % of all | | Lettings: % of all | |
|---|---|---|---|---|
| | 1983 | 1987 | 1983 | 1987 |
| 2 | 20 | 36 | 14 | 32.7 |
| 3 | 37 | 29 | 36 | 32.5 |
| 4 | 22 | 17 | 28 | 17.4 |
| 5 | 11 | 9 | 12 | 8.6 |
| 6 | 5 | 5 | 5 | 4.4 |
| 7+ | 4 | 4 | 4.2 | |
| All | 100 | 100 | 100 | 100.0 |
| Memorandum item: | | | | |
| Total number of applicants/ lettings | 22,000 | 15,663 | 8,125 | 9,859 |

Source: Department of the Environment.

list: this was markedly greater than the proportion of 36 per cent which applied to families of 3 children or less, in 1983. In the same year, 33 per cent of lettings were made to 2-person families, with 33 per cent to 3-person families. Hence, 65 per cent of family lettings were to families of 3 persons or less.

Dublin Corporation is now, for the first time ever, making housing allocations to families of two persons and to single people. In 1986, some 770 single persons who were not elderly were housed by Dublin Corporation. This made up 19 per cent of all the lettings made by the Corporation to persons on the housing list and to homeless persons. Comparable proportions for earlier years were 14 per cent for 1985 and 8 per cent for 1982.

In the Dublin Corporation area in recent years, the number of vacant dwellings has been such that families and single people have obtained lettings without going through the waiting list and the points system. Such applicants are classed as "homeless" and are given lettings in low demand areas. Again reflecting the changing availability of dwellings, Dublin Corporation has relaxed the residence qualification, though housing the applicants in question in low demand areas. Moreover, there are provisions whereby special cases such as those evicted from private lettings, or homeless families who have been in a hostel for at least three months, can be housed without going through the waiting list. Again reflecting current conditions, these do not need to go through a hostel but will be allocated low-demand housing.

5. Between 1983 and 1987 the estimated waiting period fell from 3.3 years on average to 2.0 years, a decline of 39 per cent. There are distinct differences across areas in the extent of the waiting period, with the period in the county boroughs being 1.3 years. Table 6.3 shows the lettings by broad area and the waiting period for the years 1983 and 1987. Total lettings declined from 11,800 in 1985 to 9,600 in 1987.

6. These changes in the composition of the waiting list and the lettings have reflected a number of elements, which are taken up later in the report. These elements are:
   - economic change, which has led to people becoming homeless
   - the shrinkage of supply of moderately-priced housing in the private rented tenure in urban areas, on which small families, lone-parent families and single persons of modest means used to depend
   - an increased incidence of maritial breakdown
   - social change, bringing with it an increased desire for independent living both on the part of young people and elderly persons



**Table 6.3**
**Overview of Housing List by Family Size and Data on Lettings, 1983, 1987**

| | County Councils | County Boroughs | Urban district Councils and borough Corporation | Total |
|---|---|---|---|---|
| Number of approved applicants at end year (1) | | | | |
| 1983 | 14,182 | 9,074 | 5,681 | 28,937 |
| 1987 | 9,186 | 5,614 | 3,758 | 18,558 |
| — Of which, from families | | | | |
| 1983 | 10,302 | 7,261 | 3,915 | 21,978 |
| 1987 | 7,055 | 4,062 | 2,586 | 13,703 |
| — Of which from families of 3 persons or less | | | | |
| 1983 | 3,822 | 2,454 | 1,563 | 7,839 |
| 1987 | 4,350 | 3,258 | 1,972 | 9,580 |
| Total first time lettings: | | | | |
| 1983 | | | | |
| 1987 | 3,599 | 4,413 | 1,628 | 9,640 |
| Completions (2): | | | | |
| 1983 | 2,878 | 2,271 | 1,041 | 6,190 |
| 1987 | 1,620 | 854 | 600 | 3,074 |
| Casual vacancies let (3) | | | | |
| 1983 | 672 | 1,399 | 682 | 2,753 |
| 1987 | 1,867 | 3,514 | 995 | 6,376 |
| Estimated waiting period in years (a): | | | | |
| 1983 | 4.0 | 2.5 | 3.8 | 3.3 |
| 1987 | 2.6 | 1.3 | 2.4 | 2.0 |

Note (a): Calculated as (1)/[(2) + (3)]
Source: Department of the Environment.

   - declines in average family size, and a decline in the number of larger families
   - an increased availability of local authority lettings which reflected two things: the building programme and the impact of the £5,000 surrender grant on the number of vacant dwellings available for reletting.

7. Apart from these characteristics of the housing list, the income position of applicants is of interest. In 1987, 42 per cent of the families on the housing list earned less than £4,000 a year, by comparison with average industrial earnings of adult males in industry of some £12,000 in the same year (Table 6.4).

## BUILDING MIX

Local authorities have seen their role as one of building and letting dwellings, rather than of purchasing dwellings for subsequent letting. In recent years there

**Table 6.4**
**Overview of Families on Housing List and Those Housed by Income 1985, 1987**

| | Earnings | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £4,000 or less | | £4,001 — £6,000 | | £6,001 — £8,000 | | £8,001 — £10,000 | | £10,001 and above | | Total | |
| | Nos. | % | Nos. | % | Nos. | % | Nos. | % | Nos. | % | Nos. | % |
| 1985: Approved family applicants | 4,586 | 33 | 5,320 | 39 | 2,739 | 20 | 905 | 7 | 227 | 2 | 13,777 | 100 |
| Family applicants housed | 2,511 | 31 | 3,154 | 39 | 1,662 | 21 | 601 | 7 | 165 | 2 | 8,093 | 100 |
| 1987: Approved family applicants | 5,717 | 42 | 3,686 | 27 | 1,354 | 10 | 598 | 4 | 311 | 2 | 13,706 | 100 |

Source: Department of the Environment

has been one attempt by Dublin Corporation to purchase existing dwellings on housing estates — Dublin Corporation bought 40 dwellings under the scheme — but this attempt foundered due to lack of co-operation on the part of builders and a lack of will on the part of the Corporation to pursue a confrontation with builders.

In former years, Dublin Corporation built dwellings either designed for families or for the elderly. Small flats were not built specifically to house single people other than the elderly. Hence, single people can be offered only small flats of one or two rooms in size. Flats such as these tend to become available for letting in large numbers only in areas where there are large flat complexes, of which Ballymun is the largest. Hence, among the reasons why large numbers of single people are housed in areas such as Ballymun are the availability of flats in these areas, coupled with the unwillingness of families with children to accept housing in these areas.

## ASSESSMENT: SOME KEY ISSUES IN POLICY ON ALLOCATION

A number of fundamental factors have been at work to change the extent and nature of the applicants for local authority housing. Referring back to the demographic trends noted in Chapter 4, these show that "new" kinds of households, non-family in type, are growing in numbers. At least up to recent years, these households have not been given high priority in housing allocation. Even now, when in some local authority areas it is possible for non-family households to obtain accommodation, it tends to be in the less desirable or "low-demand" housing.

Changes in social welfare benefits also have an impact on housing allocation. For instance, the rise over time in the real value of the old age pension has enabled more pensioners to maintain separate homes. Whatever about the adequacy of the Unmarried Mothers Allowances or its potential role in



discouraging lone parents from seeking work, at least its introduction in 1973 enabled a greater number of lone parents to maintain separate homes.

Some comments on local authority housing allocation can be made, as follows.

— The ease of obtaining a tenancy varies from one local authority to another and from one area to another.
— In the period 1985-1987, it became easier for those on the waiting list to obtain a tenancy in low demand areas. The increasing surplus of local authority housing in such areas reflected a number of elements: the rate of house building by local authorities by comparison with the size of the waiting list, and the take-up of the £5,000 surrender grant combined with the availability of income — related loans to local authority tenants. Many who left the local authority tenure used such loans.
— There can be feedback from allocation policy to the number of applications for allocation which are actually made. If people feel that they have a poor chance of being allocated a local authority dwelling, they may be deterred from applying: in which case they may live unwillingly with other families, or in temporary accommodation or in the private letting tenure. And the local authorities may perceive the potential demand for local authority accommodation to be less than it actually is.
— Problems arise over allocations and transfers within the public sector in the case of certain marginalised groups. At least up to the recent past, faced with larger demands than they could meet and armed with insufficiently decisive instructions about whom to exclude, officials have had to invent priorities of their own. These may tend to discriminate directly or indirectly against certain kinds of household. One parent families, for example, may be systematically sent to less attractive houses, or their poverty and marginalisation may attract penalties imposed on "bad housekeepers" or "poor rent payers". As a result of these processes, social stigmas may be imposed on particular streets or neighbourhoods. The relatively secure and higher income households then seek to escape from such neighbourhoods, thereby exacerbating these problems. Over time, these neighbourhoods have presented increasingly expensive problems of vandalism, maintenance, rent arrears, unlettable housing, public order, and so on.
— Even in the period when waiting lists fell, the allocation procedures reflect those of earlier years, with non-family type households being treated less favourably. When they have been allocated housing, it has tended to be in "low-demand" housing.
— In the mid 1980s, the increasing availability of local authority housing to marginalised and non-family households — whatever about its quality — reflected a drop in waiting lists and the balance of supply and "demand", rather than any coherent change in policy on the part of

housing authorities. With the drying up of supply of local authority houses which is already observable, the former priorities and exclusion of such groups are quite likely to recur.

## PRIORITY ESTATES IN THE PUBLIC SECTOR

Most countries with large public housing estates — even the Scandinavians — have to some degree a problem of difficult-to-let neighbourhoods. These problems have been increasing in Ireland over time, in part a reflection of the take-up of the £5,000 grant scheme. Experiments in many countries have shown these problems to be, with patience and good sense, surmountable. The problem cannot be tackled effectively unless its causes are understood. The following are some of the most important which have applied in Ireland.

First, for the first time ever some of the poorest people of all are getting into public housing. Previously they were private tenants, or homeless, or shut away in institutions or hostels or compelled to go on living with intolerable husbands or parents, because they had no alternative. Of course, this is a general statement; this is not occurring to the same extent in all areas, and not all poor people are being housed by any means. Why have these trends emerged? Partly it has to do with the long run decline of moderately-priced housing in the private rented sector, partly to do with the constant encouragement of owner occupation as the tenure for all those in employment on at least moderate incomes, and probably partly to do with social change. There has probably been a diminished acceptance by people of sharing accommodation with others under intolerable conditions.

Second, reduced aggregate shortages in the public sector (thanks to relatively high building rates, completion of slum clearance and special factors such as the take-up of the £5,000 grant) enabled its administrators to open opportunities for transfer which were used to move the "good", long established tenants to the most popular estates. This set in train a game of "snakes and ladders", with the housing which was vacated being allocated to potential tenants who were lower down in the queue. This meant that the worst housing became occupied by the more marginalised and worst off groups. Hence, there evolved an increasingly stratified and polarised public sector. There has always been a polarisation in the sense that local authority housing has been in distinct groupings, spatially separate from private housing, with a high degree of consciousness among households of the public-private divide. Now, the differences between "good" and "bad" estates became magnified.

Third, political pressures of the usual short-term kind make politicians more anxious to keep rents down than to keep up with modernisation and repairs. The future backlog of work to be done on public housing built in the peak years of output ages *en bloc*. However, some of the stock was built so badly that



it ages much faster than it should, and is already causing problems of renewal and maintenance. A particular instance of this was the "low cost" housing built in the 1960s and early 1970s which for some time has caused problems of maintenance and renewal. The problems have been complicated by the relative rise in energy prices in the 1970s which made it impossible for the poorer tenants to heat their homes properly: this has led to fierce problems of condensation and dampness in some of the least popular buildings.

Fourth, despite a considerable volume of expenditure on local authority housing up to the early to mid 1980s and a younger housing stock overall, the maintenance service has been less than efficient. The younger housing stock should have given the opportunity for the local authorities to concentrate on the worst stock and to respond to regular smaller repairs as well as to meet more fundamental problems. Yet the maintenance problems mounted, the average cost of maintenance in real terms increased and tenant dissatisfaction if anything increased. Even at the allocation stage, dwellings have increasingly been in a poor state of repair.

Fifth, large blocks of old housing were demolished together in clearance schemes. Thus, large schemes had to be built to replace them. In the case of Dublin clearance, the reduction in plot density which accompanied the slum clearance in the central city meant that some of the dwelling units which catered for rehousing were located in outlying areas such as Tallaght. Often these schemes were divided into big chunks of similar units. That compelled the authorities to put households of the same size and type along particular streets. When these were all households with several children, coming from the same kinds of impoverished inner areas or were lone parent families who were struggling on low incomes, big concentrations of poverty and vulnerability were created. There were so many youngsters depending on so few, and such low incomes, that everyone was struggling to survive — and the environment wore out faster than it could be replaced. After a lapse of fifteen years or so, it is possible that the once stigmatised areas achieve a marked improvement in their environment — provided the economy is thriving. Such improvement is observable in early estates laid down in the 1930s and 1940s in Dublin, e.g., Ballyfermot and Crumlin. It is not, however, observable in peripheral areas such as Tallaght, and there can be no presumption that earlier patterns whereby there was gradual improvement over time in the larger estates will recur. In any event, it is unacceptable that people are condemned to wait an intolerably long period before the economy of the area, and of estates, and the quality of the environment, improve.

Sixth, the recession hit the outlying neighbourhoods where resettlement occurred harder if anything than the inner cities because there was so little local work (and that largely done by non-residents — housing managers, nurses, social workers, plumbers, electricians...) and because so many of the resident earners depended on the kind of manufacturing jobs which where the first to go. In the inner cities were numerous pensioners, students and others with incomes which, though low, were predictable; moreover their communities had deeper roots and were more stable than other areas.

Seventh, "sink estates" may be said to exist partly because they meet some of the needs of housing administrators who were increasingly compelled to take all-comers, but offered insufficient staff and training to handle the people with special difficulties, and therefore felt that they needed "deterrent" neighbourhoods to keep things under control.



# 7

# LOCAL AUTHORITY RENTS

## INTRODUCTION

The current objective of the local authority housing programme is to provide accommodation for those persons who are unable to provide adequate housing from their own resources. For many years, this aim has been addressed in two ways: the allocation policy of local authorities, and by their rent policies. On the latter, efforts have been made to ensure that, for those households which are allocated a dwelling, rent paid as a fraction of income does not exceed a certain amount. This chapter discusses the rent policies of local authorities and their impacts on households of different types.

## FINANCING OF CONSTRUCTION AND OF MAINTENANCE OF LOCAL AUTHORITY DWELLINGS

From January 1988 the capital cost of the local authority housing programme is met entirely from capital grants advanced by the Exchequer.

The deficit between rent receipts and the costs of maintenance and management of their rented stock is borne by local authorities from their own resources. It should be remembered here that the "own resources" of the local authorities include 40 per cent of the proceeds of their sales of local authority dwellings. Hence, there can be a relationship between sales of local authority dwellings and the amount of expenditure on maintenance and management whch is "affordable" at local authority level.

The relationship between rental income and current costs of local authority housing is shown in Table 7.1. In 1986, rental income was £38.6m while maintenance and management expenditure was £71.0m and loan charges were £178.6m. Of the total expenditure on maintenance and management, around a half is on management. Hence, rental income meets only 54 per cent of the current costs of maintenance and management of the local authority estate, not to speak of making any contribution to meeting the loan charges on debt.

## OVERVIEW OF RENT SCHEME

Most local authority tenants pay rents under the differential rents or income-related rents system. At the end of 1985, of the 114,364 dwellings which were let, 108,074 were on differential rents. Fixed rents apply mainly to older dwellings, since all new lettings made after April 1967, and many made prior

**Table 7.1**
**Current Receipts and Expenditure on Local Authority Housing, 1980-1986**
**£m**

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|---|
| *Receipts* | | | | | | | |
| Rents | 21.25 | 24.26 | 30.50 | 31.92 | 38.21 | 41.28 | 38.61 |
| Net proceeds of sales | 6.70 | 7.73 | 8.70 | 11.44 | 10.57 | 10.80 | 10.94 |
| State subsidies | 61.84 | 79.26 | 98.28 | 124.18 | 149.64 | 177.01 | 175.58 |
| Contributions from local authorities | 14.85 | 15.23 | 15.20 | 20.02 | 11.11 | 12.52 | 19.43 |
| Miscellaneous | 02.0 | 2.77 | 3.30 | 3.16 | 4.22 | 4.35 | 5.03 |
| Totals | 104.84 | 129.25 | 155.98 | 190.72 | 213.75 | 245.96 | 24959 |
| *Expenditure* | | | | | | | |
| Loan charges | 67.84 | 83.32 | 102.68 | 129.39 | 154.29 | 181.66 | 178.62 |
| Maintenance and management | 37.00 | 45.93 | 53.30 | 61.33 | 59.46 | 64.30 | 70.97 |
| Totals | 104.84 | 129.25 | 155.98 | 190.72 | 213.75 | 245.96 | 249.59 |
| Rental income as % of maintenance and management and loan charges (%) | 20.3 | 18.8 | 19.6 | 16.7 | 17.9 | 16.8 | 15.5 |

Notes: Local authorities retain all rents and miscellaneous receipts and a proportion of the proceeds of the sales of their houses and are responsible for meeting the costs of maintaining and managing their housing estates. Any deficit in revenue account relating to local authority housing is met by the local authority. The proportion of the proceeds of sales retained by local authorities in 1980 was 45%; and 1981 to 1986 was 40%.
Source: *Quarterly Bulletin of Housing Statistics*.

to that date (e.g. all made since 1950 in Dublin City, and all since the 1930s in Cork City) are on differential rents.

Under the differential rents scheme, rents are calculated by housing authorities. In July 1973 the differential rents scheme was altered: between that date and late-1986 a uniform scheme operated throughout the country. Under the new national scheme of 1973, rents were on average about 20% lower than those under the old scheme; the aggregate decline in rents (compared with what they could have been otherwise) was around £2 million in the course of the year 1973-74.

Up to late 1986, rents were calculated according to a method laid down by the Minister for the Environment, with each scheme operating for a minimum period of one year. In late 1986 the setting of rents was devolved from central Government to the local authorities, although subject to guidelines. Table 7.2 shows that in real terms the average rent of all local authority dwellings increased by 29 per cent between 1975 and 1980, fell by 8 per cent between 1980 and 1983 and increased by 14 per cent between 1983 and 1987. In 1987 the average rent paid by local authority tenants (119,000 in number) was £8.00 per week. For tenants to whom new lettings were made, the average rent was £8.04 in 1986, down from £9.38 in 1983 (Table 7.3). In real terms, the average rent



**Table 7.2**
**Average Rent of All Local Authority Dwellings, 1975-1987**

| Year | Weekly (£) | Rent at constant prices 1975 = 100(a) |
|---|---|---|
| 1975 | 1.59 | 100 |
| 1976 | 1.88 | 100.2 |
| 1977 | 2.39 | 112.1 |
| 1978 | 2.67 | 116.3 |
| 1979 | 3.09 | 118.9 |
| 1980 | 3.97 | 129.2 |
| 1981 | 4.49 | 121.4 |
| 1982 | 5.53 | 127.4 |
| 1983 | 5.71 | 119.3 |
| 1984 | 6.65 | 128.0 |
| 1985 | 6.45 | 117.7 |
| 1986 | 6.27 | 110.2 |
| 1987 | 8.00 | 136.3 |

Notes: (a) Rent is first deflated by the Consumer Price Index (mid-November 1968 = 100) and that at constant prices is then expressed in index form with 1975 = 100.
Source: *Quarterly Bulletin of Housing Statistics*; Department of the Environment.

**Table 7.3**
**Average Weekly Rent of New Local Authority Dwellings at First Letting, 1981-1986**

| Year | £ | At constant prices, 1980 = 100 |
|---|---|---|
| 1981(a) | 8.33 | 100.0 |
| 1982 | 8.70 | 89.2 |
| 1983 | 9.38 | 87.0 |
| 1984 | 7.50 | 64.1 |
| 1985 | 7.40 | 60.0 |
| 1986 | 8.04 | 62.8 |

Note: (a) At mid 1981.
Source: *Quarterly Bulletin of Housing Statistics*; Department of the Environment.

of new dwellings at first letting declined by 40 per cent between 1981 and 1985 and increased by 2.8 per cent in 1986.

Up to recent years, the average rent at first letting was far higher than the average rent over the entire local authority stock. This partly reflected the way in which longer-standing tenants could hit maximum rents, and also the fact that rent maxima on older schemes tended to be higher than average. However, in recent years the difference between the overall average rent and the rent at first letting has almost disappeared. This reflects the changing composition of local authority tenants and in particular the low incomes of new tenants.

The average Exchequer subsidy in respect of new local authority housing is the difference between the loan charges on new dwellings and the average rent received on new dwellings. With an average cost of constructing a local authority house of £32,000 in 1987, the average Exchequer subsidy in that year was £68 per week per dwelling which was newly let.

## CALCULATION OF MAXIMUM RENTS

Between 1967 and 1973, local authorities were asked to set maximum rents of dwellings, excluding centre-city flats, according to the actual or estimated cost of providing the accommodation at current prices, but in the case of older dwellings there was to be a downwards adjustment according to their age and standard of acommodation. (Thus in the case of old dwellings of poor quality, high maxima would have been avoided). For a period after 1973 the maximum rent was defined as the (historically determined) annual debt-service charge, pluc annual maintenance and administration charges which were calculated as 1½ per cent of the all-inclusive cost (which is the cost of land acquisition, including the cost of the site, pluc construction costs). Up to the devolution of rent arrangements in late 1986, the maximum rent of a local authority dwelling was then defined by the Department of the Environment as a fixed percentage, 5.25 per cent, of the original all-in cost updated by using the Consumer Price Index. An example relates to mid 1986:

| | |
|---|---|
| Dwelling erected in 1935 at an all-in cost of | £395 |
| Updated cost | £12,500 |
| Annual maximum rent | £660 |
| Weekly maximum rent | £12.60 |

At the same time the Department put a maximum on any increase in rent payable as a result of the implementation of this formula — £3 per week in the most recent case. From the end of 1986 the setting of rents has been devolved to local authorities.

Maximum rents are reviewed on the occasion of the review of a rent scheme. This review usually occurred annually, although the 1983 rent scheme was not reviewed until 1986.

There is no necessary relation between maximum rents and economic rents. The latter could be defined as the rents which would remunerate the capital costs of construction (historic costs based) and which would cover current maintenance and management, *or* as rents which would be based on replacement costs of capital plus current maintenance and management. Hence, increases in the cost of maintenance and management since the date of building have caused a divergence between maximum and economic rents.

On the other hand, it is possible — at least for a small number of tenants — that the maximum rents payable on some older dwellings exceed the economic rents. This can occur if maintenance costs are low, since the debt charges on



old houses will be low. As an illustration, take a four-roomed house built by Dublin Corporation in 1941, whose building costs were £565. The annual loan charges at 4.25% over 35 years are £31, and ceased after 1975. The maximum rent on such a house will be either £2.88 or £1.60. The maximum rent of £2.88 is likely to have exceeded the economic rent even before 1935, since the weekly maintenance and management costs would hardly exceed £2.88.

Currently, the maximum rents for the older schemes in the case of Dublin Corporation houses and flats (schemes "A", "B', "C" and the 1970 scheme) are £11.80, £13.30, £10.10 and £14.30 per week for 2-roomed dwellings; and are £12.90, £14.60, £13.90 and £17.70 in the case of 3-roomed dwellings, depending on the scheme in question.

An example of the large variation in maximum rents between new and old dwellings can be taken from the Dublin Corporation area. In this area, maximum rents are currently around £30 per week for new dwellings. By contrast, in the estates built in the 1930s such as Ballyfermot and Crumlin the rent maxima are around £15 per week. In the case of certain low-standard dwellings in the latter estates, the rent maxima can fall to £5 per week.

Maximum rents vary considerably between one local authority and another. It is not clear how much of this variation is due to differences in age of dwellings between one local authority and another, and how much is due to differences in the frequency with which maximum rents have been revised.

The adequacy of the allowance for maintenance and management can be roughly tested by dividing the total cost of these services — £71.0m in 1986 — by the average number of local authority dwellings, i.e., by 114,400. This gives an average cost per dwelling of £620 a year in 1986 or about 2¼ per cent of the cost of a new house in that year. This can be compared with the average expenditure on maintenance by owners. Taking the average expenditure on repairs and decorations in 1980 (Household Budget data) by those who own outright and those who own with a mortgage (other than from an insurance company), and expressing it at 1986 prices, the average expenditure is £5.40 per week or £280 per annum.

At first sight, therefore, the average maintenance per dwelling for local authority dwellings would seem to be roughly twice the maintenance expenditure on the part of owner-occupiers. However, the comparison is complicated by the following points:

(a) Only about 50 er cent of the maintenance and management expenditure of local authorities is actually on maintenance — the rest is on management. Owner occupiers do not bear management costs which landlords and local authorities bear.

(b) The Household Budget data on the expenditure by households only takes account of out-of-pocket costs and does not account of the implicit costs which are attributable to the owner's time for "do-it-yourself" work.

If allowance were made for these two elements, much of the gap between average costs of maintenance across the two tenures could be accounted for. Of course, this is a rough-and-ready comparison and does not make any allowance for the differences in housing conditions between the local authority and the owner-occupied tenure.

## CURRENT DIFFERENTIAL RENT SCHEME

In August 1986 the Minister for the Environment decided that housing authorities would from that date onwards be given the responsibility for making and amending the rent schemes for local authority dwellings. It would be the responsibility of the individual local authorities to decide on the the terms of the national rent scheme which was last set out in September 1983. But while there was now devolution of rent setting to local authorities, the housing authorities were asked to ensure that when servicing a differential rents scheme, the following broad principles underlying the 1983 scheme should be followed:

— the rent payable should be related to income and a smaller proportion of income should be required from low income households;
— allowances shold be made for dependent children; a contribution towards rent should be required from subsidiary earners in the household;
— provision should be included for the acceptance of a lower rent than that required under the terms of the scheme in exceptional cases where payment of the normal rent would give rise to hardship.

Any new scheme should, where necessary, also specify the amount of rent payable for dwellings let on a fixed rent and should offer the tenants of such dwellings the option of transferring to an income-related rent for the dwelling.

Among the elements which authorities were asked to take account of when drawing up a new scheme were the following:

— appropriate local factors, including the costs of the maintenance and management of their estate of houses and the adequacy of the income therefrom; the impact of those costs on the housing revenue account etc.; and
— trends in incomes since 6th June, 1983, which was the date of income determination for rent assessments under the former national scheme.



The local authorities were also told that new schemes should ensure as far as possible that total rental income adequately reflected the management and maintenance costs of their dwellings.

In what follows, an account is given of the differential scheme adopted by Dublin Corporation, which manages more local authority dwellings than any other local authority in the State. In addition, as there are differences in the scheme between the different local authorities, variations in selected schemes across local authorities are taken into account.

In Dublin Corporation, the rents are calculated as a proportion of the assessable income of the principal earner, together with a contribution from any subsidiary earners in the household. The *assessable income* of the principal earner comprises the following, in the main:

— income from employment *excluding* overtime income, shift allowances and occasional lump sum bonus payments;
— all social insurance and social assistance payments *except* childrens allowances and supplementary welfare allowances;
— *less* income tax and employee social insurance contributions.

The rents are calculated according to the proportions given in col. (3) of Table 7.4. The proportions are applied to the assessable weekly income of the earner *less* the weekly allowance of the principal earner which is on a sliding scale and declines as the income of the principal earner increases *less* an allowance for dependent children. The rent fractions vary from 5 per cent of assessable income in the case of the lowest income group to 16.7 per cent in the case of the highest income group. A minimum rent of £1.00 a week is payable.

After the rent paid by the principal has been determined, 14.3 per cent (one seventh) of the income of each subsidiary earner which exceeds £20 per week and does not exceed £55 per week is added subject to a maximum total contribution of £5.00 per week.

**Table 7.4**
**Features of Differential Rents Scheme of Dublin Corporation at 1987-1988**

| (1) Assessable income of the principal earner per week | (2) Weekly allowance of principal earner £ | (3) Rent fractions |
|---|---|---|
| Up to £97 | 20 | 1/20 |
| Over £97 up to £106 | 12 | 1/10 |
| Over £106 up to £117 | 8 | 1/8 |
| Over £117 up to £160 | 5 | 1/7 |
| Over £160 | 4 | 1/6 |

Note: Allowance for dependent children: £2 per week for each of the first four children and £4 per week for each additional children of 18 years or under.

With effect from March 1988, rents were increased in the following manner. In cases where existing rents were up to £5 per week, the increase was £0.50 a week; where existing rents were over £5 and up to £10 a week, the increase was £1.00 a week; and where existing rents were over £10 a week, the increase was £1.50 a week.

Table 7.5 shows the typical rents paid by prototype households; married couples with 2 children with the following variations:

— with one earner who is on average industrial earnings of 1987 (Type A);
— with one earner who is on two thirds of average industrial earnings: this would be one approach to the definition of someone who is on low pay (Type B);
— with one earner who is on half of average industrial earnings (Type C);
— with one earner who is on one and a half times average industrial earnings (Type D);
—a person in receipt of Unemployment Assistance (long-term rate) with one adult dependent and two children (Type E);
—a two-earner household, with one person on average industrial earnings and another person on half of average industrial earnings (Type F).

The data on rents as a proportion of disposable income (gross income less direct taxes) are of interest as they tell whether the structure of rents is progressive (with the ratio of rents to disposable income rising as income increases), proportional (with a constant ratio between rents and disposable income) or regressive (with the ratio of rents of disposable income falling as income increases). The structure is progressive. Rents rise as a ratio of disposable income, as one moves from a household on Unemployment Assistance (where the ratio is 4.1 per cent) to one on half industrial earnings (ratio of 9.3 per cent) to one on two thirds of average earnings (ratio of 11.9 per cent) to one on average earnings (ratio of 13.6 per cent). For a household on one and a half times average earnings, the rent paid as a proportion of disposable income is 15.6 per cent. However, if one moves to the two earner household, the element of progressively is no longer present, as the proportion of disposable income which goes on rent declines from 13.6 per cent to 10.1 per cent.

**Table 7.5**
**Differential Rent Payable by Prototype Households: Dublin Corporation, 1988**
**Married Couple with 2 Children, 1 Earner**

| | Type A | Type B | Type C | Type D | Type E | Type F |
|---|---|---|---|---|---|---|
| Gross earnings (£ p.a.) | 11,938 | 7,959 | 5,970 | 17,907 | 4,170 | 17,908 |
| Disposable income (£) | 8,650 | 6,372 | 5,557 | 12,208 | 4,170 | 14,207 |
| Rent proportion (%) | 14.3 | 12.5 | 10 | 16.7 | 5 | — |
| Rent (£) | 1,180 | 759 | 518 | 1,908 | 172 | 1,440 |
| Rent as % disposable income (%) | 13.6 | 11.9 | 9.3 | 15.6 | 4.1 | 10.1 |

Notes: Household Types:
A: earner on average industrial earnings of 1987.
B: earner on 2/3 average industrial earnings.
C: earner on ½ average industrial earnings.
D: earner on 1½ times average industrial earnings.
E: on Unemployment Assistant (long-term rate of 1987).
F: two-earner household, one on average industrial earnings, one on ½ average industrial earnings.
*Assumption:*
It is assumed that overtime hours were 2.9 a week on average out of a total work week of 42.9 hours: the average for all industry in 1987. This assumption is necessary as overtime earnings are disregarded. The earnings are of males on adult rates in all industries.



Related to this, it is of interest to compare the average rent paid on local authority dwellings with the marginal rent paid as a ratio of additional income. This has bearing on the extent to which the rent structure could contribute to problems of the "poverty trap" — that is, the possibility that when a household improves its gross income, it loses so much in tax, rent and loss of means-tested benefits that there is little improvement in its net income. In order to explore this one can calculate the extra rent paid as a ratio of additional gross income and can compare this with the average ratio of rent to gross income.

This is done in Table 7.6. Table 7.7 elaborates on these calculations, showing the changes in rent as income ranges over £100 to £200, for three different family sizes ranging from 2 children to 3 children. A feature of this table is the sharp increases in rent payable as a proportion of additional income — some

**Table 7.6**
**Average and "Marginal" Rent Paid for Prototype Households, Dublin Corporation, 1988**

| Household | Rent paid as % of disposable income<br>% | Additional rent paid as % of additional disposable income<br>% |
|---|---|---|
| Receiving Unemployment Assistance | 4.1 | |
| On half of Average Industrial Earnings | 9.3 | 24.9 |
| On Two thirds of Average Industrial Earnings | 11.9 | 29.6 |
| On Average Industrial Earnings | 13.6 | 18.5 |
| On One and a half Times Industrial Earnings | 15.6 | 12.2 |
| Two earner: one on Average Industrial Earnings, one on Half of That | 10.1 | 11.5 |

Note: The second column considers only moves between the prototype households which are shown in this Table.
Source: Table 7.5.

**Table 7.7**
**Differential Rent Payable by income and Family Size: Dublin Corporation, 1988**

| Gross earnings per week | Rent per annum | | | Extra rent payable for £10 per week increase in income as % of additional gross income | |
|---|---|---|---|---|---|
| | With 2 children | With 3 children | With 4 children | With 2 children | With 4 children |
| 100 | 192 | 187 | 182 | | |
| 110 | 213 | 208 | 203 | 4.0 | 4.0 |
| 120 | 499 | 489 | 478 | 55.0 | 52.9 |
| 130 | 510 | 499 | 489 | 2.1 | 2.1 |
| 140 | 712 | 702 | 686 | 38.8 | 37.9 |
| 150 | 749 | 733 | 723 | 7.1 | 7.1 |
| 160 | 905 | 889 | 874 | 30.0 | 29.0 |
| 170 | 946 | 931 | 915 | 7.9 | 7.9 |
| 180 | 983 | 967 | 957 | 7.1 | 8.1 |
| 190 | 1,024 | 1,009 | 993 | 7.9 | 6.9 |
| 200 | 1,066 | 1,051 | 1,035 | 8.1 | 8.1 |

of which occur for families on quite low pay. For instance, as weekly income rises from £110 to £120, the extra rent payable as a proportion of additional gross income is 55 per cent (for a family with 2 children) and 53 per cent (for a family with 4 children).

Table 7.8 shows the outcome for rents under a selected number of schemes across the country and compares them with the rents paid under the Dublin Corporation scheme. There are marked differences across the schemes in the features and in the rents which households of similar circumstances would pay. In relative terms, the differences in payment are especially marked among low income households. In the cases of Wexford and Kilkenny, overtime earnings are included when calculating rent. Rent minima vary from £1.50 a week (Dublin Corporation) to £5 a week (Wexford). There is a smoother rent gradient in the case of Kilkenny than in the case of Dublin Corporation as in the former

**Table 7.8**
**Comparison of Rent Paid in Certain Cases Across Local Authorities at 1988**
**Married Couple with 2 Children, 1 Earner**

| Income per week £ | County Carlow | Cork County Borough | Dublin County Borough | Kilkenny Corporation and County Council | Limerick County Council | Louth County Council | Carlow County Council |
|---|---|---|---|---|---|---|---|
| | Rent per week (£) | | | | | | |
| 100 | 5.1 | 2.9 | 3.7 | 10.0 | 4.0 | 4.4 | 5.1 |
| 110 | 7.4 | 6.3 | 4.1 | 11.0 | 7.3 | 7.5 | 7.4 |
| 120 | 10.7 | 6.7 | 9.6 | 12.5 | 10.7 | 10.7 | 10.7 |
| 180 | 20.2 | 17.0 | 19.0 | 18.5 | 19.7 | 19.2 | 20.2 |
| 190 | 21.1 | 17.8 | 19.7 | 19.5 | 20.6 | 20.1 | 21.1 |
| 200 | 22.0 | 18.5 | 20.5 | 21.0 | 25.9 | 25.1 | 22.0 |



case there are only two rent fractions being used. The smoothest gradient of all the cases is in Wexford.

Very few local authority tenants would be on maximum rents, apart from relatively high earners who occupy older dwellings. For instance, for dwellings which were built in recent years, maximum rents would be paid by single-earner households with an assessed income of some £18,000 per annum. in 1986, 11 per cent of tenants were paying maximum rents — by contrast with a proportion of 16 per cent which held in 1983. This has reflected the sale of local authority dwellings to sitting tenants, the take-up of the £5,000 surrentder grant, and the rise in unemployment.

## IMPACT OF RENT SCHEME ON INCOME DISTRIBUTION

One of the issues which arises is the distributional impact of the differential rents scheme. To what extent do rents faithfully reflect ability to pay? Table 7.9 shows from 1980 data that they did not do so throughout the range of incomes. Up to about the half-way point in the range of incomes, as incomes increase from low levels, there is some increase in rents paid from some 4-5 per cent of disposable income to around 8 per cent of disposable income. This is also what would be expected from the national differential rents scheme which operated up to 1986, where as a prototype household moves from being unemployed to being employed and its earnings increase, the "marginal" rent fraction (extra rent paid as a proportion of extra income) is greater than the average rent paid as a proportion of income.

However, at the higher income levels the proportion of income spent in rent declines. Thus, while rents accounted for an average of some 6 per cent of the disposable income of local authority tenants, in the highest income group only some 2 per cent of disposable income went on rent. The earlier data on the expenditure of local authority tenants confirms this broad picture of rents increasing as a proportion of income as one moves from low income households up to about half way up the income distribution in the sector; and then declining.

These results are likely to reflect two aspects of the rent structure:

(a) For multi-earner households, rents can be increased only by a maximum of £4 per week for each subsidiary earner in the old national scheme, £5 per week in the current Dublin Corporation scheme. Hence, multi-earner households can end up paying a much lower proportion of their income in rent than single-earner households.

(b) Some higher income tenants can hit a maximum rent which results in a relatively low proportion of income spent on rent.

Table 7.9
**Local Authority Rents as Percentage of Disposable Income Classified by Income Level, 1980**

| Mean direct houshold income £ per week | Mean disposable household income £ per week | Mean rent £ per week | Mean rent as % of disposable income |
|---|---|---|---|
| Under 10 | 40.16 | 2.28 | 5.7 |
| 10 and under 30 | 49.94 | 2.14 | 4.3 |
| 30 and under 50 | 70.51 | 3.48 | 4.9 |
| 50 and under 70 | 74.78 | 4.58 | 6.1 |
| 70 and under 90 | 80.12 | 6.30 | 7.9 |
| 90 and under 120 | 95.32 | 7.21 | 7.6 |
| 120 and under 200 | 131.11 | 6.64 | 5.1 |
| 200 + | 263.37 | 4.99 | 1.9 |
| All | 78.15 | 4.47 | 5.7 |

Note: Due to the magnitudes of the standard deviations in the mean rent categories, the results should be taken as indicative only.
Source: NESC (1983), Table 2.3.

However, changes in composition of local authority tenants in recent years are likely to have reduced the number of these higher income tenants. These changes in the composition of local authority tenants in recent years have had a profound effect on the actual rent payments of those in local authority lettings. Admittedly, it has for years been the case that the local authority tenure and the private letting tenure largely catered for those who could not afford local authority housing or were too old to embark on owner occupation. Nevertheless, up to recent years the local authority lettings always contained a proportion of tenants who were in employment on reasonable incomes. However, with the decline in the private letting tenure and the loss of the economically strong tenants from the local authority stock, the latter has increasingly consisted of those who are marginalised in some way or other: the low paid, the unemployed, the elderly, lone parents. Some 60 per cent of the *stock* of local authority tenants depended solely on social welfare payments as a source of income in 1987 compared with 54 per cent in 1984 and 51 per cent in 1983. Many of these people are long-term unemployed.

To some extent these trends have reflected forces in the economy at large, specifically the rise in unemployment and the decline in real income. But it has also reflected specific housing policies:

(a) the role of local authority dwellings sales, which almost certainly are taken up by the relatively better off tenants;
(b) the £5,000 surrender grant scheme which, for the duration of its operation, led to an exit from the local authority tenure, principally of those in employment.



Table 7.10 shows the distribution of rents paid by tenants in 1987 both for the five County Boroughs and for all areas. The heavy weight of low income, low rent tenants is evident. For instance, 27 per cent of rents paid were under £3 per week and 54 per cent were under £7 per week.

Table 7.11 gives the income distribution and average rent data for local authority tenants, both for those who are employed and those who are in receipt of social welfare payments at March 1987. This shows that a third of all tenants are on social welfare payments of less than £100 a week.

One of the implications from all this is that there is a very loose "drive-belt" between increases in rent maxima and increases in rent income for local authorities. Given the tenant composition, an increase in maximum rents would have relatively little impact on actual rents paid — as long as the present system is in operation. It would always be possible to allow the local authorities to charge closer to market prices with the tenants being explicitly recouped through a housing allowance.

In summary, the new differential rent system, at least in its structure in Dublin Corporation, worsens the poverty trap which is experienced by low income households. These combined effects of increased payments of income taxation and social insurance contributions, reductions in Family Income Supplement payable and increased differential rents paid can mean that a household with an increase in gross income is worse off in net terms. This reflects in part the fact that the differential rents system has evolved independently of the broader tax-subsidy system.

**Table 7.10**
**Distribution of Rents Paid at March 1987 under Devolved Rent Scheme**

| Rent per week | Five County Boroughs (a) | All areas |
|---|---|---|
| Up to £2.99 | 16,039 | 27,846 |
| £3 — £6.99 | 13,135 | 28,478 |
| £7 — £10.99 | 5,791 | 15,776 |
| £11 — £14.99 | 8,130 | 14,725 |
| £15 — £19.99 | 6,594 | 13,011 |
| £20 — £24.99 | 1,901 | 3,308 |
| £25 — £29.00 | 742 | 1,262 |
| £30 and over | 252 | 515 |
| All cases | 52,584 | 104,921 |

Notes: (a) Cork, Dublin, Galway, Limerick, Waterford.
Data include those on maximum, minimum and fixed rents, and include the contributions of subsidiary earners.
Source: Department of the Environment.

**Table 7.11**
**Employed Tenants, and Tenants in Receipt of Social Welfare Payments by Income and by Average Rent Paid, at March 1987**

| | Income £ per week | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Less £100 | | £101-125 | | £126-150 | | £151-200 | | £201-250 | | £250 and over | |
| | Number | ave rent £ | Number | ave rent £ | Number | ave rent £ | Number | ave rent £ | Number | ave rent £ | Number | ave rent £ |
| *Tenants in Employment* | | | | | | | | | | | | |
| County Boroughs | 163 | 14.4 | 772 | 34.4 | 1,834 | 54.6 | 2,116 | 64.4 | 609 | 55.8 | 28 | 42.3 |
| County Council | 1,885 | | 2,843 | | 3,692 | | 3,186 | | 1,028 | | 150 | |
| All areas | 2,905 | | 4,852 | | 7,057 | | 6,200 | | 2,019 | | 196 | |
| *Tenants on Social Welfare* | | | | | | | | | | | | |
| County Borough | 6,936 | | 2,130(a) | | 546(b) | | 120 | | | | | |
| County Councils | 19,539 | | 3,603(a) | | 1,026(b) | | 103 | | | | | |
| All areas | 34,846 | | 6,996(a) | | 1,868(b) | | 240 | | | | | |

Note: Data exclude the small minority of tenants who are on fixed rents.
Source: Department of the Environment.



# 8

# EXTENSION OF OWNER OCCUPATION THROUGH LOCAL AUTHORITY HOUSING

## INTRODUCTION

This chapter is concerned with actual or potential schemes which relate to the Government policy of increasing owner occupation. The most notable of these has been the sale of local authority dwellings which is analysed in this chapter. Another instance has been the £5,000 surrender grant which lasted from October 1984 to March 1987. A potential method of increasing owner occupation is through joint ownership, which is also taken up below.

## EVOLUTION OF THE SALES SCHEME

For many decades, it has been possible for sitting tenants to purchase their dwellings. Up to 1987, a cumulative total of over 180,000 tenants have elected to do so: that is, 158 per cent of the current stock. Up to 1973 there was a modest incentive given to tenants to buy. In 1973 the sales terms were made distinctly more generous. There was a discount of 3 per cent on the sale price for each year of residence subject to maxima of 30 per cent in urban areas and 45 per cent in rural areas; a sale price before discount which was typically set well below market price as it was set at (historical) construction cost updated by the Consumer Price Index (which was increasing over time at a rate less than the rate of increase of house prices); a grant equivalent to the grant available to first-time owner-occupiers; and a grant equivalent to the value of rates remission which was available to owner occupiers at the time. Moreover, a loan for up to 100 per cent of the purchase price was available from the local authority at a fixed rate of interest. Tenants could purchase by weekly or monthly instalments at the appropriate rate of interest over a 30 year term. While tenants could make a deposit and thus reduce their annual repayments, this was not required of them. Finally, the borrower would then be entitled to tax relief on the interest component of loan repayments.

What this package implied was that the net cost of purchase of a dwelling to a sitting tenant — the price after the discount before the allowance for grants and rates remission — could be 50 per cent or less of the market price. This implies that there was considerable potential for capital gains to be achieved by someone who bought and subsequently resold at market prices. A short-lived attempt in the Dublin sub-region to put in place a "claw-back", whereby a proportion of the proceeds of subsequent sale within a specific period, did not last long.

A new tenant purchase scheme was announced on 30 July 1986. Up to that date, the gross price at which dwellings were sold was the original all-in cost updated by the Consumer Price Index. Up to recent years, this formula was sufficient to guarantee that the sale price would, in many cases, be substantially less than market value. However, with the recession in the housing market since the early 1980s, it was quite possible for the gross price to be higher than the market price of the dwelling, especially in the case of recently built dwellings. Hence, the July 1986 scheme provided that the gross sale price could be based on its market value in cases where the market value was less than the original cost updated by the Consumer Price Index.

The other terms of the scheme were as follows:

- a discount of 3 per cent for each year of tenancy subject to a maximum of 30 per cent;
- a discount of £2,000 in lieu of the £2,000 new house grant payable to first-time owner-occupiers of certain new private houses;
- a discount in lieu of rates paid prior to December 1977 of £30 per annum subject to a maximum of £300.

The 1986 scheme was followed by the 1988 scheme. The 1988 scheme is a "one-off" scheme, applying to applications received between the end of February 1986 and 31 December 1988. The main features are as follows:

- market value to be used in all cases;
- a 40% discount on price;
- an additional discount of 100 per cent for houses first occupied before 1960;
- the discount in lieu of rates prior to 1977 is abolished;
- a convertible payment option is introduced whereby repayments in the first five years are linked to a percentage of the net price of the house;
- the requirement that housing authorities are obliged to ensure that dwellings being sold to tenants are in good structural condition will not apply.

## TAKE-UP OF SALES SCHEME

Table 8.1 shows the number of local authority dwellings sold to sitting tenants in each year in the period 1976-1987 by comparison with the number of local authority completions. In the period 1973-1987, 67,300 dwellings were sold to sitting tenants by comparison with 93,300 which were completed. The number of dwellings which were sold between April 1973 and December 1987 represents 57 per cent of the current stock of local authority housing. The peak period of sales was in the mid-1970s with 11,900 sales in 1975 and 8,900 sales in 1976. By contrast, sales have been in the 500 to 3,000 range in recent years. The decline in sales in recent years is a reflection of the decline in house prices in real terms, the fact that many of the better dwellings have already been sold



**Table 8.1**
**Number of Local Authority Dwellings Sold to Sitting Tenants by Comparison with Number of Local Authority Dwellings Built, 1973-1987**

| Year | Local authority dwellings built | Dwellings purchased from local authorities |
|---|---|---|
| 1973 | 6,072 | 4,101(a) |
| 1974 | 6,746 | 6,309(b) |
| 1975 | 8,794 | 11,876 |
| 1976 | 7,263 | 8,876 |
| 1977 | 6,333 | 5,663 |
| 1978 | 6,073 | 2,934 |
| 1979 | 6,214 | 4,393 |
| 1980 | 5,984 | 4,949 |
| 1981 | 5,681 | 4,426 |
| 1982 | 5,686 | 3,492 |
| 1983 | 6,190 | 3,492 |
| 1984 | 7,002 | 2,732 |
| 1985 | 6,523 | 1,550 |
| 1986 | 5,517 | 533 |
| 1987 | 3,200 | 2,000(c) |
| Cumulative Total 1973-1987 | 93,278 | 67,326 |

Sources: QBHS; Department of the Environment.

to higher-income tenants, and the fact that the decline in house prices in real terms, together with the availability of the £5,000 surrender grant, made the latter a more attractive proposition than opting to buy for a sitting tenant. The decline in sales in 1985 and 1986 also reflected the lack of a new purchase scheme in those years. Sales in those years which took place were outstanding sales from schemes of previous years.

*A priori*, one would expect that the bulk of sales would be to the following:

- to higher-income tenants, as these would have the capacity to repay a loan *and* their current rent will be higher than average;
- those who reside in the better part of the stock, both in terms of structural soundness *and* in terms of neighbourhood stability and relative lack of stigma. In the former case of structural soundness, future maintenance problems which the new house-owner will have to face should be minimal. In the latter case of stable neighbourhoods with little or no stigma attached, there is little chance that there will be subsequent difficulties of resale at prevailing prices.

While data are not available on all of these characteristics, Table 8.2 and 8.3 confirm that the broad outcomes have been as expected above. Table 8.2 shows that the net price paid for the dwellings has been well below market prices, and could have been around 50 per cent of market prices in many cases. Table 8.3 shows that most of the sales have been to tenants who have been in employment and to tenants with higher than average incomes.

**Table 8.2**
**Number of Dwellings Sold in 1986 by Net Price**

| Price | Number of Dwellings |
|---|---|
| Less than £5,000 | 160 |
| £5,000-£10,000 | 270 |
| £10,000-£20,000 | 136 |
| Over £20,000 | 4 |
| Total | 571 |

**Table 8.3**
**Houses Sold in 1984 to Tenants by Employment Status and Income of Tenants, Some Major Local Authorities**

| | In employment by Income | | | | | | In receipt of social welfare | Total |
|---|---|---|---|---|---|---|---|---|
| | Less than £90 | £91-£100 | £101-£120 | £121-£160 | £161-£200 | £200 and over | | |
| Cork County Borough | 0 | 3 | 20 | 62 | 9 | 0 | 90 | 184 |
| Dublin County Borough | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Limerick County Borough | 42 | 20 | 70 | 30 | 0 | 0 | 99 | 261 |
| Dublin County Council | 4 | 1 | 12 | 25 | 12 | 4 | 5 | 63 |
| Kerry County Council | 7 | 2 | 2 | 1 | 0 | 0 | 50 | 62 |
| Kildare County Council | 0 | 2 | 27 | 43 | 51 | 12 | 0 | 135 |
| Meath County Council | 3 | 5 | 10 | 17 | 2 | 4 | 17 | 58 |
| Dun Laoghaire Corp. | 2 | 0 | 12 | 33 | 6 | 6 | 20 | 79(a) |
| Galway Corporation | 8 | 9 | 15 | 33 | 4 | 0 | 3 | 72 |

Note. In addition, 41 dwellings were sold to tenants on fixed rent for whom income details are not available.
Source: Department of the Environment

## PROS AND CONS OF SALES POLICY: EFFICIENCY

The main arguments for and against the policy of sales on efficiency grounds are summarised below. The impacts on the distribution of income and wealth and on Exchequer finances are then considered.

### Pro on Efficiency Grounds

First, that sales lead to a more diversified social mix and tenure mix. In turn, this can lead to lower vacancy rates and to overspill effects with good housing practices and regular maintenance becoming more pervasive. However, the evidence so far is that sales of local authority houses have been concentrated in certain areas. Indeed, in cases of the more mature estates (such as those built in the 1930s in Dublin) whole tracts have by and large been purchased. Sales have been much less in evidence in the "hard to let" estates. Hence, the polarisation which is so evident in Irish housing has, if anything, increased.



Second, that sales lead to better maintenance by owner-occupiers than in the case of local authority housing. If an allowance is made for management as distinct from maintenance and for implicit costs of time, expenditure on maintenance by owner occupiers is higher than average maintenance costs per local authority dwelling. However, the maintenance expenditure on local authority housing is more in the nature of an overhead cost (linked to a permanent maintenance staff) than an expenditure which is related to particular maintenance problems of the dwellings, or an expenditure which is incurred in response to the demand of individual tenants. Aside from this, especially in the case of marginal buyers, there is no presumption that a switch to owner occupation leads to improved maintenance. On the contrary, it may lead to less maintenance than is desirable if owners who were barely able to afford purchase have difficulties in funding maintenance in future years.

Third, that ownership is the desired tenure of householders. Owner occupation does seem to be the desired tenure of many Irish households, though not necessarily all. The inherent preference cannot be referred simply from the high actual degree of owner occupation in Ireland. Many householders elect to buy when given a large financial incentive to do so by means such as deep discounts. In this they demonstrate their economic rationality rather than any inherent preference. If the preference exists, it will be reflected in a willingness to pay. The evidence on the changing patterns of sales over time suggests that, without the heavy discounts, sales would have been markedly less than has been the case.

### Con on Efficiency Grounds

First, that sales can impede the ability of the housing authorities to cater for housing needs in particular areas, especially if there is a high volume of sales relative to stock in an area and there is no ready supply of privately rented housing in the area. In turn, this means that the opportunities for moves within the local authority tenure can be more circumscribed. These effects are likely to be cumulative over time, as the successive flows of sales have an impact on the stock of dwellings available for letting. The longer the period which is observed, the greater the loss of vacancies for reletting. The force of this argument depends on the level of sales in particular areas. It also depends on the mobility of the sitting tenant who is the potential purchaser. If relatively mobile tenants purchase, a potential unit which could have gone back to the local authority for reletting, does not do so. It also depends on local circumstances and needs. The more sales are selective with regard to the better quality dwellings, the more this effect is likely to be observed. The narrowing in the range of housing which is available in particular areas, and the loss of higher quality stock, reduces the range of choice both to existing tenants (who might want to "transfer in") and potential tenants.

Second, since the more desirable stock is likely to be sold to the higher income tenants, then the local authority tenure becomes one of last resort. This in turn can lead to higher vacancy levels than would otherwise be the case, and to lower levels of housing mobility. There are social factors which have led to a highly stratified housing system, where people in different income groups and different social classes live apart from one another. This has been the result of a combination of attitudes in the community, market forces, and public intervention or the lack of it. Local authority sales can, therefore, be one element among a number which lead to a stigmatised local authority tenure which is regarded as last resort housing.

Third, that there can be increased average costs of maintenance and management for the local authorities. This is partly because the "pepper pot" nature of sales lead to losses of economies of scale in management, partly because the local authorities are likely to be left managing the less structurally sound units. Of the two parts to this argument, the force of the latter is diminished by the extent to which maintenance is a general overhead cost, as mentioned above.

Also, from the point of view of economically efficient maintenance, what is important is whether the maintenance occurs: something which is a different question from that of who funds the maintenance, local authority or owner occupier. The latter raises income distribution issues.

Fourth, that the likely future demands on local authorities will require a stock of rented dwellings. Given the likely further rises in the number of lone-parent families and in young people living away from their parents, this points to a continual need for subsidised rented housing. Bearing in mind the likely fewer numbers of privately rented dwellings (especially for the lower end of the market), the State must provide subsidised rental housing unless the housing standards of people on low incomes are not to fall.

The impacts on local authorities will depend on the area. Sales in urban areas like Tallaght and Ballymun in the Dublin sub-region, with high concentrations of local authority housing, can diversify options, extend choice and probably stabilise the community by such effects as a reduction in turnover. But in areas like north central city of Dublin and in the Liberties of Dublin where subsidised rental housing will always be needed and where it is much scarcer, it can be a destructive policy.

## PROS AND CONS: INCOME AND WEALTH DISTRIBUTION, AND EXCHEQUER FINANCES

Local authority house sales have impacts on income distribution and on the distribution of wealth. One aspect of the effects on income distribution is that those who purchase have an income which is above the average for local



authority tenants but below that for mortgagors as a whole. Within any period, the precise effects on the distribution of wealth will depend on whether dwellings which have been purchased are subsequently resold with a capital gain. The income distribution effects will depend on whether rents have to be raised on the remaining dwellings as a reflection of the loss of high rent payers, and whether this is compensated for by the income which local authorities receive from the sales.

No matter what assumptions one makes on these matters — the data relating to them are not available — the consequences are that a relatively small group of households receive a markedly high subsidy relative to other households including taxpayers as a whole. Those who elect to purchase are better off while taxpayers are worse off.

This is a conclusion which comes from looking at a "cross-section" of households in any year. In addition, if a view on the life cycle effects is taken, the households who buy receive a relatively high subsidy. That subsidy comprises the explicit and implicit capital subsidies at the time of purchase together with subsequent tax relief on the loan. This follows a period when, as rentors, they have benefitted from subsidies — whether defined as the difference between market rent and rent paid, or the difference between historic costs and rent paid. In a lifetime sense, the effect of the discount for length of residency compounds the degree of subsidisation.

It has been held by some people that the sale of local authority houses benefits the local authority finances. This is because 40 per cent of the receipts of sale is available to the authorities to finance their current account expenditure, and they are relieved of maintenance costs on that part of the stock which is sold. If this were the beginning and end of the matter, there would indeed be a net benefit to the local authorities. However, the reality is not that simple. A thorough examination would be most complex, as it would involve assumptions about future trends in tenants' incomes, proportion of tenants' income spent in rent, maintenance costs in real terms, probability that the dwelling is resold and how often. What is surprising is that no financial appraisal, of even a rudimentary kind, of the impacts of the sales scheme seems to have been conducted by the Department of the Environment.

In order to give an indication of the likely financial impacts, and their sensitivity to assumptions about the key elements, some rough calculations are made in Table 8.4.

This table shows the impact of a typical sale, using the scheme which existed in 1987. The calculations are based on the average cost of constructing a local authority house in 1987. The main features of the calculations are as follows:

**Table 8.4**
**Illustration of Impact of Local Authority Sales Scheme in 1987**

| | Resident of 10 years | Resident of 5 years |
|---|---|---|
| Replacement cost at 1987 (£) | 32,000 | 32,000 |
| **Sale at Historic Cost updated by Consumer Price Index** | | |
| Gross Price (£) | 25,770 | 28,913 |
| *Less* discounts (£) | 9,761 | 6,337 |
| = net price (£) | 16,009 | 22,576 |
| Annual repayment at 9.5% over 30 years (£) | 1,628 | 2,296 |
| Net repayment after tax in first year (£) | 1,149 | 1,620 |
| **Sale at Market Prices** | | |
| Gross Price (£) | 21,905 | 24,576 |
| *Less* discounts (£) | 8,602 | 9,373 |
| = net price (£) | 13,303 | 15,203 |
| Annual repayment at 9.5% over 30 years (£) | 1,353 | 1,546 |
| Net repayment after tax in first year (£) | 955 | 1,091 |
| **Memorandum items** | | |
| Maximum rent | 1,353 | 1,353 |
| Differential rent | | |
| — for household on average industrial earnings in 1987 (a) | 1,097 | 1,097 |
| — for household on 1½ times average industrial earnings in 1987 (a) | 1,820 | 1,1820 |

Notes: The July 1986 tenant purchase scheme is used. The average cost of construction of a local authority house in 1987 of £32,000 is used. This is linked back over periods of 10 and 5 years respectively using the building construction cost index, and assuming a 5 per cent rise in that index for 1987. It is assumed that market value in 1987 stands at a discount of 15 per cent on historic costs updated using the Consumer Price Index. The calculations of net repayments assume a worker on average industrial earnings in 1987.

(a) Using Dublin Corporation scheme current at 1987; for married couple with 2 children.

— For the owner of ten years residence the price after discounts is £9,761 or £8,602 depending on whether historic cost or market cost is used. This compares with the assumed market price of £21,900; the replacement cost for the local authority of £32,000. The discount on assumed marked value is this 39 per cent. For the residence of five years standing the discount on market value is almost as high at 38 per cent;

— The gross repayments are £1,628 a year for the resident of ten years, but after tax are £1,149 a year in the case of historic cost value. In the case of market price value, the repayments are £1,353 a year (gross) and £955 (net). By comparison, the differential rent which would be payable would be £1,097 a year for a worker on average industrial earnings. The maximum rent payable would be £1,353 a year, which would be payable by a worker (married, with two children) on around 1.1 times average industrial earnings.



This table shows a number of key features of the sales scheme, as follows. First, there is a strong financial incentive on the part of the tenant to purchase.

Second, there is a high replacement cost which falls on the local authority by comparison with the net selling price to the tenant. The local authority can now put 60 per cent of the capital receipts towards new building but in the case of the examples here, that will fall far short of what is needed to replace the dwelling: 60 per cent of capital receipts can be as low as £7,980, a quarter of the replacement cost.

Third, the 40 per cent of the capital receipt which local authorities can put towards current expenses has to be balanced against the future loss of rental income. In the case of the examples here, that 40 per cent proportion can be as low as £5,320. Against this, the local authority loses rental income. In the examples here, the tenant on average industrial earnings would hit the maximum rent in around three years. This means that within five years, in present value terms, all the gains to the local authority on current account would be wiped out. From then on, the authority would face net financial losses on the transaction.

## SUMMARY OF RESULTS OF SALES SCHEME

The main impacts of the sales scheme have been to effect a change of ownership — essentially the most significant scheme of privatisation to date since the formation of the State. The total amount of investment in new housing is not affected by the scheme. Little impact on the scheme of maintenance is likely in the short-run. In the long run, to the extent to which marginal buyers may have difficulty in keeping up maintenance, the volume of maintenance may be adversely affected by the scheme. The scheme can adversely affect the ability of the local authorities to meet housing needs in particular areas. This is compounded by the fact that, over the longer run, the scheme can diminish the incomes of local authorities. From the point of view of equity, the scheme gives a relatively high subsidy to one particular group of householders. Whether or not social mix is improved as a result of the scheme is unclear. The net adverse impacts of the scheme are magnified by the 1988 "one-off scheme". Arguably, most damaging of all is the creation of "welfare" housing which is seen as a stigmatised tenure of last resort for those at the very bottom of the income distribution and who are marginalised in various ways. This would be inefficient (leading for instance to high turnover, losses from the stock due to inadequate maintenance and contributing to urban decay) and would affend against notions of equity.

## SHARED OWNERSHIP: THE IDEA

A potential method of increasing owner occupation is that of shared ownership. Shared ownership (also called co-ownership or equity sharing) is intended to lower the entry costs to owner occupation, and is directed at those people who have low incomes, or who may have little capital and thus may have difficulty in raising a deposit for house purchase. For those on low incomes, the intention is to ensure that repayments on, say, half of the value of a standard loan are affordable.

Here, affordability refers to the relation between the financial resources of the household and the costs of servicing a loan together with the costs of maintenance and repair of the dwelling. The scheme was also aimed at those households whose incomes might (with difficulty) have enabled a loan to be funded but who could not purchase due to a "deposit gap" — that is, the difference between the purchase price and the maximum loan which was available from lending agencies. The scheme is also designed to enable the household to move to full ownership, either by gradually acquiring a dwelling or by selling its share in the dwelling and using its realised equity in order to purchase.

## SHARED OWNERSHIP: EXPERIENCE ELSEWHERE

Interest in shared ownership arose in the 1970s in Britain at a time when rising house prices and rising interest rates resulted in a sharp increase in initial repayment costs for any given loan. Birmingham Council offered a "half and half mortgage" in the mid 1970s on houses and on flats. Owners got a 99 year lease, made mortgage repayments on half of the dwelling cost and paid normal rent on the remainder of the cost. In addition, they took over full responsibility for repairs and maintenance. If the dwelling was sold, it would be sold back to the Council at the purchase price paid. The monthly mortgage repayment plus rent would be greater than the rent which was formerly paid but less than a mortgage repayment on the price of full ownership. From the point of view of the Council, the rent subsidy would be halved. The purchaser would achieve a net saving in the long run. By contrast, the central Government would save expenditure in the short run but would lose out in the long run when tax expenditures are taken into account. Other variants were available: Birmingham offered ownership ratios of 40:60 and 30:70. The first scheme was an offer to those on the waiting list plus families due for rehousing plus first time buyers in housing need.

In the 1975-79 period, 24 authorities had a scheme on offer (Booth and Crook, 1986, p. 20). Some of those schemes involved perspective equity shares selecting property in the private market. The early UK scheme was essentially like tenant purchase in its impact except that the scheme was available to those on the waiting list as well as to existing tenants.

In the UK, the scheme has catered in part for one-person households and lone-



parent families on low incomes who have acquired some capital through sale of the matrimonial home. At the same time, a number of the equity sharers were two income households and were not acquiring low value dwellings. This suggests that, whatever about the initial intentions of the scheme, it was not being taken up by those households at the bottom of the income distribution.

It has been calculated that "half and half" purchasers were better off in the long run by buying through the scheme but that local and central government would save money in the short run while suffering financial losses from the scheme in the long run (Booth and Crook, 1986).

Much of the development of shared ownership in the U.K. has occurred through housing associations, and most of the initiative in recent years has come from the associations. This has reflected in part the difficulties which local authorities have had in getting building society involvement in the scheme. The housing is provided by a co-operative society of which the tenants are members. The individual members are not the owners of the respective dwellings in which they live — they make payments to their society towards the collective mortgage and for maintenance and management. The members acquire an interest in the freehold property which is held by the society. If a member leaves, he/she can share in the increase in equity which is held by the society.

In recent years, the Housing Corporation — set up in 1964 to sponsor cost rent and co-ownership societies — has been carrying out pilot programmes of equity sharing. These were designed to meet the needs of two groups: young (including single) households and elderly owner occupier households.

One of these pilot programmes is the community leasehold scheme. In this scheme, people would buy their house for 50 per cent of the market value through 99 year leases financed by building society mortgages. Under the lease terms, rent was paid to the housing association freeholder towards the remainder of the costs. If the leaseholder moved home subsequently, the lease would be sold for 50 per cent of the new market value to a nominee of the housing association. One difference between community leasehold and the local authority schemes of equity sharing is that the building societies were prepared to lend for the former scheme.

Another pilot programme has concerned leasehold schemes for the elderly. These are intended to cater for elderly owner-occupiers who want to move to more sheltered housing and whose principal or only asset is the net worth (value less outstanding debt) in a dwelling. These people can sell their house, and use the proceeds to purchase a 60 year lease at 70 per cent of the value of the leasehold scheme. The leaseholders share any increase in equity but the housing association retains the freehold and reversionary interests.

In 1983-84, the Housing Corporation started a scheme of shared ownership called "Do it yourself shared ownership" (DIYSO). This scheme, which was discontinued at the end of the year, involved people who met certain criteria choosing property and acquiring the property on a shared ownership basis through a housing association nominated by the Corporation. In recent years there has been a greater amount of private finance going into the shared ownership schemes of the Corporation. This involves schemes which are funded through a combination of conventional and index-linked mortgages taken out by shared owners, covering 90 per cent of the equity, the remainder being held by housing associations.

## RELATIVE MERITS OF SCHEME

One of the benefits to the tenants who take up the shared ownership scheme is that they can share in the capital appreciation of the dwelling. Another is that — given a paternalistic local authority management — they have greater control over what they can do in and to their dwelling. It should be noted that the benefit only occurs to that group of tenants who achieve co-ownership. After the dwelling is added to the owner occupied stock, the initial benefits are capitalised in the house price and subsequent purchasers pay the full market price. The scheme is likely to be attractive to tenants if it is impossible to obtain 100 per cent mortgages.

Any appraisal of the need for such a scheme must ask, among other things, if there is a capital market failure in the market for housing loan finance, and if the scheme is well directed at particular failures of provision through the market. The impact of the scheme on the ability of low income households to purchase will depend on the extent to which the scheme is directed at low income people with little assets.

As in the case of the sale to sitting tenants, local authority co-ownership does not lead to any significant investment in housing. The exception is that indirectly some increased investment may occur, if local authority resources are freed in the short run, and if there is a greater willingness on the part of the tenant to fund part-purchase than to make pure rental payments. The scheme achieves a transfer from public to private housing. In the case of DIYSO, there can be expected to be some increase in investment, associated with the bridging of the deposit gap and the bringing forward of house purchase by some households.

## LIKELY IMPACT ON HOUSEHOLDS

Some illustrative calculations can be made of the impact which shared ownership could have on low income families. These are families who would be likely to find it difficult to meet either the initial deposit or the annual



**Table 8.5**
**Incomes of Borrowers of Housing Loans — All Houses, 1987**

| | % |
|---|---|
| Not exceedng £7,000 | 6.9 |
| £7,001-£9,000 | 17.6 |
| £9,001-£11,000 | 20.9 |
| £11,001-£13,000 | 16.3 |
| £13,001-£15,000 | 13.1 |
| Greater than £15,000 | 25.4 |

Sources: *Quarterly Bulletin of Housing Statistics.*

repayments on a loan. The examples start from an estimate that, at mid-1988 prices, a low pay figure would be in the region of £120 a week (around £6,000 a year). This is defined to be that level of earnings in industry which would cut off the lowest 10 per cent of earners. Table 8.5 shows that in 1987 only 7 per cent of the borrowers for house purchase had incomes of £7,000 or less, with the median income of borrowers being £12,000.

Four income levels are chosen for this exercise: £6,000, £7,000, £8,000 and £9,000 a year. A comparison is made between four methods of paying for housing services for a family with income at each of the four income levels:

(a) Rent payments as a local authority tenant, assuming a married couple with two children;
(b) Receipt of a local authority annuity loan;
(c) Receipt of an income-related loan from a local authority, with annual repayments;
(d) An equity sharing arrangement of a 50:50 nature.

Another comparison is made — between the shared ownership option and the option to purchase a dwelling on the part of a sitting tenant. This is also illustrated. In the case of the purchase by the sitting tenant, the two alternatives which were available up to 1987 are shown — purchase at current market prices, or purchase at historic cost, updated by the Consumer Price Index.

The results of the calculations are in Table 8.6. When calculating shared ownership, 50 per cent of the maximum rent is used for the "rental" share, in order to see what would be the implications of having no subsidy in the form of a differential rent. A number of points can be made about the outcome of the calculations, which are in Table 8.6.

In all cases, the annual net outgoings under the local authority annuity loan are greater than in the case of the income-related loan. For the household with income of £6,000 a year, the shared ownership outgoings in after tax terms are £1,167 a year, the annuity loan repayments are £1,342 and the income-related loan repayments are £904. By contrast, the local authority differential rent is far lower at £432.

Table 8.6
**Comparative Calculations: Equity Sharing by Contrast with Other Forms of Payment for Low Income Households and by Comparison with Sitting Tenant Purchase**

| Gross Income | Differential Rent — Local Authority | Maximum Rent — Local Authority | Local Authority Annuity loan net repayments | Income-related loan — net repayments | Shared ownership outgoings net of tax | Purchase of dwelling by sitting tenant — net repayment in first year | |
|---|---|---|---|---|---|---|---|
| | | | | | | Price at Historic cost | Price at market prices |
| 6,000 | 432 | 992 | 1,342 | 904 | 1,167 | 806 | 663 |
| 7,000 | 473 | 1,160 | 1,566 | 1,055 | 1,363 | 967 | 800 |
| 8,000 | 684 | 1,328 | 1,790 | 1,206 | 1,559 | 1,127 | 936 |

Notes: The local authority annuity loan is at the 1988 rate of interest of 10 per cent over 30 years. The loan is assumed to be 3 times the level of income and to cover 95 per cent of the price of the house

The income-related loan is £22,500 or 90% of the price, whichever is the less, with repayments at 20-22 per cent of gross income depending on whether the loan is below or above 2.75 times income

It is assumed that the price of the house which is consistent with a 95 per cent annuity loan is the same as the historical cost updated by the Consumer Price Index. For the purpose of calculating the maximum rent 15.25% of the updated historical cost.

The marginal tax rate used to calculate net repayments is 35 per cent.

The differential rent is based on the Dublin Corporation scheme current at mid-1988 for a married couple with two children.

It is assumed in the case of tenant purchase that the historic cost updated by the Consumer Price Index is the same as the price to which the annuity loan applies. It is also assumed that market prices stand at a discount of 15 per cent on the latter value.



At the top of the income range which is examined, the rent payments in the local authority tenure are £1,023 a year, with shared ownership outgoings at £1,753, annuity loan repayments at £2,013 and net repayments on an income-related loan at £1,233. Hence, local authority rent remains markedly less than the outgoings on shared ownership.

The option to purchase is more attractive than the local authority annuity loan. This is the case even when the updated historic cost is used. The advantage in favour of purchase by sitting tenants is more marked when the option of market prices is exercised. In the case of tenant purchase under either historic cost updated or market prices, the outgoing on the options to purchase are far less than in the case of shared ownership.

One of the elements which would determine the practicability of shared ownership is the maximum price which the householder is enabled to pay. Table 8.7 shows that this varies from £19,000 in the case of the household with income of £6,000 a year, to £28,000 in the case of the household with £9,000 a year. Comparing this with the distribution of house prices in 1986 (Table 8.8), it will be seen that there would be a limited range of dwellings available for those on lowest incomes. Only 10 per cent of new houses, and a quarter of second-hand houses were available at a price of under £25,000.

**Table 8.7**
**Maximum Price which is Payable Under Alternative Schemes**

| | £ per annum | |
|---|---|---|
| Income | Shared ownership | Income-related loan |
| 6,000 | 18,900 | 21,000 |
| 7,000 | 22,100 | 24,600 |
| 8,000 | 25,300 | 25,000 |
| 9,000 | 28,400 | 25,000 |

**Table 8.8**
**Range of House Prices, 1987**

| £ | % | |
|---|---|---|
| | *New Houses* | *Second-hand Houses* |
| Less than or equal to 25,000 | 9.6 | 30.5 |
| 25,001-30,000 | 19.4 | 22.9 |
| 30,001-35,000 | 26.3 | 14.1 |
| 35,001-40,000 | 21.2 | 10.5 |
| 40,001-60,000 | 19.6 | 12.5 |
| Exceeding 60,000 | 4.0 | 3.5 |

Source: *Quarterly Bulletin of Housing Statistics*.

## REPAIR AND MAINTENANCE EXPENDITURE

An additional implication of these comparisons needs to be brought out. This is the burden of repair and maintenance costs. In the case of shared ownership, the householder would bear all or much of this responsibility, something which does not occur (except for minor repairs) in the case of those who rent from the local authority.

Another means of encouraging people to buy private houses is joint venture housing. This involves the construction of houses by private builders under licence on lands which are owned by local authorities for sale to local authority tenants and tenant purchasers, and also to persons who are accepted for housing by the local authorities. The attraction to the builder is that land can be provided more speedily than otherwise would be the case, and at a lower price than might otherwise hold. The advantage to the local authority is that the waiting list for local authority housing is reduced.

Up to September 1986 under the scheme, over 600 houses were sold and about a further 2,000 houses in progress or being planned. At that point, local authorities were asked, in cases where land held by them was not in the near future required for building local authority housing, to consider the disposal of land for joint venture housing at less than the cost of acquisition (and development), if this would provide a better social mix and improve the balance between local authority and private housing in particular locations.

## SURRENDER GRANT

Another scheme, which was tried over the period from October 1984 to March 1987 was the £5,000 surrender grant for a local authority tenant of three years' standing or a local authority tenant purchaser who bought a private house and gave up to the local authority a dwelling which was suitable for letting to a housing applicant. The aim was to assist local authority tenants to purchase houses in the private sector, thereby releasing local authority dwellings for reletting to people on the waiting list. Those who took up this option were eligible also for the £2,000 new house grant and the £3,000 mortgage subsidy.

In 1985, the expenditure on the grant was £9.75m, in 1986, £16.75m. and in 1987, £11.95m. Up to the termination of the grant, 7,700 grants had been paid, amounting to 6.5 per cent of the total stock of local authority housing.

However, the take-up of the grant was quite selective. A study of the impact of the grant in Dublin (Threshold, 1987) shows that some 75 per cent of the applications in Dublin were confined to three housing sub-areas, that is, Darndale, Ballymun/Poppintree/Santry Avenue, and Blanchardstown/Tallaght/Clondalkin. Over 18 per cent of the households in Darndale had applied for the grant. In these areas there were already higher than average rates of



unemployment. The general trend was one where the minority in those areas who were in employment took the opportunity to move out of these areas, and were replaced by people who were dependent on social welfare payments, many of them single parents.

The short-term objective of a decline in waiting lists for local authority housing was achieved. This reflects the fact that in the two years 1985 and 1986, over 5,570 dwellings became available for reletting due to the scheme. However, this was accomplished at some cost, measured both in social and in economic terms. The areas of high take-up were areas which already had a relatively high level of unemployment and in some instances had notable problems of lack of access to jobs and shopping areas and which had a relatively poor level of community facilities. Those who took up the grant were predominantly people in employment. In many instances they used Housing Finance Agency (that is, income-related) loans to purchase the dwelling in the private sector and were on the very margins of affordability, with possible future problems looming up of ability to meet loan repayments and extinguish the debt.

As a result, income levels in the areas of take-up declined and the average rate of unemployment increased further. There were adverse effects on the structure of these communities and of individual organisations within them. This was, broadly speaking, for three reasons. First, many of those who moved were identified as community leaders. Second, there was a vicious circle in operation — the more people in employment exited, the greater the incentives on those who remained to exit. Third, there were difficulties in smoothly accommodating an influx of new people into areas, moreover, of people who were often marginalised, and who in normal circumstances would often need support services following on the allocation of a dwelling.

These are largely social costs. There were also economic costs. The higher vacancy rates for local authority housing meant an inefficient use of the housing stock. The vacancy rates reflected both the volume of applications and the fact that they were concentrated in low demand areas. This led to a marked time lag before vacant housing was reallocated. Related to the increase in vacancy rates were higher costs of security. In 1985 alone, over £1m was spent on securing property by Dublin Corporation, and even this level of expenditure was not enough to prevent much damage to property.

# 9

# HOUSING SUBSIDIES AND THEIR EFFECTS

## INTRODUCTION

This chapter is concerned with an estimate of the aggregate amount of housing subsidies by type and by tenure, and with the principal effects of these subsidies on economic efficiency and on equity. This issue is significant because housing expenditure can be a significant part of total household expenditure, especially at particular points in the life cycle and for those on low incomes (Chapter 3). In turn, this raises issues of equity in the way in which housing subsidies have an impact on households of different types. The question of housing subsidies is also of importance because dwellings are a notable part of the total capital stock. Thus, the amount of housing subsidies can affect the allocation of investment to different uses and raises questions about whether the mix of investment is the "correct" one. Do the housing subsidies correct for any under-investment in housing which would otherwise occur, and do they help the efficient operation of housing markets? Aside from the intrinsic interest of these issues, there is need to suggest how much Exchequer funds might be available to finance a change in methods of assisting the paying for housing, if there were to be no net increase in public expenditure.

## DEFINITION OF SUBSIDY

Here, a subsidy is regarded as affecting the relative prices of goods and services or the relative incomes received. This definition enables one to include measures which affect the revenue side of the budget — for example, tax remission which is allowed against specific forms of expenditure.

## TYPES OF SUBSIDY

There are three broad ways in which the consumption of housing services has been subsidised in Ireland:—

(i) Subsidisation of the demand for housing services — principally via rent subsidies (equivalent to cash transfers to households which must be spent on housing), and personal income tax provisions.

(ii) Subsidisation of the cost of capital, both directly and via policies which result in a reduction in the interest rate charged to borrowers by contrast with market rates of interest.

(iii) Subsidies which affect the supply of dwellings, through the provision of grants, and through tax reliefs.

The main explicit policies have been described in Chapter 2. Government policy has also affected the real cost of borrowing for house-purchase through the income tax code. Prior to 1974 there was no restriction on the amount of interest allowable. After that there were a number of changes in interest relief. Up to March 1987, all interest payments, up to a maximum of £4,000 per annum for a married couple and £2,000 per annum for a single person, were deductible from income for tax purposes. In the Budget of March 1987 the interest qualifying for relief was restricted to 90 per cent of the amount which previously qualified. At the mortgage rate current at mid-1988, this means that maximum tax relief is obtained on a loan of £45,700 for a married person. The maximum tax relief depends on the borrower having sufficient income at the 58 per cent tax rate to absorb all the interest allowance.

A person repaying a building society mortgage or local authority loan receives annually an allowance against tax, equal to the interest content of his annual repayment, subject to the above restrictions. In both of these cases the amount of the interest payment, and thus of the allowance, is greatest in the first year of the loan, and gradually declines thereafter. From the point of view of income distribution, an important feature is that the value of the tax relief is greater, the higher is the individual's marginal tax rate. The relief is clearly worth nothing to someone whose personal and other allowances exceed his total income. Table 9.1 sets out the effective rate of interest on a mortgage, after taking account of tax relief, corresponding to each of the current marginal rates of income tax. A mortgage rate of 8.75 per cent, which applied in mid-1988, is used. For example, at a marginal tax rate of 58 per cent, the effective mortgage rate is 4.2 per cent in money terms. These data refer to interest within the allowable limits. While a married couple's interest is almost certain to be all relievable (subject to the 90 per cent restriction), the single person, whose limit covers interest on a loan of only £22,900, may well have unrelieved interest which would increase the effective nominal interest rate.

Tax relief is also available on endowment mortgages from life assurance companies. Such mortgages demand a life assurance policy and the tax relief allowed is on the premiums of such policies, as well as on the mortgage interest. The annual interest charge on a loan from a life assurance company is constant over the life of the loan (for any given interest rate) and the related tax-free allowance is also constant. The proportion of the annual premium which is deductible for tax purposes, in the case of policies taken out after 1 February

**Table 9.1**
**Effective Mortgage Rate for Each Marginal Tax Rate**

| | | | | |
|---|---|---|---|---|
| Marginal rate of income tax | 0 | 35 | 48 | 58 |
| Effective nominal interest rate (a) | 8.75 | 6.0 | 5.0 | 4.2 |

Note: (a) A mortgage rate of 8.75 — which applied in mid-1988 — is used. Allowance is made for the 90 per cent restriction on interest relief.



1978, is an allowance of one-half of the annual premium. This is tantamount to allowing income tax relief on part of the capital repayments. Another restriction is that on allowable premiums of £1,000 for single people, £2,000 for married people or one sixth of total income, whichever is least.

The tax laws assume that dwellings have an infinite life span, and they extend this assumption to cover furniture and other durable items such as cookers and heaters. Replacement of such items is regarded as repair and maintenance, and is allowable against rental income for tax purposes, but neither the value of furniture and fittings nor the value of the dwelling itself can be depreciated for tax purposes. Admittedly, there is a wear-and-tear allowance, granted on a concessional basis by Revenue, in respect of furniture, fixtures and fittings. Compared with investors in other forms of earning assets, investors in property for renting are disadvantaged under the income tax system. However, this has to be taken in conjunction with special tax allowances for investment in *new* private lettings.

There has been no direct public subsidisation on the supply side of the private rented sector, with the exception of the schemes which have provided an incentive for new construction for private letting.

In 1983, a tax allowance for rent expenditure was introduced for persons aged 65 and over in the private letting tenure, up to a maximum of £1,000 of rent expenditure. The Budgets of 1984 and 1985 successively reduced the age threshold; the threshold now is 55 and the ceiling for allowable expenditure on rent is £1,500 (for married persons) and £750 (for single persons).

The subsidy to local authority tenants arises in two ways. First, most tenants are paying differential rents which are less than the maxima. Thus, even if in aggregate the sum of all maximum rents equalled the total economic rent of the local authority dwelling stock, a subsidy would arise. Second, it may be the case that the sum of all maximum rents is less than total economic rent, so that a subsidy would arise even if all tenants paid maximum rents.

Quite apart from the total subsidies, there may be implicit transfers between different groups of local authority tenants. Suppose for instance that maximum rents were less than economic rents for one group of dwellings while the converse held for a second group, and suppose that all tenants paid maximum rents. Then the tenants of the first group would benefit at the expense of the tenants of the second group, assuming that houses of either group provided identical housing services.

## THE MEASUREMENT OF SUBSIDIES

There are two broad methods of estimating the value of subsidies. The first would estimate the value of the subsidy to the recipients: to what extent are they better off than if they made alternative arrangements with regard to their housing? One way to estimate this is by the difference between the rent price paid and the rent price of an equivalent dwelling in the private (and uncontrolled) sector. A difficulty with this method is that in many cases it will simply not be possible to estimate a market price or rent which would have any validity. The most important case in point is local authority rented accommodation. There is no obvious way to measure the total market rent of the stock of local authority dwellings. Market rents can vary greatly according to location, and even if the market rent of each dwelling were known, it would be difficult to estimate the aggregate value. Moreover, given the narrow scope of the private rented market in Ireland, it would be very difficult to estimate the market rents in the private letting tenure in a way that would be meaningful.

The second method compares the cost of providing housing (essentially the costs of construction) with the rent which is paid. Measures of production cost are available in some cases, including the local authority dwelling stock. In the case of a long-lived good such as housing, computation of production cost poses certain difficulties. In the case of local authority dwellings, the economic rent should be calculated by measuring the annual loan charges plus the annual maintenance and administration costs. The loan charges of different dwellings reflect the construction costs and interest rates at different (past) construction dates. Thus, dwellings which provide identical housing services may have widely differing "economic rents" as defined above; clearly, these provide a poor measure of private benefit.

In this chapter, where possible, the "production cost" method is essentially used in estimating subsidies to local authority tenants, that is the difference between the price of housing which the consumers must pay and the cost of producing that housing. This is of significance, not just because it can show the amount of income transferred to certain consumers (from other consumers or from taxpayers in general) but also because it shows the amounts of real resources which are transferred to owner occupiers and to tenants. However, in some cases it becomes almost impossible with existing data to estimate via the production cost method, especially in the cases of tax measures which affect owner occupiers. In those cases, something approaching a "cash flow" estimation of subsidies is used: that is, an estimate of the amount of current Government spending or tax revenue which is foregone and the corresponding increase in the net spending power of households.

The main emphasis is on the subsidies as they are received by the beneficiaries. Thus, the various subsidies which flow to a particular tenure group are aggregated. In the case of new house grants and improvement grants, the capital costs which newly arise each year are given.

Some of the greatest difficulties of estimation relate to the tax treatment of



imputed income from owner-occpation. There is a difference between the tax treatment of the owner-occupier and that of an individual who rents an equivalent dwelling in the private letting sector, and for some people the "true" subsidy to owner-occupiers arises from this difference in tax treatment. Consider two individuals earning the same income from employment and owning identical amounts of assets — say £20,000. Suppose one (the renter) lends £20,000 thus augmenting his earned income by interest earnings, and rents a house to live in while the other (the buyer) holds his £20,000 as equity in an identical house and finances the remainder with a mortgage. The renter's taxable income is his earned income plus interest income less his personal and other allowances. The buyer's taxable income is his earned income, less interest paid on the mortgage, less personal and other allowances. If personal and other allowances are the same for the two persons, then it can be shown that the renter pays more income tax than does the buyer. He or she pays more income tax by an amount which equals the marginal income tax rate multiplied by the following: the gross market rent obtainable for a house of this type (i.e., the rent actually paid by the renter), less the annual cost of maintenance. This conclusion depends on the interest obtained by the renter on the investment being equal to the interest paid by the buyer on the mortgage. Moreover, in practice the comparison between the two states would reflect the restrictions (outlined above) on mortgage interest relief.

If neutral tax treatment between renting and owning, and indeed other expenditure, were to be attained, the buyer's taxable income would need to be increased to include the *imputed* rental income from owner-occupation. His or her taxable income would be taken to be: earned income plus gross market rent, less maintenance costs, less interest on mortgage, less personal and other allowances. That is, his taxable income would be earned income plus net rent, minus interest, minus allowances. There is not such neutral treatment at present — "the imputed rental value of a house constitutes income to owner-occupiers, income that could be realised by renting the house to others or by investing the same amount in capital assets which produce actual money income" (Netzer, 1967, p. 126).

If tax relief were abolished, tax neutrality between buying with a mortgage and renting would be achieved, but neutrality between buying outright and buying with a mortgage would not be achieved.

If imputed rent were taxed, it would be quite in accord with tax practice to allow house-loan interest as a deduction since this would be an expense incurred in obtaining the income.

The present position is that imputed rent is free of tax, mortgage interest is deductible to arrive at taxable income, and the subsidy to an owner-occupier with respect to a tenant who pays a market rent is the marginal rate of income-tax multiplied by the following: gross market rent less cost of maintenance.

Therefore, in principle the subsidy is measured by the tax which is foregone on the imputed gross rent less maintenance costs. However, different estimates of imputed rent can diverge markedly, partly because there is a narrow market for rented housing in Ireland. Hence, as a substitute for tax foregone on imputed rent, the amount of tax relief which is given on loan payments is measured as the subsidy.

It should be noted that the estimation of the subsidisation of housing depends on whether or not housing is regarded as a consumption good. If it is so regarded, then it should not be taxed under the income tax code, and costs of use such as maintenance and mortgage interest should not be allowed as a deduction. If housing is regarded as an investment good, then, to achieve neutrality between owning and renting, owners should be taxed on the same basis as landlords: that would mean that rent or imputed rent would be taxed and costs including mortgage interest outgoings would be allowed as deductions from taxable income.

One justification for using the short-hand measure of subsidy, that is tax relief on interest payments, as is done here, is that if home ownership is regarded as the norm, the tax relief on mortgage interest is closer to the view of subsidy, rather than the non-taxation of imputed rent. Whereas if tenancy were the bench-mark, the non-taxation of imputed rent would be the subsidy.

## AGGREGATE ESTIMATES

Table 9.2 brings the estimates together for the years 1980, 1986 and 1987. The estimates in the table are not the same as the total public expenditure on housing, mainly for two reasons. First, capital expenditure on local authority housing is not counted, but the difference between (a) loan changes, maintenance and repair and other expenditure and (b) rents and purchase receipts on the housing account, is the measure of the subsidy. Second, the value of tax reliefs — features of the tax system which provide relief from taxable income — which are related to housing consumption are estimated.

Table 9.2 compares the aggregate amount of housing subsidies in 1980 with the aggregate amount in 1986. There are a number of reasons for choosing 1980 as the initial year: it was the year before a number of housing subsidies were introduced, many of which have been cut back in recent years. The housing package of 1981 came into operation in April 1981, introducing a mortgage subsidy scheme (with up to £4,000 over three years) for first-time owner occupiers of new houses. The rent allowance for former rent-controlled tenants, the Task Force on housing aid for the elderly, "Section 23" relief for construction of accommodation for private letting and the tax relief for elderly persons who rent in the private sector (1982), all post-date 1980.



For 1987 the estimate of aggregate housing subsidies was £552m, by comparison with £484m for 1986. However, these estimates are affected by the exceptionally high expenditure on house improvement grants under the scheme which was abolished with effect from April 1987. There were subsidies on house improvement to the aggregate amounts of £26m in 1986 and £84m in 1987. In 1987, the aggregate subsidy to local authority tenants (of whom there are 119,000) was £194m. In the same year the subsidies to local authority tenants or those on the waiting list who move to become owner occupiers were £32m: around a third of this was ascribable to the £5,000 "surrender grant", abolished in the Budget of March 1987. Subsidies to owner-occupiers related to house purchase are estimated at £218m: this includes £26m for the £3,000 mortgage subsidy which was replaced in October 1986 by the £2,250 builders grant, which in turn was abolished in the Budget of 1987. Owner occupiers would also have benefitted from house improvement grants (as mentioned above) and by some use of mortgage supplementation under Supplementary Welfare Allowance. The relatively small estimate for subsidies due to capital gains tax exemption in the case of housing reflects two elements: (a) the depressed housing market which saw average second-hand house prices decline slightly in nominal terms in 1986, (b) the extent to which the indexation of Capital Gains Tax has reduced to insignificance the effective tax on nominal capital gains from assets which are held for long periods, as are most houses.

Because of the methods of estimation, the estimates for owner-occupiers relate almost solely to those who own without a mortgage (some 340,000 in number in 1987 by contrast with some 390,000 who own without a mortgage, making some 730,000 owner occupiers in all).

Comparing the estimates for 1980 with those for 1987, and deflating money value estimates by the Consumer Price Index in order to get estimates in real terms, the main features are as follows:

- an increase of 59 per cent in real terms in the aggregate subsidy for local authority rented dwellings;
- subsidies to owner-occupiers for house purchase in 1987 were 76 per cent higher than in 1980. In particular, the tax expenditures to owner-occupiers that is, tax reliefs on loan interest payments were higher by 150 per cent in real terms in 1986 than in 1980. This is despite the decline in real terms in house prices which occurred in the 1980-87 period. It reflects in part the rise in marginal tax rates between 1980 and 1987;
- total subsidies were 56 per cent higher in real terms in 1986 than in 1980. If house improvement subsidies in 1986 are excluded from the calculations, total subsidies in 1987 are higher by 32 per cent in real terms in 1987 by comparison with 1980.

Within each group of owner-occupiers who own outright, owner-occupiers with a mortgage, and tenants, there are marked differences in the extent to

**Table 9.2**
**Estimates of Flow of Housing Subsidies for 1980, 1986, 1987**

| | £m, current prices | | |
|---|---|---|---|
| | 1980 | 1986 | 1987 |
| 1. *Subsidies to Local Authority Tenants* | | | |
| Rent subsidies | 64.1 | 175.6 | 194.4 |
| 2. *Subsidies to local authority tenants or those on waiting list who move to become owner-occupiers* | | | |
| 2.1 Surrender grant of £5,000 to local authority tenants and tenant purchasers | — | 16.8 | 11.9 |
| 2.2 Subsidies at point of sale to local authority tenants who purchase | 35.1 | 5.4 | 20.4 |
| 2.3 Subsidies for low-rise mortgage scheme (scheme was terminated before 1986 but these payments relates to commitments which remain) | | | |
| — Exchequer | 0.3 | 0.2 | 0.2 |
| — Local authority contribution to scheme | 0.6 | 0.4 | 0.4 |
| Total of Section 2 | 36.0 | 22.8 | 32.9 |
| 3. *Subsidies to owner-occupiers: house purchase* | | | |
| 3.1 Mortgage interest subsidy to first-time owner-occupiers of certain new houses | — | 21.6 | 25.5 |
| 3.2 Housing grant to first-time purchasers of new houses (£1,000 in 1980; £2,000 in 1986) | 8.5 | 14.4 | 17.0 |
| 3.3 Subsidies for provision of sites for private housing by local authorities and the Rural Housing Organisation | 0.1 | 0.1 | 0.3 |
| 3.4 Tax expenditure: tax relief on mortgage interest | 24.0 | 150.5 | 151.0 |
| 3.5 Tax expenditure: tax relief on life assurance loans | 4 | 1 | 1 |
| 3.6 Tax expenditure: tax relief on capital gains | 4.4 | 3 | 3 |
| 3.7 Tax expenditure: stamp duty exemption | 24.0 | 22.2 | 20.5 |
| Total subsidies to owner occupiers (section 3) — excluding unknown proportion of section 7 which is ascribed to owner occupiers. | 65.0 | 212.8 | 218.3 |
| 4. *Special needs* | | | |
| 4.1 Disabled persons' grants | 1 | 1.6 | 2.3 |
| 4.2 Grant-in-aid fund tax task force on special housing aid for the elderly | — | 2.5 | 1.5 |
| 5. *Private letting tenure* | | | |
| 5.1 Department of Social Welfare rent allowance for former rent-controlled tenants | — | 1.0 | 1.0 |
| 5.2 Tax expenditure: tax allowance for persons aged 55 and over who pay rent in private letting tenure | — | 5.0 | 5.0 |
| 6. *Use of Supplementary Welfare Allowance for:* | | | |
| 6.1 Rent supplementation for those in local authority and private letting tenures and rent arrears for those in local authority tenure | 1.0 | 7.0 | 8.00 |
| 6.2 Supplementation of mortgage interest payments | | 2.0 | 2.0 |



**Table 9.2**
**Estimates of Flow of Housing Subsidies for 1980, 1986, 1987 — contd**

| | £m, current prices | | |
|---|---|---|---|
| | 1980 | 1986 | 1987 |
| 7. *House Improvement* | | | |
| 7.1 Grants forimprovements to houses | 18.5 | 25.7 | 84.2 |
| 7.2 Essential repair grants | 0.2 | 0.2 | 0.4 |
| Total subsidies towards house improvement | 18.7 | 25.9 | 84.6 |
| 8. *Subsidies to Provision of Housing for Private Letting ("Section 23")* | — | 2 | 2 |
| Total subsidies, all tenures and all types | 185.8 | 484.1 | 552.0 |

Notes: Some relatively small amounts are excluded: the subsidies to voluntary housing associations and to non-profit housing organisations. The value of the subsidy to local authority tenants who purchase dwellings includes an allowance for the fact that stamp duty is borne by the local authorities. Expenditure charged to local authority housing capital amounts but not directly related to housing construction (e.g., non-subsidisable land acquisition such as for schools or community centres) is not included.

In estimating the subsidy for local authority tenants who purchase their dwellings, for 1980 it is arbitrarily assumed that the average discount on the all-in price is 30 per cent, that the average historic cost updated by the Consumer Price Index was £10,800, that this represents a discount of 20 per cent on market price. For 1980, in estimating the tax relief on loans, an average marginal rate of income taxation of 35 per cent is used. In estimating the subsidy due to capital gains exemption. It is assumed that the average annual rate of change of second-hand house prices is 2 per cent (in percentage point terms) greater than in the case of the Consumer Price Index, of 12.6 per cent in the period between April 1974 and calendar year 1980. An average capital gains tax rate of 16.5 per cent is used. It is assumed that all the dwellings which were sold had been owned in April 1974 or earlier.

In calculating subsidies for 1986 and for 1987, an average stamp duty rate of 4.5 per cent is used. In estimating the subsidy due to local authority tenants who purchase in both 1986 and 1987, a market value of £30,000 per dwelling is assumed, and a discount of 30 per cent on market value.

Sources: *Estimates for Public Services 1980*; QBHS; *Comprehensive Public Expenditure Programmes 1986; Revised Estimates for Public Services 1987;* Parliamentary Questions 7 April 1987; Department of the Environment; Department of Social Welfare; Revenue Commissioners; Department of Social Welfare, *Statistical Information on Social Welfare Services, 1987*; own estimates.

which households of various types receive subsidies. It would not be correct, therefore, to divide the aggregate subsidies to each group by the respective numbers of households, in order to arrive at an "average subsidy" per household. The incidence of subsidies at the household level, for particular types, is taken up below.

## WIDER ISSUES

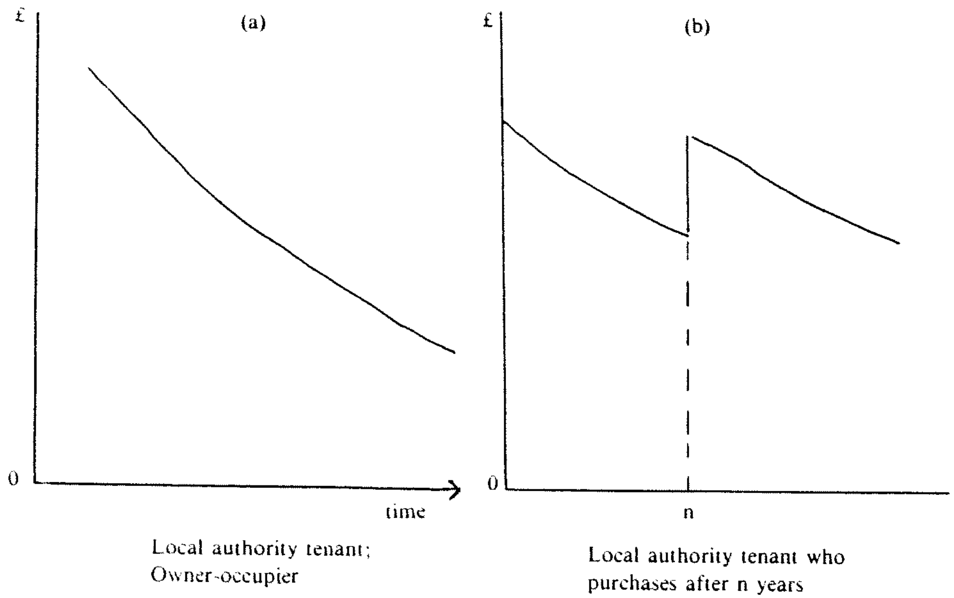
When considering the efficiency and equity of these subsidies, one should take into account the differences in the quality of housing services across groups of households. These differences arise not just because of differences in the quality of dwellings, but also in security of tenure and in the potential for mobility. For example, the quality of dwellings in the private rented sector varies enormously, from slum dwellings to luxury apartments. In this tenure, there is little security of tenure for the tenants.

## LIFE CYCLE ASPECTS

Table 9.2 above has given cross-sectional estimates of subisides. The other way of looking at subsidies is in a life-cycle sense. Their incidence can vary over the life-cycle, depending in part on household movement and on the trends in rents and incomes over time. For a local authority tenant in employment the stylised pattern of subsidies over time is depicted in Figure 9.1 (a). On the assumption that the income of the tenant rises over time, the rent which the tenant pays under the differential rent scheme increases over time, leading to a reduction in the flow of subsidy to the household. For such a tenant who then elects to purchase the dwelling, the pattern is in Figure 9.1 (b). At the point at which the tenant purchases, there is a relatively high subsidy, followed by a new stream of subsidies which relate to owner-occupation. Given an estimation of subsidies to owner-occupiers which is based on tax relief, the pattern of subsidies over time is as in Figure 9.1 (a), since the interest component of repayment declines over time for any given interest rate. This assumes that no "trading up" occurs and that the owner does not sell the dwelling and purchase a (typically higher-valued) dwelling.

It is possible to put together the material on housing costs in Chapter 10 and

**Figure 9.1:**
**Pattern of Subsidies**






on local authority rents in Chapter 7, together with the estimates in this Chapter, in order to assess the implications of housing subsidies for both efficiency and equity. The criteria which are outlined in Chapter 5 are used. The implications for efficiency are taken up first.

## IMPLICATIONS FOR EFFICIENCY

The main implications for efficiency are as follows. First, the subsidies are more favourable to "new build" than to renewal of dwellings. This can lead to inefficiency in the sense that dwellings are lost from stock which could have been saved and could have given housing services at lower cost (in terms of resources) than through new construction.

Second, this same bias can lead to a highly dispersed pattern of land use, with urban sprawl and an inefficient use of infrastructure, with less than full use in inner urban areas, and the resultant blight which affects all who live or work in central parts of cities and towns, and the tourists and business visitors who come to Ireland.

Third, the nature of the tax reliefs can give rise to some under-occupation as there is an incentive on the part of purchasers to obtain that loan which qualifies for the maximum tax relief.

## IMPLICATIONS FOR EQUITY AND INCOME DISTRIBUTION

While policy changes since 1987 have improved the progressivity of housing subsidies, many elements of housing policy do not work to the achievement of either horizontal equity or vertical equity. The criterion of horizontal equity is used at first. To what extent are households in similar circumstances (defined, say, by income and household size and composition) treated in an equal fashion? Households with similar incomes can receive very different net benefits, and can bear quite dissimilar housing expenditure. Some of the most transparent instances of this are as follows.

First, those who own dwellings particularly after the early years of the loan have passed, receive a high net benefit relative to most of those in other tenure groups. This is especially so when allowance is made for the fact that imputed income from home-ownership — i.e. the stream of benefits in kind which owners receive — is not taxed. A comprehensive income tax base would include net imputed income (imputed income less interest payments on borrowings and certain other expenses).

Second, there is a lack of equal treatment between owner occupiers and those who rent from private landlords, although the number of households in the private rented sector (90,300 in 1981) is relatively small by comparison with the number of owner-occupiers. There are a number of reasons for this. There is the difference in tax treatment between owner-occupiers and tenants which are alluded to above. There is the absence of subsidy for those who rent in the private sector with the exception of the means-tested scheme for those who are former rent-controlled tenants, the limited aid available through the Supplementary Welfare Allowance which is means-tested and unavailable to those in full-time work, and the tax allowance for persons aged 55 and over. Moreover, it is likely that rents in the private sector are higher than otherwise would be the case as a result of subsidies to owner occupiers.

If the position of private renters and those in the local authority tenure are compared, data for 1980 and 1984 (Chapter 3) show relatively high housing costs in the private letting tenure. This is especially marked by contrast with local authority lettings in the case of small families and young adults.

While tenants in the private letting sector have the second lowest average disposable income of all tenure groups, their average expenditure on housing as a proportion of income is the highest of all tenure groups, and this is partly a result of the lack of subsidies to this sector.

Third, sitting tenants who elect to purchase a local authority dwelling receive a relatively large net benefit, the magnitude of which depends on the date of construction of the dwelling and on the length of tenancy.

Fourth, in the local authority tenure, disparities in housing expenditure, unrelated to households' circumstances can occur because of the way in which maximum rents are calculated. Maximum rents on older dwellings — reflecting both lower construction costs in money terms and lower nominal interest rates — can be lower than rent maxima on the newer dwellings. Among other effects, this can lead to tenants with above average incomes paying relatively little in rent.

Fifth, those who purchase second-hand dwellings are not exempted from stamp duty on the purchase price. Given the average price of 1987, stamp duty would amount to £1,500 on a second-hand dwelling of average price. Together with other benefits which go only to those who purchase new dwellings, this means quite a difference in net benefit between those who purchase new, and those who purchase second-hand dwellings.

Sixth, as mentioned in Chapter 8, the way in which the discretionary Supplementary Welfare Allowance operates across different community welare areas results in disparities in the housing aid which equivalent households can obtain: both as regards aid towards rent and mortgage interest, and help with household necessities at the point of settling in to a dwelling.



The criterion of vertical equity is now deployed. What is the pattern of housing subsidies, relative to income, across different income groups? There is only one element of housing policy which achieves a partial redistribution of income in a progressive direction. This is in the local authority tenure, where redistribution in a progressive manner occurs through the differential rents, but only about half-way or two-thirds up the income distribution in that sector.

The most unequivocal instance where subsidies to owner-occupiers are regressive are the treatment of imputed income from owner-occupation — or alternatively, the tax relief on mortgage interest payments. If the tax exemption of the imputed net rent from owner occupation is estimated, it is likely to be regressive: the tax which is foregone varies directly with the value of the dwelling, and this in turn is likely to vary directly with income.

An alternative, though less comprehensive measure, is to take the value of tax relief on loan interest payments. On this basis also, owner-occupiers are subsidised in a regressive manner. The value of the tax relief depends on three elements: the size of the loan, the marginal tax rate — defined as the additional tax payment due to an increase in gross income, divided by the increment in gross income — and the interest rate. The regressivity, with the value of the subsidy (relative to income) tending to increase as incomes increase, occurs in two ways. First, the higher the income of the borrower, the greater the loan which it is possible to obtain. Second, the higher the marginal tax rate, the greater is the subsidy. The effective mortgage rate is lower, the higher the marginal tax rate. Moreover, marginal tax rates have been increasing over time.

The benefit of exemption from Capital Gains Tax is also higher the greater the value of the dwelling. This benefit — which adds to the purchasing power of owner-occupiers and should, therefore, count as income — is higher, the greater the income of the owner-occupier. However, as mentioned above, the effective incidence of Capital Gains Tax on a long-held asset would be quite low, given the current structure of the tax.

The effects of the local authority sales scheme are likely to be regressive because those who purchase dwellings are likely to be relatively higher income tenants.

There are other possible effects of housing subsidies on income distribution, on which little up-to-date work is available in Ireland. The subsidies to owner-occupiers lower the effective price of housing. This means that more housing is demanded, at each price, than otherwise would be the case. The ultimate impacts of this depend on the way in which consumers and producers of housing respond to changes in price. It is possible that within the group of owner occupiers, many of the benefits of subsidies are captured by existing owners of housing and owners of land and much less are captured by new buyers. The reason for this is that the introduction of the subsidy, through its effects on demand can be expected to raise the price of housing (other things being equal).



# 10

# PAYING FOR HOUSING: SUPPLEMENTARY WELFARE, AND SOCIAL WELFARE PAYMENTS

## INTRODUCTION

This chapter is concerned with interactions between the local authority differential rents system, Supplementary Welfare Allowance and social welfare aid interactions which have become more pronounced in recent years. As mentioned in Chapter 7, the differential rents system has the same effect as if an explicit housing benefit were paid to tenants in local authority housing. Moreover, any considerations of the pros and cons of moving to a unified housing benefit would have to take the current interactions between the two systems into account.

## SUPPLEMENTARY WELFARE ALLOWANCE

### The Scheme

For social welfare claimants there is the Supplementary Welfare Allowance (SWA) which can reduce the burden of housing expenses. The SWA system has existed since 1977, and covers payments to people whose means are not sufficient to meet their needs; people who work full-time are excluded from the scheme. In addition to the basic weekly payments under the SWA scheme, there are a number of additional payments which are provided for, in order to cater for additional needs which are not met by the basic payments. Such additional payments can be made on a weekly basis or on a "one-off" basis. Payments can be made for rent expenditure over £3.00 per week: in November 1987 that threshold was increased from £15.0 a week. In most cases, the payments for rent are made to people who are already receiving some type of social welfare payment.

In November 1987, the provision that the consent of the Minister for Social Welfare was required for any payment in excess of £5 a week was changed whereby up to £10 could be paid without Ministerial consent. Formerly at least, there seemed to be a difference in practise across health boards with some being reluctant to pay more than £5.00 per week in supplement, even though in practice the sanction is automatically granted.

In 1982, efforts were made to achieve a consistent method of paying rent supplement. It was agreed then that the general aim wold be that in all cases the claimant would be left with a disposable income after rent payment equal to the appropriate supplementary welfare allowance rate *less* £1.50 (at that time). For instance, in the case of someone who is receiving Unemployment Assistance (at July 1988 rates) (long-term rate, urban areas) and paying rent of £20 a week, the *maximum* rent allowance be as follows, where net disposable income means disposable income after paying for rent:

| | |
|---|---|
| (1) Unemployment Assistance | £42.80 |
| (2) SWA (maximum personal rate) | £37.80 |
| (3) Rent | £20.00 |
| (4) Net disposable income without rent supplement: (1)-(3) | £22.00 |
| (5) Net disposable income after rent supplement: (2)-£3.00 | £34.00 |
| (6) Rent supplement = (5)-(4) | £12.00 |

This shows that effectively the claimant is meeting the £4.20 difference between the Unemployment Assistance rate and the SWA rate, as well as the first £3.00 of rent. It shows also that, if the rent were to be £25.00 in another area, the supplement would rise by £5 from £12.80 to £17.80, as long as the claimant was not judged to be "over accommodated", and as long as the rent was not judged to be too expensive for the area.

Table 10.1 shows that a rapid growth occurred in the number of rent and mortgage supplements since 1980. It is likely that there is a considerable underestimate in the numbers, (due essentially to the pressures under which the Health Boards are working), and that the number of rent/mortgage supplements in payment in March 1987 is between 10,000 and 14,000 rather than the number given in the Table.

It is possible for supplementary payments to be made to people who are in arrears with their rent payments. Virtually all of these payments are made with respect to local authority rent arrears.

In 1987 the average rent supplement sanctioned was £17.40 and the average mortgage supplement sanctioned was £21.90 per week. The estimated expenditure in 1987 was £8.0m on rent supplements and £2.0 on mortgage

**Table 10.1**
**Number of Rent/Mortgage Supplements in Payment in the last week in March each year, 1980, 1984-1987**

| Year | Number of supplements |
|---|---|
| 1980 | 1,316 |
| 1984 | 4,694 |
| 1985 | 5,718 |
| 1986 | 5,939 |
| 1987 | 8,848 |

Note: Data cover applications for sanction to weekly supplements of over £5 a week.
Source: Department of Social Welfare.



supplements. This compares with total expenditure of £32.5m on the Supplementary Welfare Allowance in 1987.

A survey of mortgage supplements in Dublin City and County (Mills, 1987) shows that 52 per cent are paid to people who have building society loans, with the remainder going to local authority annuity loans and those who have Housing Finance Agency loans. The majority of recipients of supplements (66 per cent of the total) are receiving Unemployment Assistance. The mortgage supplements are larger, on average, than the rent supplements. In March 1985, 45 per cent of all rent/mortgage supplements were for amounts less than £5.00 while for the week ending 28 March 1987, only 11 per cent of all mortgage supplements were £5 or less.

A notable feature of the results of this survey is the evidence that many mortgage supplements are being paid over considerable periods of time. Of all supplements, 24 per cent were being paid for a period of 2 years or more, and indications are that slightly over one in ten were being paid for a period of 3 years or more. By contrast, a survey in March 1985 for one Community Care area in Dublin shows that 22.7 per cent of rent supplements were being paid for a year or more and 6.5 per cent for 2 years or more. Supplements are even being paid to mortgagors who are paying off Housing Finance Agency loans. Up to about mid-1986 this was not done, as Health Boards felt that it would be anomalous to supplement a payment which was explicitly income-related on the basis of ability to pay. They were informed at that point that it would be in order to make supplementary payments and since that time have done so.

This is evidence that people who find it difficult to meet repayments are approaching health boards for assistance at an earlier stage than was formerly the case. Because of this, and given the indications that a much higher proportion of new mortgages are experiencing difficulty with making repayments than was the case in former years, the demand for mortgage supplements is likely to increase over the immediate future. It is also likely, in view of recent trends, that the proportion of supplements which last for periods of two years or more is likely to increase markedly.

**Difficulties in Operating Rent Supplementation**

Efforts at uniformity in operating rent supplementation date back to 1982, nevertheless, the rent supplement provisions have brought with them anomalies in the way in which different people are helped with housing costs. These have been in part a reflection of the increasing pressures on the system together with a marked rise in the number of claimants. Among the main features and problems have been the following.

— There is a lack of uniformity in the operation of the degree of discretion which exists under the system, in different health board areas. Hence,

**Table 10.2**
**Applications Received for Sanction to Weekly Rent Supplements Under the Supplementary Welfare Allowance Scheme, November and December 1987, by Nature of Social Welfare Payment and Household Type**

| Rent Supplements | | | | | | |
|---|---|---|---|---|---|---|
| | One adult | 1 Adult with children | Two adults | 2 Adults with children | Total | % |
| UA/UB | 653 | 14 | 37 | 69 | 764 | 74.2 |
| SWA | 84 | 24 | 1 | 19 | 128 | 12.4 |
| UMA | | 52 | | | 52 | 5.1 |
| DB/INV | 24 | 3 | 0 | 1 | 28 | 2.7 |
| DPMA | 18 | 2 | 0 | 0 | 20 | 1.9 |
| DWA/DWB | 1 | 8 | | | 9 | 0.9 |
| Others | 19 | 2 | 5 | 2 | 28 | 2.7 |
| Total | 799 | 105 | 43 | 82 | 1,029 | |
| % | 77.6 | 10.2 | 4.2 | 8.0 | 100.0 | |

| Mortgages | | | | | | |
|---|---|---|---|---|---|---|
| | One adult | 1 Adult with children | Two adults | 2 Adults with children | Total | % |
| UA/UB | 10 | 12 | 6 | 151 | 179 | 79.2 |
| SWA | 2 | 2 | 0 | 10 | 14 | 6.2 |
| UMA | | 4 | | | 4 | 1.8 |
| DB/INV | 1 | 1 | 1 | 7 | 10 | 4.4 |
| DPMA | 2 | 0 | 0 | 0 | 2 | 0.9 |
| DWA/DWB | 0 | 8 | | | 8 | 3.5 |
| Others | 0 | 5 | 0 | 4 | 9 | 4.0 |
| Total | 15 | 32 | 7 | 172 | 226 | |
| % | 6.6 | 14.2 | 3.1 | 76.1 | 100.0 | |

Note: Data cover applications for sanction to weekly supplements of over £10 a week.
UA: Unemployment Assistance. UB: Unemployment Benefit. UMA: Unmarried Mother's Allowance.
DB/INV: Disability or Invalidity Benefit. DPMA: Disabled Person's Maintenance Allowance.
DWA/DWB: Deserted Wife's Allowance or Benefit.
Source: Department of Social Welfare.

the payment being made can be a different proportion of rent or of income, for people in similar circumstances (income, family type and size) across different areas.

— SWA has been used to deal with arrears of local authority rents but is rarely if ever used to deal with arrears of rents in the private letting sector.

— SWA is being increasingly used to deal with cases where people are in difficulty with mortgage payments. Allowance is given for the interest element in repayments. However, this leads to anomalies between those



in receipt of endowment mortgages and annuity mortgages. In the case of endowment mortgages, the interest element remains constant over the life of the mortgage. Hence, the amount of income supplementation need not decline over time; by contrast, in the case of annuity mortgages the amount of supplementation can decline over time in line with the decline in the interest payment on the outstanding debt. In the case of people who are well into their mortgage term, the supplementation which they are entitled to could be quite low, and it is possible that their disposable income after making their repayment could be more than £3.00 per week less than the basic Supplementary Welfare Allowance rate and hence that they could be worse off than if they were renters.

— Rent supplements are being paid to many people who are in receipt of social welfare payments other than SWA, especially to those in receipt of Unemployment Assistance, a reflection of the rise in unemployment and especially of long-duration unemployment. Of 799 applicants for housing rent supplement under the SWA scheme at the end of 1987, 74 per cent from Unemployment Assistance/Unemployment Benefit recipients and only 12 per cent were from SWA recipients (Table 10.2). The application of the basic SWA rate to recipients of all social welfare payments means effectively that people in receipt of social welfare payments are experiencing an effective reduction in their payment received, towards the basic SWA rate. This is the lowest of all the rates of payment under the social welfare system.

— Those households where earners are on low pay are not receiving supplements, even though they may often be in need of housing help just as much as households on social welfare payments with roughly an equivalent income.

— There is no consistent policy across the health boards with regard to the use of Supplementary Welfare Allowance in respect of rent arrears. For instance, some health boards make no such payments at all as a matter of principle, some will make payment at an early stage, others will make payment only if an eviction is imminent.

— Health boards are required to judge whether a rent is reasonable by comparison with the quality of accommodation which is provided. If a health board feels that a rent is unreasonably high, then the suplement is paid on only a temporary basis. In practice, health boards pay a supplement based on the going rent in the area. This leads to difficulties and anomalies. First, it implies that there is reasonable availability of housing at that going rate, which may not be the case. Second, there can be variations in the going rate, depending on the quality of accommodation in the area.

— The guidelines for payment of the supplement provide that the supplement be reduced by the amount of rent which would reasonably be attributable to non-dependants who live in the household. However, there are wide variations across health boards in the methods of calculating this reduction. For instance, in some health boards, no supplement is paid if there is more than one income in the household. In cases where the head of household is unemployed, the method used to apportion rent or mortgage among other household members seems to be quite arbitrary.

— Further disparities across areas arise from the requirement that applicants for rent supplements should apply for local authority housing. Across the different local authorities there are differences in eligibility for such housing, differences in the availability of such housing, and differences in the degree to which this requirement is enforced.
— There is potential overlap between the SWA and the local authority differential rents scheme, although the change in the threshold for rent supplementation from £1.50 to £3.00 in November 1987 will have reduced the overlap. Some local authority tenants can have a disposable income less than the SWA rate and hence would be eligible for supplementation under the "SWA basic less £3.00 per week" provision. The more local authority rents are raised in order to cope with public finance problems, the greater this potential overlap will become. The increase over time which has occurred in the proportion of local authority tenants who depend on social welfare has meant that there is need to consider the joint impacts of differential rents and SWA supplements.
— There is a difference in treatment between recipients of the Rent Allowance (former rent-controlled tenants) and others; for instance, the former bear the first £4.00 per week of the rent, not £3.00 per week. This is taken up further in the next section.
— Guidelines for the scheme are not published and hence there is a certain lack of transparency with regard to the operation of the scheme.

With regard to the last point, in most health boards the practice is not to give supplements to local authority tenants, although such payments could in principle be made. At first sight, there should not be need for rent supplements to be used in the case of local authority tenants, as there has been a hardship clause in the local authority rents scheme, whereby when the local authority considered that a payment would cause hardship, it could accept a lower rent for a limited period (although not less than 6 per cent of household income). However, local authorities have been reluctant to invoke this clause.

The extent of the potential overlap — which has declined since November 1987 — between the differential rents system and the SWA system is explored in Table 10.3. For someone on Unemployment Assistance (UA), this table shows the disposable income less rent paid for different household types (up to a household with 4 children), using the different rates of Unemployment Assistance which are payable. This shows that in a number of cases where the short-term UA rate is payable, the household would be better off, by sums ranging



**Table 10.3**
**Net Income after Rent of Person on Unemployment Assistance in Local Authority Tenure**

| Household Type | Non-Urban UA Short term (1) | Non-Urban UA Long term (2) | Comparison: basic SWA rate *less* £3.00 per week (3) | Difference (3)-(1) | Difference (3)-(2) |
|---|---|---|---|---|---|
| ADULT | 36.40 | 39.20 | 34.80 | −1.60 | −4.40 |
| Adult + adult dependant | 61.50 | 65.20 | 60.20 | −1.30 | −5.00 |
| Adult + adult dependant + 1 child | 69.40 | 75.00 | 69.70 | 0.30 | −5.30 |
| Adult + adult dependant + 2 children | 78.20 | 84.80 | 79.20 | 1.00 | −5.60 |
| Adult + adult dependant + 3 children | 85.90 | 92.90 | 87.20 | 1.30 | −5.70 |
| Adult + adult dependant + 4 children | 88.80 | 85.80 | 95.20 | 6.40 | −0.60 |
| | Urban UA Short term | Urban UA Long term | | | |
| ADULT | 37.50 | 40.40 | 34.80 | −2.70 | −5.60 |
| Adult + adult dependant + 1 child | 71.50 | 76.80 | 69.70 | −1.80 | −7.10 |
| Adult + adult dependant + 2 children | 80.60 | 86.60 | 79.20 | −1.40 | −7.40 |
| Adult + adult dependant + 3 children | 88.30 | 89.70 | 87.20 | −1.10 | −2.50 |
| Adult + adult dependant + 4 children | 91.60 | 97.50 | 95.20 | 3.60 | −2.30 |

Note: In calculating column 3, social welfare rates at mid-July 1988 are used. The Dublin Corporation differetnial rent scheme current at mid-1988 is used.

from £6.40 a week downwards, if in receipt of a SWA rent allowance than if paying a differential rent. It should be added, though, that the majority of local authority tenants who are on Unemployment Assistance are likely to be on the long-term rate.

### Special Needs Allowance

Under the SNA (Special Needs Allowance), lump sum payments may be made for a deposit on a flat as well as for essential furnishings. However, here again there are differences across areas in what is given. In many cases the "essential" items which have been given fall short of what would be adequate for a home.

## AID FOR THE PRIVATE LETTING SECTOR FOLLOWING ON DECONTROL OF RENTS

It has been estimated that in 1971 there were 45,000-50,000 rent controlled dwellings and that by 1981 this number had fallen to 31,500. For a number of reasons, the supply of such rent-controlled dwellings was declining. No new controlled tenancies were being created; whenever possible, landlords sought to achieve a change of use of the tenancy; and dwellings were lost from stock due to demolition, disrepair and the cumulative effects of years of inadequate maintenance. In 1981 the Supreme Court held that provisions of the Rent restrictions legislation were unconstitutional.

Following this, an Act of 1982 provided security of tenure for the tenants who were affected. In addition, under the Department of Social Welfare, a rent allowance was made available on a means-tested basis with the aim of assisting tenants who otherwise would have suffered as a result of the rise in rents following the effective de-control of rents.

Any assessment of the housing conditions of these tenants has to allow for the fact that, while they have benefited from low rents, the dwellings have often been in poor condition. Many of these lettings are in old properties, many of the properties lacked basic amenities and many were poorly maintained. Hence, in terms of the net level of service obtained from these dwellings, that is allowing for the rent and the quality of housing, the level of service has often been low by contrast with other tenures.

The way in which the rent-controlled provisions were removed caused a good deal of uncertainty and fear among a group that was in any event vulnerable, with little or no economic power and with no great resources in terms of access to information. This has not been helped by an inadequate leaflet which explains the new scheme in a confusing way.

In summary, the current state of this sector is as follows: relatively old dwellings in poor condition and with a relative absence of facilities; tenants on low incomes, often elderly, and frequently depending on social welfare payments as their only source of income.

Under the subsidy scheme, a tenant is liable for the first £4.50 of the weekly rent. If the weekly income of a single or widowed person is below £57 (or £99 if a married couple) the tenant qualifies for the maximum allowance (the difference between the old and the new rent) with a minimum tenant contribution being £4.50 per week. The maximum allowance is reduced by £0.50 for every pound of income between £57 and £62 (£99-£109 if married). Beyond £62 (£109 if married), the allowance is reduced pound for pound. Table 10.4 gives an example of the rent allowance payable for a single tenant.

**Table 10.4**
**Example of Rent Allowance for a Former Controlled Tenant**

| | Allowance per week | | | |
|---|---|---|---|---|
| Income after income tax and Social Insurance Contributions | 50 | 60 | 70 | 75 |
| Former rent | 3 | 3 | 3 | 3 |
| New rent | 20 | 20 | 20 | 20 |
| Rent allowance | 15.50 | 14.00 | 3 | 0 |
| Income after tax, after "net" rent | 45.50 | 54.00 | 53 | 55 |



The following comments can be made on the scheme:

- there is a relatively sudden withdrawal of the allowance; thus, tenants with weekly incomes which exceed the new rent by £55 receive no allowance;
- where a rent is fixed by agreement between landlord and tenant, no allowance is paid: this has led to tenants being advised not to agree to rather low rents, with subsequent rents being set (now by a Rent Tribunal at higher levels);
- many people have not applied for the allowance as they (wrongly) believed that they were ineligible due to confusion over the assessment of income of other members of the household; this highlights the importance of better communication to tenants about their rights.

Up to the end of 1984, only some 10,600 former controlled tenancies had been registered with local authorities. In December 1985 there were 1,362 allowances in payment with an average rent allowance of £14.57 per week. At January 1988 there were 1,283 payments being made (882 to women and 392 to men; 572 to widowed persons) with an average payment of £14.20 a week. The majority of the recipients were pensioners, reflecting the fact that 63 per cent of the cases determined by the Rent Tribunal in 1985 were tenants in recipient of old age pensions and 49 per cent of the cases determined in 1986 (Rent Tribunal, 1987). The net income of pensioners after allowing for the £4.10 minimum rent would still be in excess of the minimum disposable income under the SWA scheme, i.e. the basic SWA rate *less* £3.00.

In the case of certain recipients of Unemployment Assistance, they could have a disposable income under the Department of Social Welfare rent allowance after the £4.10 minimum, which was lower than the income they would have if they obtained a rent supplement under the SWA scheme. There is, therefore, a potential overlap with the SWA rent supplement scheme, but it is relatively small after the November 1987 changes to the SWA, although this would cover only a minority of cases. In 1985, 9 per cent of tenants whose cases were determined were in receipt of a social welfare benefit or allowance other than the old age pension; the respective proportion in 1986 was 29 per cent.

The difference in treatment between those receiving SWA rent supplement, rent allowance for the former rent-controlled segment and those paying differential rent are brought out in Table 10.5. This takes a hypothetical case where the rent was £2 per week before decontrol and is now £15 per week. The table shows the net income (disposable income less net rent) for people in receipt of different social welfare payments. It shows marked differences between the explicit or implicit payments received by those in receipt of the social welfare rent allowance and those on differential rents, on the one hand, and those receiving SWA supplements on the other hand. The worse off in all cases are SWA recipients and the best off are those on differential rents.

**Table 10.5**
**Example of Treatment of Renters under Different Systems**

| Type of allowance, etc. | Net disposable income after rent i.e. disposable income less "net" rent £ per week | | | Explicit or implicit payment received | | |
|---|---|---|---|---|---|---|
| | Non-contributory old age pension | Contributory old age pension | Unemployment Assistance | Non-contributory old age pension | Contributory old age pension | Unemployment Assistance |
| Social Welfare rent allowance | 44.00 | 52.30 | 85.90 | 10.50 | 10.50 | 10.50 |
| SWA | 33.50 | 41.80 | 80.40 | 0 | 0 | 5 |
| Differential rent | 46.60 | 54.50 | 86.60 | 13.10 | 12.70 | 11.20 |

Note: Social Welfare rates at July 1988 are used. In the case of UA, person with an adult dependant plus 2 children on long-term urban rate is assumed. In the case of the pension, maximum rates for a person with no dependants is used. Gross incomes are as follows:

Non-contributory pension £48.50
Contributory pension £56.80
Unemployment assistance £90.40

In the case of the differential rent, Dublin Corporation scheme at mid-1988 is used. It is assumed that the equivalent market rent for the local housing would be £15 a week. In the case of the SWA, it is assumed that it is paid only to the family in receipt of UA and that £5 a week is paid.



# 11

# HOUSE IMPROVEMENT

## INTRODUCTION

This chapter is concerned with policies on house improvement, their evolution and rationale. There are obvious links between these issues and the subject matter of two other chapters — that of Chapter 6 which in part discusses improvement of most of the local authority stock, and the next chapter on urban renewal. In all of these cases, one broad objective which binds together the material is the need to make the best use of the building stock and to repair and improve dwellings where that is economical by contrast with new build. Chapter 12 takes up some of these questions of house improvement which arise in urban areas.

## EVOLUTION OF HOUSE IMPROVEMENT GRANTS

House improvement grants date back to 1924, while grants for the improvement of houses by the installation of piped water and/or sewerage facilities were available from the late 1940s. Over the past decade, there have been considerable changes in the approach to home improvement grants.

In the mid-1970s, grants of up to one-third (two-thirds for those working in agriculture or with rateable valuations not exceeding £60) of the cost of reconstructing a house were paid by the Department of Local Government, subject to a maximum; the local authority could also pay a grant. Grants were also available for the installation of water supply and for the provision of sewerage facilities: again, the local authority was able to pay grants of equivalent amounts. The State grants were paid irrespective of income, while the grants offered by local authorities could be subject to an income or valuation limit. There were also special types of reconstruction grants, e.g., for essential work done on houses for which reconstruction grants had already been paid.

In January 1977, the reconstruction grants were made more selective. From now on they would be confined to dwelling units which were subject to rateable valuation maxima (varying from £20 to £10 depending on the location).

With effect from November 1977 the Government increased improvement grants (and loans) substantially and extended the range of housing eligible for such grants. Improvement work which was reasonably necessary to make a dwelling more suitable for habitation would be eligible for the new grants. At the same time the supplementary grants payable by the local authorities were abolished.

With effect from February 1980, the house improvements grants scheme was terminated, with the exception of grants for the accommodation of the handicapped and the essential repairs grant scheme operated by the local authorities to cater for elderly persons in unfit housing.

In October 1981 a new scheme of house improvement grants was introduced. Some degree of selectivity was introduced in the sense that only specific types of improvement qualified. Grants were made available for the provision of a water supply, the installation of sewerage facilities, the building of a chimney and the provision of a fireplace with back boiler in a house without a chimney, the provision of a bathroom (or fixed shower) and for the provision of an extra bedroom to relieve overcrowding. In April 1982, this scheme was expanded to include an additional category of works, that is major necessary works to the basic fabric of the house — mainly roofs, external walls and floors.

By 1983, over 400,000 home improvement (reconstruction) grants had been paid in the period since 1924 — that is, almost half of the entire housing stock. In addition, by 1980, about 196,000 houses, mostly in rural areas, had been improved by the installation of a piped water supply and/or sewerage facilities.

In November 1985 a new scheme was introduced: this provided for an extensive range of works and substantially increased the level of grants paid. Grants were made available for installing a water supply, for installing sewerage facilities, for building a masonry chimney, for installing bathroom facilities, for building a kitchen, livingroom or bedroom extension, for necessary works to the fabric of a house and for replacement of windows and/or external doors. In addition, a grant of £5,000 for repairs and reconstruction to houses or to self-contained flats built before 1940 was made available.

The Department of the Environment received 140,900 applications for home improvements grants under this scheme — amounting to about one in six of all non-local authority dwellings in the country.

Further changes were announced in the January 1987 Budget estimates. House improvement grants were cut by 25 per cent. Moreover, the grant maximum would be set at a half rather than at two-thirds of the total cost of the improvements. In addition, the grant towards the cost of replacement windows and doors were abolished.

In the Budget of March 1988 the house improvements grant scheme was abolished.



## OTHER SCHEMES WHICH RELATE TO HOUSE IMPROVEMENT

A number of other policies related to house improvement should be mentioned. First, there is the essential repairs scheme. A grant is payable by county councils to certain persons (normally elderly persons) living in a rural area who carry out essential repairs to their house. The local authority must be satisfied that the house cannot be made fit for human habitation in all respects at a reasonable cost and that the proposed repairs constitute at least the repairs that are necessary in order to prolong the life of the house. By the mid-1970s the grant was paid by the Department and local authorities were entitled to make supplementary assistance available for the balance of the approved cost. By August 1974, essential repairs had been carried out to over 6,800 older, rural houses, with the aid of these special grants introduced in 1963.

Responsibility for the operation of the scheme was devolved to local authorities from September 1980. By early 1981 the limit on expenditure had reached £1,500. In April 1981, the limit of £1,500 on expenditure on a house under the essential repairs scheme was increased to £2,000 and in future the limit would be index-linked to the house building cost index. Local authorities may pay a grant of up to 100 per cent of the approved cost of carrying out the necessary works, with recoupment of up to 50 per cent of expenditure by the Department subject to an individual maximum of £500. In recent years there has been a decline in demand for the essential repairs grants.

Second, there have been house improvement schemes for local authority dwellings. In April 1981, it was announced that local authorities could borrow from the Local Loans Fund in order to finance the installation of fireplaces in centrally heated dwellings without fireplaces or other solid fuel burning appliances. At the same time, financing was approved for certain improvement works by local authorities, such as the provision of bathrooms, water supplies and sewerage facilities and extensions to overcrowded rented houses. In cases such as the provision of water/sewerage facilities, and of additional accommodation to relieve statutory overcrowding, the tenant would contribute towards the cost of the works. In cases where the contributions received from the tenants were not sufficient to meet the net cost of the work, the deficit would be met by the local authority from their current revenue as far as possible. Up to 1984 there was little expenditure on such improvement; since 1984 expenditure on this improvement has been at around £1m per annum.

In recent years, expenditure has been devoted to the Remedial Works Scheme which covers local authority dwellings which are in particular need of repair and upgrading. The 1987 outturn for Exchequer expenditure under this scheme was £7.0m by comparison with negligible expenditure in 1986. Of this, £4.4m related to the refurbishment of local authority dwellings which had been constructed under "low cost" arrangements.

Third, there have been the "re-cycling" schemes. Local authorities were encouraged to engage in the refurbishment of rundown *private* residential properties by the provision of £1.5 million capital investment to them in 1982. This capital provision was to be used for the purchase, rehabilitation and resale of currently rundown properties. The proceeds accruing from the sales of rehabilitated properties were to be used for further acquisition and renovations. Since the introduction of the scheme, drawings on the fund totalling £814,000 have been made by 8 local authorities, with the number shown in Table 11.1.

To date, the re-cycling scheme has produced disappointing results. Relatively few dwellings have been improved under the scheme. Of the houses acquired and refurbished, a number have been sold at a loss and a number taken into the local authority housing stock due to difficulty in selling. The sanction for the use of the remaining, undrawn, balance of the fund expired at 31 December, 1987 and in view of the lack of progress of the scheme to date it is likely that these funds will be returned to the Exchequer.

There have been a number of reasons for lack of sales: the difficult market conditions which have held for a number of years and which are likely to persist for some time and the current uneconomical orientation of some local authorities.

Fourth, in 1982 the Task Force on Special Housing Aid for the Elderly was set up, under the Department of the Environment, to undertake an emergency programme to improve the housing conditions of elderly persons living alone in unfit or unsanitary accommodation. Among those on the Task Force are representatives of AnCO. Following the initial pilot exercise in the Dublin area, the scheme is operated at local level since mid-1982 by the Health Boards. Funding was at an annual level of £1 million up to 1985 and was raised to £1.5 million per year for 1986 and 1987. There is a Government commitment to continue the scheme. Over 8,000 cases were dealt with between 1980 and 1987. In many cases, the work is carried out by AnCO trainees working under the supervision of Health Board foremen: labour costs are met in full by AnCO and this reduces the Health Board's contribution per case and allows for a greater number of applicants to be assisted.

## EXPENDITURE ON GRANTS

The short-lived scheme of late 1985 led to an upsurge of expenditure on improvement grants. In 1985, £7.4m was spent by the Department of the Environment on improvement grants. The expenditure in 1986 was £23m. In 1987, which was dominated by carry-over from 1986 applications, the expenditure on the scheme was the exceptional sum of £87m. In 1985, improvement grants in that year amounted to only 2 per cent of all housing subsidies, and in 1986, exceptionally, improvement grants were some 5.3 per cent of all subsidies.



**Table 11.1**
**Use of Revolving Fund up to mid-1988 by Local Authorities Number of units**

| Local Authority | Units | *Houses sold* At a profit | *Houses sold* At a loss | Houses unsold | Incorporated in L.A. housing | Undergoing or awaiting renovations | Awaiting Departmental approval to acquisition |
|---|---|---|---|---|---|---|---|
| Dublin Corporation | 24 | | 7 | | 1 | 5 | 11 |
| Cork Corporation | 25 | 1 | 7 | | 4 | 13 | |
| *UDC* | | | | | | | |
| Westport | 1 | | | | | 1 | |
| Clonakilty | 2 | | 1 | | | 1 | |
| New Ross | 1 | 1 | | | | | |
| *County Council* | | | | | | | |
| Tipperary (S.R.) | 2 | | 2 | | | | |
| Cork (West) | 3 | | | | | 3 | |
| Cork (North) | 3 | | | 3 | | | |

Source: Department of the Environment.

## THE UNFITNESS PROBLEM

The policy issues in relation to house improvement can be set in the context of the changing nature of the unfitness problem in the dwelling stock, already outlined in Chapter 3. From being largely a rural problem in the early 1960s, it has changed in so far as a distinct improvement in the quality of the rural dwelling stock has occurred. The improvement in the conditions of the rural stock has in part been a reflection of the flow of grants for the installation of water and sewerage. However, it is also due to something which had nothing to do with policy: that is, the rise in real incomes in agriculture which occurred in the 1970s. At the same time, distinct pockets of unfitness remain. Some of them are in urban areas, in groups of dwellings which were built around the same time, which have aged together and have not been the subject of improvement of any great magnitude. Many of these dwellings are in the private letting tenure, including those which were formerly subject to rent controls. Other pockets of unfitness are in isolated dwellings in rural areas, some of which are occupied by elderly people living alone. Although the data on this subject are poor, it is quite likely that over the coming decade a significant portion of the older dwelling stock in urban areas will need repair.

Chapter 3 has outlined the trends in obsolescence over time. Depsite the reduction in the average age of the housing stock, little or no reduction in the rate of obsolescence seems to have occurred, although some of this reflects a short-run in vacancy rates.

## RATIONALE FOR HOUSE IMPROVEMENT GRANTS

The rationale for house improvement grants is in terms of efficiency and income distribution. With regard to efficiency, there are a number of reasons why policy intervention could be justified.

(i) In some cases, householders may lack the requisite information to engage in socially desirable improvement.

(ii) There may be some capital market failure. Few loans for house improvement have up to now been given by building societies, partly because up to now such loans have had to be a first charge on the property. Proposed changes in arrangements with regard to building societies would make the offering of loans for improvement more attractive. Another reason for the absence of building society involvement has been the uncompetitive loan market and chronic excess demand for building society loan finance which persisted up to recent years. Banks have offered loans linked to the new house improvement grants but these loans are at high real rates of interest. There is a danger, therefore, that improvement grants end up partly subsidising an inefficient lending industry, rather than helping the borrowers. If the "market failure" takes the form of uncompetitive lending behaviour, the



response should be to instil greater competition in lending rather than to give out grants.

(iii) There are cases where "spillover" effects, that is the classic so-called "external or neighbourhood effects" are to be observed, where an improvement in housing by an individual adds to the quality of the environment in the neighbourhood. The improvement may not occur if reliance is simply put on self-interest and the operation of market forces. That is, from the point of view of the individual householder, it would not be worth while to engage in improvement because the improvement in housing services (or in market value) would be marginal. Other cases where such improvement may not occur are where there are housing units with multiple occupants — in these cases, the degree of co-ordination which may be required before improvements can occur may not be forthcoming.

(iv) There may be cases where a building or a whole neighbourhood is attractive enough to be worth restoring and maintaining — because of the "external effects" from which all who pass by benefit — but where it would be cheaper in financial terms for the owner to demolish and rebuild. In such cases, improvement grants may tilt the balance in favour of retaining the building or neighbourhood, and may help to retain what amounts to a national asset.

The rationale on equity grounds is to improve the housing services of those who live in the worst housing by targeting improvement expenditure at them. The criteria which are outlined in Chapter 5 apply here: are households of similar circumstances treated differently? And do lower income households receive a relatively higher benefit than the higher income households? Do the grants lead to increased private expenditure on housing? And if they do, do they have to operate regressively, benefiting those who are most capable of raising capital to spend on improvements?

## ADEQUACY OF POLICY

In summary, house improvement policy has swung from a very generous grants scheme to one where no grants are on offer at all. There has at the same time been an increased emphasis on improvement of the local authority stock, subject to public expenditure constraints. This raises the question of the potential role of private improvement grants, whether they should be substituted by or complemented with loans, and of the place of local authority house improvement in overall policy. Before these questions can be addressed, there is need to consider the question of housing and urban renewal. This question is linked to that of house improvement policy, and one of the issues is the potential scope for improvement schemes on an area basis. The urban renewal issue is taken up in the next chapter.

# 12

# HOUSING AND URBAN RENEWAL

## INTRODUCTION

This chapter is concerned with the relationship between housing and urban renewal. In particular, problems which centre around the deterioration of housing and living conditions in inner city areas are taken up. What is the nature of the interrelationship between urban decay and housing dereliction? And to what extent can housing policies help to counter the urban decay?

## THE NATURE OF THE PROBLEM

Up to recent years, many inner city households lived in rented accommodation, whether in private housing or rented from the local authority. In the private sector, in many instances, households were living in multi-family dwellings which were in poor condition. In urban areas, some of this residential accommodation has now either fallen into decay, become vacant or been converted to more lucrative use. The latter has involved either high density apartments for the upper end of the market or else office use. In the inner suburbs of Dublin where once there were dwellings avaiable to residents of modest incomes within easy access of their place of work, commercial developments and provision of dwellings for those on higher incomes have limited the availability of such housing.

Thus, the combination of weakness in effective demand, insecurity of tenure, losses to the stock in the supply side, and uncertainty about the future of the private letting tneure — in part because of a lack of commitment and clarity of signals on the part of policy makers — have all combined to make this tenure even more of a marginal one than it was ten or fifteen years ago. In 1971, of a total of 127,000 housing units in Dublin County Borough, 22,500 were rented in the private sector. In 1981, of a total of 137,000 units in the Borough 20,000 were rented in the private sector. While this is a lower rate of decline than that found in many big cities, it conceals the continual decline in unfurnished lettings at the lower end of the marked. Since 1981, that decline has continued while purpose built private apartments for the upper end of the market — in part stimulated by tax incentives — have been added.

There have also been difficulties associated with the disperson of some centre-city residential areas. Inevitably some slum clearance involves a lowering in housing amentities per acre.

Since the 1960s there has been a good deal of clearance of overcrowded inner city housing by local authorities. Following this, many households were relocated to the suburbs. In many instances, this changed both the nature and the location of the problem. Overcrowding in the inner city was reduced. But in the outlying housing estates to which certain residents were dispersed, the facilities which are complementary to housing were often missing and access to jobs, shops and leisure facilities was not readily available. There was a lack of timely provision of private facilities such as shops; there were inadequate transport services, inadequate development of the open space which was available and a lcak of "fit" between the recreational demand of the residents and the available facilities. A feature of the redevelopment is that in the peripheral housing estates there was often less contact across the generations than had been the case in the inner city. This raises the question of whether it is possible to have a "happy mean" betweeen the discredited high rise accommodation (discredited at least for family accommodation) and low density accommodation in the inner city. The latter may be wasteful in its use of space and has meant a good deal of relocation to suburbs. "Clustered" forms of housing at medium densitites can provide such a happy mean in urban areas.

A further set of problems has concerned the spiral of urban decay which embraces housing as an important element. This has been at its most intense in the inner city areas of the larger urban centres, where the cycle of urban dereliction followed by a drying up of investment in housing and other facilities, which has occurred in the United States and the UK, has been observed.

The problems of housing fitness which remain are of two types. First, there are the older parts of the urban housing stock, in more mature areas in the city, characterised by a transient population and by a significant number of rented units. Some of these dwellings have suffered from inadequate maintenance in the past, whether because of rent controls, political uncertainly about the future place of rented housing, or the economic weakness of the tenants. As a result, there may be a wave of obsolescence looming up over the next decade or two in these areas, in the absence of maintenance and renewal.

Second, there are parts of the local authority stock which need upgrading. There are cases either where dwellings were built to standards which are now regarded as unacceptable, or else cases where the "low cost" housing of the 1960s has led to problems of maintenance and a need for renewal.

There also remain problems of overcrowding, concentrated in certain wards of the inner city where 20 per cent of more of the population live in overcrowded conditions. Many of these are in local authority dwellings, some of which are two-bedroom dwellings.



The conditions in the private letting sector are important because of their implications for the ability of young and mobile households with limited incomes to find accommodation. in former years, such households, including lone-parent families, tended to depend on the private letting tenure for their housing. With the decline in the supply of rented housing which caters for those of limited income, this option became increasingly unsatisfactory. Moreover, because of their family size and composition or their mobility, such households tended not to qualify for local authority housing.

Related to this, a crucial element is the degree of choice which households have with regard to their location and their housing conditions. In certain areas in the Dublin sub-region, within the owner-occupied tenure there has been some capacity to move. However, for low inocme households in the private letting tenure or non-family type households who obtain local authority accommodation, the degree of choice is limited, both with regard to location and housing quality. For the first time in a generation at least in the few years up to around early 1988 it became possible in the larger urban areas for families with a small number of children, for single parents, and for single homeless people other than elderly homeless people, to obtain a local authority letting. However, for these families or single persons, they have tended to be allocated housing in low demand estates, where there may be difficulties either with structural conditions, with lack of access to facilities or with a lack of social service support for marginalised and vulnerable people who are congregated together.

## SOME SPATIAL CHARACTERISTICS

Some of the main spatial features of housing development in urban areas in recent years have been as follows:

— There has in general been a low density of development in terms of land use.
— At the same time, higher densities have been observable in the following categories:
(a) the apartment market both purpose built and through conversion of existing houses — this market has peaked and is now in decline;
(b) the growth of new town houses and mews development, usually in older suburbs — the share of new urban housing accounted for by this sector continues to grow:
(c) inner city areas there has been a growth in purchase by individuals of "artisan" type dwellings with a view to rehabilitation;
— Local authorities began to build houses in inner city areas from around the mid 1970s, of high structural quality at lower densities than the dwellings which they replaced.

## THE CONTEXT: THE URBAN ECONOMY AND SOCIO-ECONOMIC INFLUENCES

The decay of housing and the stigma which has attached to certain local authority housing estates, in urban areas, should be put in context by considering the reasons for decline in the urban economy. In many urban areas, there has been a common set of elements which has lain behind urban decline. These are certainly observable in Dublin, Cork and Limerick. Galway has avoided many of the worst problems of urban decay, probably because of a combination of a strong tourist industry and related service activities and also the contributions from a number of third level education institutions in the area. The elements which have contributed to the decline of the urban economy have been as follows.

- The decay of old dockside industries, leading to severe unemployment problems for those people, often older male workers, who lived close to the docklands who depended on that work and who have had great difficulties in finding alternative employment opportunities.
- The outward spread of city centre activities: in part this occurred as retail activities followed the buying power as households themselves moved to the suburbs. In part the locations of households in the suburbs reflected the rise in real earnings from work which lasted until 1979 and which in turn led to an increased demand for space and for larger dwellings.
- Changes of land use in the city from residential to commercial use, reflecting in part the changing nature of demands for commercial and residential accommodation. In some urban areas, this has also reflected an over-generous zoning of land for commercial use, by the planning authorities by contrast with what could realistically be taken up in the foreseeable future.
- A land market which has not worked efficiently to allocate land to uses of different values. In particular there have, at least up to very recently, been unrealistic expectations about the future value of land which has been zoned for commercial use. This has put a "bottom stop" to value of land in urban areas of decline. Land prices in inner city areas have been higher than would be expected. This has been related to expectations about future development which in the past has been compounded by unrealistic zoning on the part of physical planners.
- The relentless suburbanisation which reflected a number of aspects of housing policies. These were a concentration of housing policies on new build in "green field" sites, the location of new public sector housing in the suburbs with some exceptions since the mid 1970s, and the lack of incentive for people to purchase houses in the inner city, given that the Government grants and tax breaks have been targetted towards new building and against renewal.



- The difficulty of obtaining loan finance of the part of households who might have been interested in purchasing a dwelling in the inner city in less then ideal condition, with the intention of renovating and improving the dwelling.
- Major decisions on urban infrastructure, such as sewers, roads, which further cemented a dispersed pattern of location. These were consistent with the decisions of public authorities to emphasise housing in the suburden areas.
- A "vicious circle" to which the above elements contributed. The inner cities became relatively unattractive places in which to live. This led to a certain drying-up of investment in these places. The growth of suburden shopping centres is a case in point. In turn, this made the inner city locations even less attractive than before as places in which to live and to invest.

These features are not unique to Ireland. They are classic features which underlie the decay of the less fashionable parts of the inner city, repeated over the years in cities such as Liverpool, Glasgow, Sydney and some American cities.

Since the mid 1970s there have been some slight reversals in the trends which are outlined above. There has been some increase in demand for dwellings as the fringes of inner city areas, though not in the inner cities themselves. This has been associated with the purchase and improvement of "artisan-type" houses. So far, this has occurred only in particular areas of the cities. The typical household which has pruchased a dwelling close to the city centre has been a two-earner houshold with a small family size. The decline in average family size together with a rise in the number of two-earner trend has come from the relative increase in fuel prices and in costs of commuting to the city from the outlying areas.

There has also been some reversal of the low density of new housing development. While the apartment market (both purpose built and for conversions) reached a peak in the early 1980s, there has for some years been a demand for new town houses and for mews developments. These have tended to be located in the older parts of the inner suburbs.

The socio-economic aspects of city decay are also of significance. The decaying patches of the city are those inahbited predominantly by poor people — including low skilled, older persons, households with nobody in the labour force, or with the only people in the labour force being unemployed. These people and households all tend to be over-represented in the urban areas. The poverty and political powerflessness of many of these households mean that both public and private sector investment and service provision of many different kinds tends to go elsewhere: examples include the provision of shopping and banking, services, local factories, repair and maintenance services. In new peripheral estates, including the "new town" areas of the Dublin sub-region not only was there a lack of such services, but the providers of services to these areas such as education, health, social services, tended live outside the areas themselves. This contributed to the isolation and marginalisation of these areas. In recent years, in response to these problems, there have been some commendable efforts at the provision of services including advice on rights, from the "bottom up".

**THE CONTEXT: THE HOUSING MARKET**

Having sketched out the broad forces which have been at work in the urban economy, one can now turn to the way in which the housing market has worked in urban areas.

As in the case of the housing market across the country as a whole, the outcomes have reflected a mixture of the underlying demographic, economic and social forces and policy measures. Policy measures have led to greater space being provided in local authority housing and some improvements in the quality of design. There have been reductions in overcrowding which owe something to policies of slum clearance in the inner cities and the replacement of dwellings in those locations, by dwellings built at lower densities per acre. The reduction in overcrowding also reflects the marked fall in average family size which has occurred since 1971.

The nature of the response by builders has had a considerable influence on outcomes. Up to the late 1970s and early 1980s, much of the supply was concentrated on the larger houses on the outskirts of the urban fringe, housing which catered for those on higher incomes. This contributed to the segmented nature of the housing market — divided on lines of income and social class — with the different areas containing distinct socio-economic groups. It also contributed to the pattern of dispersed, low density housing which is observed in all the major urban areas.

Since the early 1980s, there has been an increased supply of purpose built apartments on the outer fringes of the larger urban areas. While some of this was a response to the changing nature of demand, some was stimulated by the tax breaks contained in the *Finance Act* 1981. In response to the decline in real incomes from work and the decline in family size, the supply response has taken the form of smaller units in smaller clusters, some of them in vacant "brown field" sites situated closer to the city centre. However, unlike cities in other countries, there has been relatively little conversion of obsolete buildings such as warehouses for residential use.

On a limited scale, "gentrification" has been observed in the largest of the urban areas. That is, there has been displacement of low-income residents (or



their succession following death or emigration) by higher income residents who improve the dwellings with "knock-on" effects on property values and the income profile of such areas.

In discussing the supply response, reference has been made to the divisions in the housing market between areas which house homogeneous groups classed by income and social class. These divisions have been compounded by the fact that in many urban areas. specifically in Dublin, the only additions to housing stock in the city core have occurred through local authority housing. In turn, that housing has increasingly been losing tenants who are in employment in the inner city. Developers have had unfavourable perceptions of building in the inner city, feel that these is a lack of demand for inner city housing and tend to view the provision of such housing as a high risk activity.

Moreover, the nature of inner city sites are such that they are seen as troublesome from the point of view of residential development. This is because of high land prices, fragmented ownership patterns, sometimes difficulties with title, and potential problems with site clearance.

**TAX AND GRANT POLICY AND URBAN RENEWAL: THE BACKGROUND**

Policies on grants, tax incentives and public investment in housing have not been neutral between "new build" and renovation. They have discriminated against renewal by contrast with replacement. In particular, they have discriminated against the inner cities where the incentives have favoured building anew relative to the refurbishment of older dwellings.

One example of this asymmetry in incentives which applied up to 1985 can be given, in the case of first time buyers with the choice of buying an old house in need of repair, or buying a new house. In the case of a new house, they would not pay stamp duty, could receive up to £5,000 in grants, and be facilitated by building societies. In the case of the old house, they would pay stamp duty, possibly qualify for a very modest grant but only after acquisition, and probably have difficulties with the building society. Not surprisingly, new residential building on "green field" suburban and rural sites expanded at a time of marked increases in household numbers, while the inner city decayed. This was reinforced by public investment policies which in the case of housing was almost exclusively a new housing policy, with local authorities adding to supply essentially through building new houses on the fringes of urban areas and in rural areas.

The comparative incentives were changed in the Budget of 1987, with the abolition of the £2,250 builders' grant for new houses and the termination of the house improvement grants scheme. There remains a bias in the incentives towards new construction rather than renewal, for instance, through the grant of £2,000 for first-time purchasers of new houses and through the stamp duty. The stamp duty bands have remained fixed at values which were set decades ago. Hence, the tax on purchasers of existing property, now at effective rates of 4 to 5 per cent, has greatly increased over time, only slightly mitigated by the shift from a 6 per cent to a 5 per cent rate at the highest band in the Budget of 1986.

Section 23 of the *Finance Act,* 1981, allowed 100 per cent of expenditure incurred on the *construction* of houses or flats for renting to be set off against *all* rental income. Under Section 24 of that Act, expenditure on *conversion* of an existing single dwelling, or property not used previously as a dwelling, into two or more residential units, qualified for the same tax relief. Such dwellings tend to be concentrated in inner city areas and are often over 100 years old and hence in need of renewal and upgrading in standards. Section 29 of the *Finance Act,* 1983 extended the period of relief under Sections 23 and 24 up to 31 March 1987 and stipulated that qualifying construction expenditure could only be set off against rental income from the property *in respect of which it was incurred.* Section 21 of the *Finance Act,* 1985 adapted Section 23 of the 1981 Act (as amended by Section 29 of the 1983 Act) to grant relief for *refurbishment* of buildings now or formerly in *multiple* residential occupation, in the period 1 April 1985 to 31 March 1987, as follows:

— relief allowed against future rental income receivable by lessor or qualifying residential units in the building insofar as expenditure was attributable to such qualifying units;
— a requirement that residential units meet the requirements of size and standards as for Section 23.

Section 22 of the *Finance Act,* 1985 gave relief for the cost of *refurbishment* work carried out between 1 April 1985 and 31 March 1987 in the course of any *conversion* to which Section 24 applied — i.e., it eased the restriction on what constituted "conversion costs".

The Budget of 1988 announced the re-introduction of "Section 23" type incentives, as mentioned in Chapter 2. The scheme applies to expenditure incurred from January 1988 to March 1991. Construction expenditure or conversion expenditure on multiple dwellings may be set against all rental income. Refurbishment expenditure and expenditure on the conversion of a non-residential building into a single dwelling may be set only against the rental income from the buildings in question.

As mentioned in Chapter 2, the *Urban Renewal Act* of 1986 as amended and the *Finance Acts* of 1986 and 1987 confer a range of benefits — in the forms of rates exemption and tax write-offs — on residential and commercial/industrial development in certain designated areas. The provisions



were initially applied to limited areas in five cities — Dublin, Cork, Limerick, Waterford and Galway, applying to qualifying expenditure over the five year period up to May 1991. In July 1987 the scheme was extended to areas in nine additional provincial towns, that is Dundalk, Wexford, Tralee, Castlebar, Sligo, Letterkenny, Athlone, Tullamore and Kilkenny.

Qualifying expenditure includes expenditure on the construction of a new building or structure reconstruction, extension or adaption of an existing building, or improvements of a capital nature to an existing building.

There are marked differences in the sizes of the urban centres which contain designated areas, as can be seen in Table 12.1. The size of the areas designated is of the order of 162,100, 39, 14 and 14 acres respectively in the cases of Dublin, Cork, Limerick Waterford and Galway and of the order of 18 acres in the case of the nine provincial centres.

**Table 12.1**
**Sizes of Urban Centres which Contain Designated Areas**

| Centre | | Population of urban centres which contain designated areas, April 1986 |
|---|---|---|
| Dublin | Co Borough | 502,749 |
| Cork | Co Borough | 133,271 |
| Limerick | Co Borough | 56,279 |
| Galway | Co Borough | 47,104 |
| Waterford | Co Borough | 39,529 |
| Dundalk | | 26,669 |
| Sligo | | 17,259 |
| Tralee | | 17,109 |
| Wexford | | 10,336 |
| Kilkenny | | 8,969 |
| Athlone | | 8,815 |
| Tullamore | | 8,484 |
| Letterkenny | | 6,691 |
| Castlebar | | 6,349 |

Source: *Census* 86, Volume 1.

One of these areas — the 27 acre Custom House Docks area in Dublin — is given especially generous incentives. For residential development, there is a modest benefit which allows the first owner-occupier to deduct 5 per cent of new construction/reconstruction cost each year for 10 years for tax purposes.

There is a strong asymmetry in that the incentives in the Custom House Docks site are more generous than in the incentive areas. A similar, but less striking asymmetry applies in the case of investment in refurbishment as against new building. The rates remission is total in the case of new buildings; it only applies to the added value in the case of refurbishment. Likewise, the capital write-offs apply to all of the cost of new construction. They apply only to the refurbishment cost of existing buildings; the cost of buying the (old) building itself cannot be written off.

## ANY REASON FOR BIAS AGAINST RENEWAL?

There seem to be no reasons either on grounds that markets fail, or on equity grounds, for skewing decisions against refurbishment and against the inner city, as has happened in recent years. The encouragement of new investment and investment on the periphery of urban areas at the expense of inner city areas has been inefficient and has not been cost-effective for the following reasons:

— dwelling units which could have been saved for the stocks have been lost, and have been replaced by new units which involve a much greater commitment of economic resources and a greater flow of Exchequer expenditure;
— excess economic and social infrastructure (roads, schools, health facilities) has had to be put in place in the suburban areas at a time when there was under utilisation of such infrastructure in inner city areas; which are implied by the low density of land use in the Dublin sub-region, for instance.
— the low density of land use in the Dublin sub-region has in part reflected such incentives and in turn has meant that public transport has found it difficult to cater for such a spread of population in an efficient manner and without incurring large Exchequer subsidies.

Moreover, on grounds of equity there is little case for a policy of discriminating against the inner city, given that many low income and marginalised households are concentrated in these areas.

Thus, on economic efficiency grounds and on grounds of cost-effectiveness there is reason to query the existing balances of incentives for building anew by contrast with renewal: this is essentially on grounds of the desirability of tax neutrality between these two decisions. Indeed, there are market failure reasons why Government intervention in favour of inner renewal can be justified.

First, the inner city almost by definition comprises the cultural, economic and built history of the city — as argued compellingly by Convery (1988). It is unique, and once destroyed, it can be imitated but not replicated. There is, therefore, a crucial irreversibility here. Moreover, there is in a sense a public good, an external benefit which the profit maximising individual has difficulty "capturing". Thus, for example, if a developer is providing accommodation in a medieval area, it is difficult for this individual to "capture" the benefit of conserving the medieval endowment; in most instances it will not survive without outside intervention.



Second, the maintenance of a diversity of activities, land uses, street scapes and building styles in the inner city produces an entity which collectively is a positive economic asset, attracts tourists, and is necessary in order to attract the labour force which is associated with many technologically based and service sector activities.

Third, there are economics of scale in organising renewal which can typically only be availed of it there is public sector involvement.

## POLICY IMPLICATIONS

While the features of urban decay have not been unique to Ireland, it is striking that little or no systematic effort has been made in Ireland to learn from the urban decay in cities abroad, which often predated the worst decay in Ireland. It is evident from the above that it is impossible to look at housing in urban areas in isolation from the various processes which have shaped the urban economy. The nature of urban change has influenced the state of housing and housing investment. Improvement and renewal can have a profound effect on the revitalisation of urban areas. The provision of adequate housing can have "spillover" effects in upgrading the quality of neighbourhoods. But the provision of structurally sound housing is not enough if urban renewal is to be encouraged. The quality of the environment in which the housing is located can make or break an area. If there is structurally sound housing in an area with a poor environment, that area is likely to be unattractive as a location for investment on the part of business or industry. Some of the negative perceptions which consumers, builders and suppliers of ancillary services have about housing in the inner cities come from their observations of structurally sound housing located in an unacceptable environment.

It should not be thought that the urban housing problems are confined to the inner city. The deprived areas — with regard to incomes, housing and other amenities — are found in certain peripheral areas as well as in the inner city, and are areas with both public and private housing. Some of the peripheral local authority estates in the Dublin sub-region have suffered from inconvenient locations with poor public transport, monotony in the repetitive design of houses, an inadequate quality of the environment, an unfinished and unkempt appearance about estates, and a lack of a more healthy mixture of land uses which can be observed in the older areas where community facilities have grown up over the years.

The economic problems which face many of the tenants of the local authorities in many urban locations have been compounded by the fact that mobility within the local authority tenure is restricted — depending on the queue for dwellings in other areas and depending also on residence or other requirements as operated by the local authorities. Whatever limited opportunities for employment may have arisen for these tenants in recent years, they have tended to arise in other locations.

One of the lessons is that policy needs to focus more on an area basis, and to link the various elements which bind housing renewal and broader urban resitalisation. Local Government has concentrated on specific specialist tasks — such as housing, environment, community, roads, transport. It has not focused enough on the upgrading of specific areas, linking these various tasks. Within this, housing rehabilitation on an area basis — discussed in the last chapter — will have a place.

The socio-economic aspects which are pointed up above have implications for the way urban renewal should operate and in particular for the way in which its benefits should be distributed. Unless the poverty of these people and their powerlessness are tackled — for instance by their obtaining some of the jobs which are created by urban renewal, and by their being helped to set up enterprises of their own to bid for work elsewhere when the renewal is done — these excluded groups will be left somewhere in the economy if and when the renewal is completed.

Conventional services are not organised to formulate, let alone to solve the problems — of the underlying economic forces which generate urban decay, and of the socio-economic and political aspects which relate in particular to those who are marginalised in the urban areas. One of the lessions of urban dereliction and renewal from other countries (Donnison, 1988) is the lack of "fit" between the nature of the urban problem and the systems of Government which are comprised of specialist services, divided up on functional lines, operating in isolation from one another, endeavouring to provide particular services: to build houses, allocate dwellings, build roads, run maintenance. The lesson is that specialist, centrally directed services, cannot cope with the complex problems of urban decay. The people who are at the receiving end of the problems need to be involved, the interrelationships between the various aspects of the problem need to be thought through, and more flexible modes of service delivery developed. These modes of delivery can involve bodies having to do things which they never envisaged and people being trained or retrained for different modes and styles of operation. Such an issue — orientated or problem — orientated style of management will probably call for pilot projects. It will certainly need to be based on the communities involved, as never before, and to cut across disciplinary and divisional divides.

There are also policy lessons for the system of physical planning. It has been argued above that over generous zoning and too rigid a segmentation of industrial — commercial — residential use have meant that the land market has worked inefficiently in urban areas. The lesson is that — accepting the zoning system as a fact of life for the purpose of this report — there is need for a



greater degree of zoning for mixed uses, and for realism in the amount of zoning for commercial uses. The zoning of too much land for housing leads to unrealistic perceptions by developers about the future course of land prices. This should mean a greater amount of area zoned for mixed use or for residential use. With this, over the years, land values should stabilise or decline in real terms.

With regard to the specifics of the incentives area package, a deficiency of the incentive areas programme is that it fails to adequately address a critical deficiency in inner city life, namely the virtually non-existent private investment in housing in the inner city including the designated areas. It is likely that the allowing of 5 per cent of the purchase cost against income tax each year for 10 years will not be sufficient incentive to encourage people to move into the inner city.

# 13

# DEALING WITH SPECIAL HOUSING NEEDS

## INTRODUCTION

This chapter deals with two kinds of special housing needs: those of the elderly, and the homelessness. In some respects, it can be invidious to separate one particular group of needs as there is a danger that this can be stigmatising. Moreover, it is in principle not a good idea to segregate housing provision into housing which is "typed". Nevertheless, there are specific issues which arise in relation both to housing the elderly and to homelessness, and there have been some policy responses to these two issues.

## HOUSING CONDITIONS OF THE ELDERLY

A number of strands from earlier chapters come together here. Chapter 3 showed that those elderly who live alone have inferior housing conditions to those of the community as a whole. Other evidence that elderly households have fewer amenities than do other households comes from a survey taken in 1977 (Whelan & Vaughan, 1982). In particular, they found that the housing conditions of those living alone were distincly inferior to those of other elderly people.

### Demographic Background

In 1986 there were 384,400 persons aged 65 years and over in the Republic of Ireland. This represented just 10.9 per cent of the entire population. Of all of the elderly, 56 per cent are women. There are 143,900 persons aged 75 years and over representing 3.7 per cent of the elderly population. Of these more elderly persons, 60.5 per cent are women. It is projected that in 2001 there will be 395,100 persons aged 65 years and over in the country, representing just 11.6 per cent of the total population, of which 58 per cent will be women (Central Statistics Office, 1988: medium migration and low fertility assumptions).

In the period up to 2001 and beyond, the elderly population is itself expected to age. It is projected that there will be 167,900 persons aged 75 years or over in 2001. This would imply an increase of 16.7 per cent between 1986 and 2001. In comparison, the population as a whole is expected to *decline* by 1.9 per cent over the same period (for the above assumptions), while those aged 65 years and over are projected to increase in number by 2.8 per cent. There are regional differences in outcomes. For instance, it is projected that the population of elderly persons will increase more markedly in the Eastern region than in the rest of the country (Blackwell and Connell, 1988).

In 1986 there were 384,400 elderly persons, of whom 351,500, or 91 per cent, lived in private households. Of the latter, 81,200 or 23 per cent of those in private households, lived alone. One trend in recent years is for an increased proportion of elderly persons to form independent households. Taking the number of persons living alone as a proportion of single plus widowed persons the following are the proportions:

| | *1981* | *1986* |
|---|---|---|
| Males | 34.2 | 39.4 |
| Females | 30.5 | 34.9 |

Based on this the projected numbers living alone in 2001 can be derived (Further details are in Appendix C). It is projected that in that period the number of elderly persons living alone will increase by 20% to almost 100,000, with a female/male ratio of almost 2.5 (by contrast with a female/male ratio of 1.9 in 1986).

**Implications of These Projected Demographic Changes**

These projected demographic changes have a number of implications for housing provision for elderly persons. In particular, growing numbers of the most elderly, particularly women and especially those living alone, are projected. These tend to have the worst housing conditions and to be among the poorest households of the elderly. They will need housing (which raises the responsibilities of the Department of the Environment), income support (which brings in the Department of Social Welfare and the Health Boards), and social service and health services (which brings in social work departments of the Health Boards and the health services). A key issue which arises from this is: how are these three sets of services to be brought together more effectively? Currently, they tend to operate in isolation from one another. What sort of combination of housing departments, welfare services, voluntary agencies, housing associations and private investors is called for?

The owner occupied proportion among elderly person households is slightly higher than average but the proportion who own their dwellings outright is far higher than the average. Evidence on this is available from tabulations which come from the survey of life-styles and usage of State services, taken in 1987 by the Economic and Social Research Institute (ESRI). The sample was of all households in the State, with the sample size being 3,311. These data are based on an analysis of approximately one half of the sample. Of *all households,* 46.6 per cent own their dwelling outright — a remarkably high proportion by European standards — and 32.0 per cent own with a mortgage, including those former tenants who are purchasing their dwellings from a local authority. This means that 79 per cent of households are owner occupiers — again, an exceptionally high proportion by European standards. By contrast, of all "elderly housholds" (where the head is aged 65 or over), 73.3 per cent own their dwellings outright and 9.3 per cent own with a mortgage. This means that 83 per cent of elderly households are owner occupiers.



Of course, those elderly person households who own their dwellings outright do not necessarily have the capacity to turn their only significant asset into a strem of income. Their incomes are generally relatively low, but their net worth (assets less debts outstanding) is, relative to the population as a whole, higher. One would liker to identify the proportion of those elderly person households who own outright and who also have low incomes. The ESRI survey of 1987 gives up-to-date information on the housing tenure of elderly households who have low incomes. This information can be expressed by taking the lowest deciles of households as classifed by total gross household income: this is income from all sources, whether from employment, occupational pension or Social Welfare pension. These deciles consist of "slices" of households, arranged by income, with each "slice" consisting of 10 per cent of all households. There are 94,000 households in each slice as there were 942,000 households in the State in 1987. The cut-off points for each decile, at 1987 money values, are as follows:

| | gross household income, £ per week |
|---|---|
| Lowest decile | 51.7 |
| Second lowest decile | 78.9 |
| Third lowest decile | 99.4 |

The main interest here is the answer to the question: what proportion of all elderly households who own their dwellings outright have particularly low incomes? The answer is that 50 per cent of all the elderly households who own their dwellings outright have gross incomes in the lowest three deciles — that is, below £99 per week. This would amount to 92,000 elderly households in total, by comparison with 184,000 elderly households who own their dwellings outright.

Some at least of these households are likely to have difficulty in keeping up with essential repairs and maintenance, and engaging in needed repairs and maintenance. This suggests that "home income schemes" have the potential to unlock some of the network which is tied up in housing and to convert it into a stream of income (Blackwell, 1988).

One particular pressure point which looms up concerns those elderly people who own their dwellings but who are unable to maintain their dwellings in good repair. The house will represent a drain on income because of necessary repairs, decorations and the replacement of items which wear out — a drain which at best could be constant in real terms but which would be more likely to increase. Table 13.1 shows one "guesstimate" of the likely future costs of maintaining and repairing a warm, occupier aged 72 and assuming an average life expectancy (male) of 13 years. This shows (at current prices) an increases from £150 a year at age 72 to £363 a year at age 85 with two instances of additional costs — £3,000 at age 73 and £4,800 at age 80.

**Table 13.1**
**Guesstimate of Future Repair and Improvement Costs for Elderly Owner Occupiers (age 72)**

| Age | Maintenance and repair | Additional expenditure |
|---|---|---|
| | £ | £ |
| 72 | 150 | 3,000 |
| 73 | 161 | |
| 74 | 172 | |
| 75 | 184 | |
| 76 | 197 | |
| 77 | 211 | |
| 78 | 226 | |
| 79 | 242 | |
| 80 | 259 | 4,816 |
| 81 | 277 | |
| 82 | 296 | |
| 83 | 317 | |
| 84 | 339 | |
| 85 (average life expectancy) | 363 | |
| | 3,394 | 7,816 |
| | Total: £11,210 | |

Assumptions:
Annual inflation at 7%.
Life expectancy average 13 years.
Annual maintenance expenditure (including emerginey repairs): £150.
Additional costs on two occasions, each £3,000 at current prices, calculated on basis of completion at age 73 and age 80, e.g. major repairs or improvements, alterations to ease mobility, adaptions, heating improvements.
Source: *Wheeler* (1986).

Whelan and Vaughan (1977) in a survey of the elderly in 1977 found that 23 per cent of those elderly who lived alone felt that their accommodation was "rather too big". But in view of the costs of moving to more appropriate housing, together with other problems, less than 20 per cent of these and other households who felt that their current accommodation was too large found that there was an actual incentive for them to move.

Not only is the cost of maintenance likely to increase over time but it is likely to be more difficult to organise. Initially, the elderly person may be able to do more of the work him/herself, thereby contributing to costs by the implicit costs of the person's time. As the person gets older, the ability to do this declines. Thus, "bought-in" maintenance and repairs may increasingly be required. In addition, there is the increasing burden on the elderly person of organising these repairs and maintenance services.

The options which are available to an elderly person at the "empty nest" stage of the life cycle, whose house is "objectively" too large for current requirements, are as follows:



— to sell the house and move to a smaller one, using the gap between sale and purchase prices (less the financial costs of the transactions and of moving) to add to their annual income, by providing additional capital which can either be consumed or can be used to purchase an annuity;
— to let part of the present house.

The first of these options can often be unattractive because there are heavy financial penalties (so-called transaction costs) which are exacted when someone sells one dwelling and purchases another. If the person buys a second-hand house, stamp duty is paid. There are also estate agents' fees to be met and solicitors' fees. The relatively high costs of conveyancing in Ireland and the relationship of this to the conveyancing monopoly held by solictors have been examined by the National Prices Commission (1976), and the monopoly has since been investigated by the Restrictive Practices Commission.

The second of the above options is almost always unattractive. There is an anti-landlord bias in Ireland, and renting part of the house involves the expenditure of time and energy in management and the responsibilities which go with this.

By contrast with the owner-occupied sector, there are different problems of repairs and maintenance in the private letting sector. As mentioned in Chapter 3, the former rent-controlled part of the sector has poor quality dwellings, and it has a predominance of elderly tenants on low incomes. From what we know of the decline over time in the fabric of these dwellings, it is unlikely that the repairs and maintenance provision are anything like adequate. The same would hold for those parts of the private letting sector which were not rent-controlled and which are occupied by elderly people on low incomes.

In summary, there will be a need for policy to focus, at least in part, on the existing housing stock which is occupied by elderly people — its adaption to make it more amenable to their needs, and its improvement and repair where necessary. Even in cases where elderly people have the financial resources with which to engage in repairs and maintenance and improvement, they may need advice of a professional nature and advice on loan finance.

While it is difficult to forecast the waiting list position for elderly people in local authority housing, that is likely to show some increase in coming years.

### Policy Response

The *Care of the Aged* report recommended that a specified percentage of all new Local Authority dwellings should be allocated to elderly persons, with initially a minimum of 10 per cent being the aim (Interdeparmental Committee, 1970). This recommended proportion has been met each year since 1972 and in some years well exceeded. In some cases the dwellings are provided in schemes which also have younger residents, thereby giving a broad range of contacts for the elderly, not to speak of greater protection than would otherwise be available.

These dwellings are of smaller than average size — they are one bedroomed and sometimes two bedroomed — and have convenience of access to electrical sockets, switches and door handles; they often have gound floor acommodation only. Some of these dwellings are built in conventional housing schemes. Other have been built in sheltered housing schemes, which are described below.

Two specific housing policies have been addressed at elderly person housholds: Sheltered Housing and the Task Force on Special Housing Aid for the Elderly.

**Sheltered Housing**

In Ireland in recent years an increasing amount of purpose-built housing has been provided for elderly persons. It has been the policy of local authorities since the early 1970s to allocate 10 per cent of their housing completions to this end. Between 1973 and the end of 1986 inclusive, local authorities provided 11,177 housing units for the elderly. The bulk of these would be one-bedroom units with some two-bedroom units. In addition there are housing units for the elderly which are provided by voluntary bodies. Research carrried out by the Housing Centre in 1983 indicated that about 1,100 dwelling units were rented out by voluntary organisations and housig associations in Ireland for accommodating elderly persons. Since 1984, with the improved method of funding voluntary bodies who provide housing through the capital loan and subsidy scheme of the Department of the Environment, there has been an increase in the amount of housing which is provided by voluntary bodies for elderly persons.

One question which arises is: how much of this housing provision would count as sheltered housing in some accepted sense of the term? Some of these dwellings have consisted of demountable dwellings, which hardly provide an adequate standard of housig for elderly people. Others have consisted of small houses or flats without any support services. And still others have comprised flats in one complex of buildings, usually with a resident care-person or else with an alarm system.

In Britain, sheltered housing has taken the form of a flat (not all of which are self-contained, especially in the earlier schemes) or a bungalow with a careperson on hand. Sheltered housing has been seen as a form of accommodation where elderly people could maintain independent lives. Most of the tenants have been expected to comprise the less active elderly. Sheltered housing has been seen as having a preventive role, in preventing people going into residential care and residential homes, and as having a social role for those who are isolated and have no relatives or few relatives.



Sheltered housing may be seen as operating on a continuum. At one end there are little or no special facilities. At the other end is what might be termed very sheltered or extra care housing where there is provision of meals or staff such as domiciliary carers. Services which can be provided in sheltered housing can include a resident careperson, communal room, alarm system, medical care. An important policy issue is where on this continuum is the desired level of provision. In particular, in view of the relative increase among the elderly aged 75 and over, some of whom are likely to be frail, very sheltered housing may be seen as a suitable alternative to institutional care in certain cases. However, it can prove to be an expensive form of provision which may not always be necessary. In recent years in some countries there has been a growing interest in "staying put" or staying at home initiatives as an alternative to bhe provisions of sheltered housing. These schemes enable elderly people to remain in their homes or to move to smaller dwellings. These schemes can range from those which improve the conditions of the dwelling to those which enable epole to summon help, those which tap the asset value of the dwelling in order to provide an income for the elderly person and those which give help with personal and domestic tasks.

Most of the purpose-built housing for the elderly in Ireland would not qualify as sheltered housing in the sense of providing special needs housing with communal facilities, although one or two recent schemes in the voluntary sector would do so.

## HOMELESSNESS

It is not possible to separate out the issue of homelessness from other issues raised in this report. For instance, the changing nature of housing conditions and the position of marginalised groups have been raised in Chapter 3, issues of local authority housing allocation have been dealt with in Chapter 6, and the ways in which people pay for housing have arisen in a number of places. All of these are relevant to homelessness: for instance, some homelessness can occur as a reflection of inability of people to pay for adequate housing. Nevertheless, some specific points about homelessness can be raised here, and the issue of homelessness will be returned to in the final Chapter, Chapter 14.

Form many years homelessness was viewed as comprising those who had not access to a physical house and was seen as typified by middle aged and elderly men who moved between hostels, to the extent to which they had any shelter at all. This picture is at best inaccurate and at worst a distortion of the reality for two main reasons.

At one stage, homelessness was seen as the same as "houselessness". This view of homelessness has gradually given way to one which views homelessness as occurring wherever people live in conditions which exclude them from the type of housing conditions enjoyed by the majority of households. Just as poverty has come to be seen as the inability to partake in the living standards which are taken for granted by most households, as much as absolute deficiencies in living standards, so also homelessness can be seen as reflecting the inequalities in housing provision and the inability of certain people to obtain a level of housing which has been taken for granted by most households. Homelessness reflects the most marginalised group of people. Some may have a roof over their heads but be living as "concealed" households with in-laws, or living for a temporary period with friends or relatives.

One has to distinguish the "stock" of homelessness at any time from the flow into and out of homelessness. Viewed in the latter dynamic way, there are many people of varying ages and backgrounds who are touched by homelessness at some time in their lives.

The underlying economic and social reasons for homelessness are manifold:

- the loss of certain inner city trades which formerly provided unskilled work;
- the drying up in the supply of private rented housing at relatively low rents and the poor conditions of that housing which remains. This sector traditionally provided housing for the young, the old, the mobile, those on low incomes;
- difficulties which those on low incomes have had in paying for housing. Even in the private rented sector, the entry costs have consisted of flat deposits, rent paid in advance, ESB connections, and rent payments which take a significant slice of income. Allied to this, the Supplementary Welfare System has not worked in a uniform way across the country and in some cases of objective need, rent supplements have not been paid. Moreover, at the crucial early weeks of resettlement, the amount of furnishings and fittings which can be obtained through health boards can be pathetically inadequate;
- the rise in unemployment rates especially for those at the bottom end of the labour market;
- social reasons to do either with conflict within the family, the increased evidence of marital breakdown, the increased desire for independent households among young people.



# SECTION III

## CONCLUSIONS FOR POLICY

# 14

# CONCLUSIONS AND RECOMMENDATIONS

## INTRODUCTION

This chapter pulls together the various strands of the analysis in order to draw conclusions, and makes the recommendations. These conclusions are in the light of the nature of housing conditions and the changing nature of the Irish housing system. At the outset, the key elements in current housing provisions that have a bearing on policy options are outlined. This is followed by a brief itemisation of the key issues which arise with regard to housing policy. The policy issues are then taken up, more or less in the order in which they are discussed in the report.

## CHANGING NATURE OF THE HOUSING MARKET

In a number of respects, the housing market has changed considerably in recent decades (as outlined in more detail in Chapters 3 and 4).

1. There has been a substantial improvement in the average standard of housing. This leaves the average level of service from Irish housing, judged in terms of space, conditions and amenities, as relatively high — that is in relation to the level of GNP per head in Ireland: indeed, Ireland would score highly on any international comparisons of this nature. The increase in housing standards has been obtained at a price in terms of considerable Exchequer expenditure on housing subsidies both in explicit terms and in implicit terms in the form of tax expenditures. Despite the cut-backs of 1987, explicit and implicit subsidies were higher in real terms in 1987 than in 1980. The improvement in housing standards has in part reflected the availability of specialised financial institutions, the building societies, which have channelled financial savings into housing. Aside from the fact that this involved a degree of monopoly power on the part of building societies, this may have had a cost in distorting the allocation of the flow of funds of savings between sectors — that is, channeling funds into housing that would have been better deployed in other sectors.

2. The rate at which new households are formed has declined since 1981. This has reflected demographic trends, interest rates and changes in financial aids. Projections for the period 1986-96 are of much lower increases in household numbers per annum than in the 1970s. The household projections together with the overview of existing housing conditions points up the following implications for policy:

— the importance of policy towards the existing building stock, and the need thereby to ensure that renewal and improvement occurs;
— the inefficiency in use of the housing stock at the moment, with a high vacancy rate, although admittedly some of this has been due to emigration;
— specific implications in relation to elderly households which are taken up below.

3. There has been a marked change in the types of household being formed, as shown in Chapter 4. "Conventional" family-type households consisting of husband, wife and children are now a minority of all household types. Lone parent families and one-person households account for a rising proportion of all household types. A significant increase in the number of single-person households is projected over the coming decade (Chapter 4). Many of these would be elderly persons, and in particular women.

4. As shown in Chapter 3, some people have been untouched by the general improvements in housing conditions which has occurred since the 1970s. While it is difficult to make any precise estimates of relative scale, the most serious problems seem to be those of structural fitness and poor maintenance in the older urban stock, part of which is at the bottom end of the private letting tenure; structural fitness in isolated rural areas; in certain local authority estates in urban areas the "hard to let estates" which are characterised by some combination of poor community facilities, lack of accessibility to jobs, shopping and other facilities, poorly maintained fabric and design problems which have led to difficulties with security and vandalism, and have also led to intolerably high vacancy rates and high rates of turnover.

5. With the decline in real prices which has occurred in recent years, the initial costs of funding ownership have declined, given the ability to fund a deposit. But with the decline in the rate of price inflation which has occurred, the burden of repayments over time does not fall so sharply. This implies that a set of problems looms up concerning those marginal buyers who were encouraged to enter owner occupation but have been barely able to fund house purchase and who are now hit by a combination of three elements: the decline in real incomes from work, a rise in real mortgage rates, and little or no decline over time in repayments as a ratio of income. The problems which have arisen are as follows. First, there have been increasing difficulties in funding repayments on the part of some purchasers, leading to potential default and repossession. Second, there has been an increasing resort to Supplementary Welfare Allowance for mortgage supplementation, adding to the strains in that scheme which were not anticipated. Third, for buyers who have Housing Finance Agency loans (now called income-related loans), and who become unemployed or suffer a marked



drop in income, they are trapped with an increasing debt on the dwelling and an inability to sell the dwelling. Fourth, some owner occupiers may be unable to engage in necessary repairs and maintenance.

6. There has been an increased residualisation in the local authority rented tenure. This is partly associated with the "exit" of relatively higher income tenants and tenants in employment in recent years. In turn, there has been a reluctance among people on the waiting list and transfer applicants to move to certain areas. In the latter areas there is tenant dissatisfaction, high vacancy rates and considerable expenditure on security by the local authorities.

7. In the larger urban areas, especially in the inner city areas, there has been an increasing decay of the building stock. In addition, the very fact of the dereliction has meant a lowering in the quality of housing services for the residents of these areas. However, it is increasingly evident that this is not just a housing problem. There is a strong inter-relationship between housing decay in the centra urban areas and urban decay as manifested in poor and deteriorating quality of the environment, poor level of services and dereliction with vacant sites. Each of these processes — housing decay and urban decline — feeds off the other.

## KEY ISSUES

The key issues which arise with regard to future housing policy are as follows.

1. While the amount of housing aid to owner-occupation has been cut back markedly since the beginning of 1987, many of the Government subsidies (including tax expenditures) are still obtained by higher income owner occupiers. Nor are many of the aids progressive in their impact in that the higher income households tend to obtain the highest benefit relative to income. These aids should be specifically geared to overcome inefficiencies in the housing market — such as lack of adequate maintenance, or the possibility that some of the housing stock that is capable of economic repair will be lost, or the "spillover" impacts of housing decay in urban areas. One of the shifts in the direction of policy which is required is a more neutral system of housing aids between different tenure groups, including the private rented tenure. Moreover, there is need for Government subsidies to be directed at the specific instances where housing markets do not operate efficiently.
2. Issues of access to housing bulk large: the terms under which housing is made available, in particular to those who are worst off, who can need help either in the form of income support or in the form of social service support and help with settlement.
3. Related to the former point, housing problems have increasingly reflected social exclusion and poverty, i.e., the presence in an area of large numbers of people who are unable to work due to being out of the labour force

or being unemployed, of single parent families where people (usually women) are caring for children single-handedly, of people who are on low pay. This implies that, to be successful, housing policies should be directed more at households rather than the approach up to now which has emphasised a "bricks and mortar" approach, when subsidies have been linked to dwellings and especially to new build. The existing systems of housing aids for those on low incomes suffer from the incoherence that results from diferent schemes operating with different criteria and different methods of assistance. Some low income people with objective needs get relatively little help.

4. Related to the foregoing points, housing programmes need to have a wider compass than the physical fabric of the dwellings (although that will have its place in particular areas). In some instances, policy will need to put some emphasis on post-settlement strategies involving social service delivery and effective links between housing, social service, social work departments and income supports, at local level. This is particularly germane with regard to policy on homelessness.

5. Policy will need to be more area-based, to link in with the specific problems of particular areas, which can differ enormously, for instance as between isolated rural areas, peripheral estates in urban areas, and inner city areas. In this regard, a weakness in Irish housing policy has been its highly centralised nature with regard to resource allocation. Admittedly, every five years, housing authorities must make estimates of housing requirements, but these exercises have been less than satisfactory, being netiher a dispassionate estimate of requirements nor a bid for resources from the regions to the centre. Another instance of the lack of an area-based approach is that, in urban areas, policies are organised on narrow functional lines. Policies have run on narrow "tramlines" (to quote Donnison) rather than being problem or issue-orientated. There is a lack of focus, therefore, without people in local government having a responsibility that a certain area is turned around and "works".

6. The existence of low quality or inaccessible and hard to let estates in the local authority tenure needs tackling. Their existence is intolerable both on social grounds and because of their economic effects. Related to this is the need to give a greater degree of choice to housing consumers in the local authority sector than exists at the moment.

7. Housing has a role to play in urban revitalisation. The evidence from other countries is that urban renewal programmes are doomed to (economic and social) failure unless there is an appropriate housing element. In turn, this means, on economic grounds, ensuring that housing stock which is economical to repair is not lost and that sufficient renewal occurs in a way which retains the diverse residential character of inner urban areas. On both social and economic grounds it means ensuring that a healthy social mix is observed among the households — that there is not a concentration of economically weak households in the inner city with a further concentration of high income households living in well-serviced apartments and town houses on the fringes of the urban core. Such a concentration would be undesirable, not just on equity grounds but because of its instability and contribution to the "vicious circles" which are observable in urban areas, whereby a drying up of investment and an exit of households from the centre, together leave the centre more economically weak than before and lead to a further decline in economic resources at the centre. Housing policy needs to be complemented by appropriate environment improvement if the task of turning around the worst of the inner city areas is to be accomplished. Thus, tax breaks are not enough if urban renewal is to occur in an appropriate and balanced way. Public expenditure on improvement of the environment is necessary if urban renewal strategies are to work; it is economically inefficient to neglect such expenditure.



8. The potential role of the private letting tenure has been neglected, in the sense that no coherent policy toward this tenure has emerged. The one development in policy in recent years — effective deregulation of rents together with selective means-tested assistance — was forced on Government through a Supreme Court decision. The top end of the private rented tenure is able to take care of itself. Policy concerns should be directed at the bottom end where there are elderly, low income and small households with high expenditure on rent relative to their incomes. Moreover, in that segment there is in many instances a poor quality of housing, together with little prospects of achieving home ownership or of getting a local authority tenancy other than in low demand areas. One policy change since 1981 has been the "section 23" tax incentive, designed to stimulate the supply of building for rent, with an emphasis on new build. The additional units supplied have been at the top end of the rented market — in a market where there is a degree of segmentation both with regard to income and social class *and* with regard to location. The additional supply of high quality rented housing has not "filtered" down to the bottom half of the rented market in terms of impacts on rents and relative ease of obtaining housing. This latter part of the market continues to feel the impact of the loss of unfurnished lettings over the years, and the lack of moderately-priced units of satisfactory quality. Moreover, the tax break in the *Finance Act* of 1985, designed to stimulate refurbishment or improvement for private renting has had little impact.

9. A feature of housing aids has been the different aid which is given to new build over renewal. A more neutral system of housing aids between the decision to replace or to retain dwellings would be desirable on efficiency grounds.

10. The need to forge an effective policy towards housing maintenance is equally clear from the recent experience of policy changes. Four main deficiencies have been in evidence. First, policy changes have been too rapid and disruptive, of an "on-off" variety. Second, there has been a lack of focus on those households, living in the worst conditions, who are likely to be unable to engage in repairs and maintenance. Many higher income households in relatively good housing have gained from past schemes of grants for house improvement: they are the households who had good information and were familiar with "the system", and where necessary they were able to complement housing grants with some of their own resources. Some at least of the improvement which was undertaken by these households would have occurred in any event. Third, policy on maintenance has lacked an area focus. One particular instance concerns a wave of renewal problems which is likely to occur in parts of the urban housing stock over the next five to ten years. There are dwellings, many in the private rented sector, where there has been little renewal or maintenance expenditure in recent years. Many of these dwellings are likely to age together. Fourth, there continues to be a set of problems about the maintenance of the local authority housing stock. Despite relative high outgoings on maintenance in real terms and a younger housing stock (which should have reduced the demand for maintenance and repairs), there is no evidence that the system has become more responsive and more cost-effective in meeting requirements for regular and cyclical maintenance.

11. The efficiency of housing markets will involve both loan agencies and those whose role is to facilitate housing transactions. For instance, it has been pointed out that many of the increased elderly households will consist of women. Given the greater longevity of women than of men, many of them would be widows, living in dwellings which some would regard as "too large" for them. However, there are no incentives in the system for those who would wish to move to smaller, more easily managed dwellings with lower maintenance costs, to do so. Quite the opposite: there are financial penalties associated with a such a move. A survey has shown that elderly housholds who feel that their houses are too large for their needs would welcome a move to more manageable houses but are dissuaded by the costs of moving.

12. Under other circumstances, the private letting sector or housing associations might be expected to cater for many of the additional small households — at least, for a certain number of years. This potential for giving additional flexibility to the housing system has not been achieved. The housing association movement is very weak by contrast with other countries, and up to recent years the State aid for housing associations has been miniscule. Even in the case of the 1984 scheme, it still leaves fund-raising difficulties for voluntary groups. Moreover, local authorities have



not exactly encouraged the housing associations by the means such as the provision of sites.

13. The emphasis on owner-occupation in Ireland has got to the point where it can get in the way of achieving housing objectives. The most central instance of this is policy on local authority sales which leads to efficiency losses, losses of rental income to local authorities, and is inequitable. While owner occupation will continue to be the main tenure, there is need to seek a more diversified mix of tenure types, thereby aiding consumer choice. Instead of that, Government policy is currently moving in the opposite direction.

14. Related to the discussion in Chapters 4 and 6, future needs for local authority housing depend on a number of elements. Among the elements likely to keep up the demand for local authority housing are; the stagnant or slowly rising real incomes, the long period of time which is likely before 1979 levels of real income from work are again reached, the rise in the rate of unemployment, and some increase in provision of housing for the elderly. Among the elements likely to limit the demand for local authority housing are: the availability of income-related loans through the local authorities, availability of loans from lending agencies for low income purchasers, and some evidence of increasing flexibility in private sector building in responding to changes in market conditions — in the sense that dwellings of smaller size in smaller schemes have been increasingly provided.

15. At the same time, one should not underestimate the continuing need for rented housing for people who cannot afford to buy. These people include: low wage earners, students and other young people living away from home, manual workers with modest skills and large families, the unemployed, lone parent families, and older people who — even if their incomes are adequate — are past the stage at which lenders are prepared to offer them loans.

16. It is vital, both to meet the housing requirements of significant numbers of people and to facilitate economic development at national and urban scales, that rented housing of reasonable quality be available to meet demands as well as needs. For lack of that, some demands eventually become urgent needs which public authorities are obliged to meet in situations of crisis which would be better avoided. That supply used to be provided by the private landlord, but this source of supply has been drying up and — as argued below — the prospects for reversing that process are bleak.

17. Rent controls provided little incentive to maintain dwellings in good repair

or in housing use as the standards which the community expects have risen. In addition, competition from other more heavily subsidised tenures and more lucrative investments in non-residential building has driven the private landlord out and it has become increasingly difficult to mobilise a supply of housing at an acceptable standard from this quarter. That trend is unlikely to be reversed, despite the effective abolition of rent controls, especially for the lower end of the market due to: (i) the economic weakness of households in that part of the tenure, (ii) the existence of more lucrative outlets for investment which do not involve the management problems which are associated with rented housing.

18. The need for decent rented housing (for mobile young people — workers, trainees, students, unemployed — for lone parents, for people of all ages leaving institutional care such as those leaving children's homes, hospitals) grows more urgent partly because many of these categories are growing in numbers. In recent years, students, the unemployed, lone-parent families, young single people who live independently of the family home and the homeless have all been increasing in numbers.

19. Moreover, the supply of privately rented houses and houses let as lodgings is declining. Only some sort of subsidised housing, with some assurance of achieving minimum standards, will meet these needs. Because the local authorities have been accustomed to house other kinds of people — particularly familes with chldren and elderly people — and because they are more accustomed to dealing with publicly recognised "needs" than the demands noted here, it may be better to use, not just local authority housing, but other agencies for these purposes — housing associations, cooperatives and trusts of various kinds.

## SUPPLY OF RENTED SUBSIDISED HOUSING

Given the high rates of unemployment and unequal distribution of income and of wealth, it will be impossible to meet the need for rented housing of an adequate standard and in the places where it is required unless there is a sufficient stock of subsidised housing.

The potential strategies which involve the supply of local authority housing can be considered: (i) building and renting subsidised housing; (ii) buying and renting subsidised housing. The strategies of building and buying are taken in turn. There follows a critique of allocation procedures of the housing authorities.

For any given rate of building, the efficiency of supply of local authority dwellings could be improved in a number of ways:



(i) The length of lag before contracts are approved by the Department of the Environment should be reduced.

(ii) In view of the difficulties in getting smaller firms to tender, there should be an easing in the administrative burden (although it is not suggested that the regulations be eased so that small marginal firms who would have difficulties in complying with contracts, would get through).

(iii) Competition in insurance bonding should be encouraged.

Also with regard to building policy, there is need for a greater proportion of suitable local authority housing available for letting to non-family units. While in low demand areas in recent years there has been, for the first time, a certain amount of letting of family-type dwellings to lone-parent families, in general the housing schemes have not contained dwelling units which are geared to the smaller non-family households. The one exception has been the provision of a specific proportion of units as purpose-built units for elderly persons.

Such a policy move, in combination with a sensitive policy on allocations, would help to overcome one of the deficiencies of the existing system: the limited degree of choice given to non-family units and to single parent families with regard to location and type of dwelling.

Given the increased allocations to one-person applications, there is need to incorporate suitable accommodation for such applicants. While the increasing number of applications from lone-parent families might suggest that a greater proportion of two bedroomed dwellings should be built, there is little difference in average cost between two and three bedroom dwellings. Moreover, some lone-parent families will increase in size over time.

With regard to building mix, the change in the average family size, which is expected to continue, and the change in the distribution by family size on the waiting list, all mean that changes in the size distribution of buildings are indicated. There is need for a shift of emphasis from low density, family type housing in suburban areas. An increase in the proportion of smaller dwelling units at relatively higher densities in urban centre locations or in inner suburban locations is called for. An "external" benefit which would result from such a policy would be its contribution towards urban renewal.

While there has been a dramatic decline in the number of large families, there is still need to ensure that, in particular areas, houses of sufficient size are available.

### Buying and Renting Subsidised Housing

Housing authorites should consider supply side strategies other than building and renting. In particular, the option of buying and renting subsidised housing should be used. Local authorities can enter the market and buy houses, new or second hand, wherever they are needed. The housing authority can, by this means, quickly and relatively cheaply acquire a more flexible stock which is located in the right places, less likely to be stigmatised, more likely to retain its value, and therefore easier to sell if that should later be necessary. This could lead to a less polarised housing market on tenure lines. Unit costs of provision can be reduced, price competition can be increased and the local authorities given greater flexibility. Such flexibility is all the more needed, given the changing nature of the demands on local authorities. For instance, to the extent to which there were need for more two bedroomed homes, this could be provided through selective purchases. Likewise, in areas where housing authorities need fewer units of particular kinds, they should be able to sell. Some economies of scale in maintenance and management could be sacrificed by such a policy but that would be a price worth paying, and in any event it is not clear that there are economies of scale of note.

**Allocation of Local Authority Housing**
With regard to allocations of dwellings, some of the more extreme needs arise because the selection procedures for entry to the public sector lead to certain people being excluded from satisfactory housing.

First, single people between the ages of 30 and 60, living from week to week in the private letting tenure or living as guests or friends at the will of others, have not been regarded by the local authorities as part of housing "need." There is need for local authorities to widen the category of applicants which they consider for housing, to include household types such as these. This should be done as a matter of principle — rather than as has happened in recent years, where allocation procedures (effectively for low demand areas) in certain local authority areas have been relaxed in response to a fall in waiting list and an emerging surplus of local authority dwellings in those areas.

Second, some local authorities have considered the housing needs of single parent families as less urgent than those of other families, leading to the offering of no housing or of housing in "low demand" areas, where the low demands arises as a result of some combination of the conditions of the dwellings, lack of easy access to jobs, shopping and other facilities, and quality of the environment. There is need to review the operation of the schemes of letting priorities, whether formal or informal as operated in the different local authorities, in order that a concentration of households who already tend to be disadvantaged — some of whom may need support facilities — does not occur in the less favoured areas.

Third, newcomers and mobile people do not acquire a sufficient "score" from allocation procedures which give a lot of weight to time spent on waiting lists. Mobile households, which often may include single parent families, can fail to



qualify for a tenancy under the length of residence requirement. The length of residence requirement should be loosened up. The ultimate aim should be an allocation scheme which would not penalise mobile tenants, where residence in one area would qualify in another. With the spread of computerisation, this is already feasible.

Fourth, there is need for schemes of letting priorities to make allowance for the emotional stress which may exist where a small family is in unsatisfactory accommodation or is forced to share a dwelling with others, by comparison with the allowance made for overcrowding. (In at least one or two local authorities, there has been a move in this direction in recent years).

Finally, there are grounds for giving some incentive for families to move to dwellings which are more appropriate to their requirements, at particular stages in their life cycle. This arises particularly at the "empty nest" stage when family size has declined and a more manageable dwelling might be desired.

## THE STRUCTURE OF LOCAL AUTHORITY MAXIMUM RENTS

The overall level of local authority rents will depend on (a) the maximum rents which are set for dwellings of particular types (b) the implicit subsidy which is provided through the differential rent system. These topics are now taken up, in turn.

In principle, it is possible to separate out the setting of rents from the benefit system. In the setting of local authority rents, the results are the same as if rents were set on the maximum rents principle, with an income-related cash benefit being paid to households in order to bring their respective rents down to the actual rents which are paid.

**Rent Maxima**
Under the current rent system, the rent maxima for the different dwellings do not vary in any regular way according to the quantity and quality of housing services — in the widest sense, including estate facilities — which are received. It is true that rents on older dwellings tend to be less than those on newer dwellings. But there can be a poor relationship between age of dwelling and quality of dwelling. In other words, it is not necessarily the case that older dwellings on which there are relatively low maximum rents would provide a poorer than average quality of housing services. Hence, dwellings of roughly the same quality can have different maximum rents. This may act to worsen the imbalances between the demand for and the availability of dwellings, which are already evident. Many of the dwellings with low maximum rents are in high demand areas. This is a reversal of the usual situation where higher prices than average are associated with areas of high demand.

Hence, there can continue to exist both high-demand estates with inward pressure in the form of applicants who wish to transfer in from other areas but who cannot be accommodated, *and* low-demand estates with high vacancy rates. The rent structure can lead to requests for transfers, vacancies and higher levels of local authority house sales than would otherwise occur.

Moreover, the range of choice which faces household is narrower than it could otherwise be. The tenant does not have the option, in any consistent fashion, to pay more in order to acquire a better dwelling. Nor is there the ability to trade off different attributes of dwellings against one another — e.g., to pay for a higher quality of neighbourhood services while accepting a lower level of amenities in the dwelling.

All of these features act against efficiency in the use of the stock of local authority dwellings. Irrational rent systems have costs, costs which are visible in terms of unnecessarily long queues for underpriced housing, vacancies and decay in overpriced housing, and ghettos — through their formation in housing which is priced at levels which can only be let to people with "full" housing benefits (explicitly or implicitly). Aside from the impact which rent structure has on efficiency of investment and efficiency of use of the stock, there are implications for equity. Families with similar incomes and of similar type and size could pay different rents depending on the age of the dwelling. There are also implications for Exchequer finances, in that there can be high housing benefit costs in overpriced housing.

A principle is that suppliers, in both the public and private sector, should have incentives to keep housing in good repair, modernise it regularly and manage it properly, and rent should provide the signals which impart those incentives. Suppliers and their customers both suffer if housing of similar kinds, perhaps in adjoining streets is let at quite different rents.

Having said this, it is accepted that in a system where most tenants depend on social welfare benefits, maximum rents may have little impact as few tenants would actually pay the maximum. The logic of that argument might lead to a recommendation of rent pooling (one of the options which is discussed in Chapter 7) with, at the extreme case, rents being pooled on a historic costs basis over the entire national stock and a flat rate maximum rent being set over the stock. That argument is not accepted, essentially for three reasons:

(a) It is suggested that on social and economic grounds there are arguments for a healthy mix of tentants in subsidised rental housing, and that there are circumstances where housing authorities should aim to cater more for demand that simply relying on meeting need. For this to work, some system other than pricing based on historic costs would be required. It would be difficult to run a two-tier system, with one part of the rented stock carrying maximum rents based on historical costs and another with maximum rents which were closer to market values.

(b) If there were a move to an explicit housing allowance, there would be an explicit divorce between maximum rents and the payment of a housing benefit, and historical costs rents would be inefficient in that context.

(c) Local authorities should be given signals about the value of allocating resources to different types of dwellings in different locations.

In any discussion of rent options, it is important to bear in mind that households are bidding for many things besides bricks and mortar — such as accessibility and location, reputation of the neighbourhood, quality of the environment.

Chapter 7 discusses the options with regard to the setting of maximum rents —

(a) a system based on historical costs;

(b) a variant of (a) which would have rent pooling over part or all of the local authority rented stock;

(c) a pure market rent system where the rents are responding to the relative pressure of demand (by comparison with supply);

(d) A rent system on comparability principles which is based on the physical characteristics of the housing estates and of the individual dwellings in the estates. Such schemes would typically have a rent structure which varied according to the size, type quality, provision of amenities of dwellings, and the quality of the environment. Elements such as the environment and accessibility matter, and are especially likely to be perceived as being important by households in response to increases in incomes. One of the difficulties with designing such schemes is that administrative convenience points in the direction of a small number of variables which determine rent. Yet if a satisfactory relation between "true" housing quality and an index constructed from such variables were to occur, quite a number of variables could be required.

The advantage of a comparability scheme as in (d) is that there would be a consistent rent structure *within* the local authority tenure, and that there would be no need to refer to the narrow private letting tenure in Ireland when setting rents. Futhermore, once a structure was set in a base year, it would be likely to remain fairly stable over time. However, this system would impose its own requirements, in particular the need for the system to be clearly defined and to be understood by the tenants.

The recommended policy is one whereby maximum rents for each area would be set according to replacement costs where rent maxima varied within each area across the dwellings on comparability principles as outlined in (d) above. It should be noted, that with the current high proportion of local authority tenants who depend on social welfare payments, increases in rent maxima will yield relatively little additional income to local authorities.

One result of such a system would be that higher income households in higher quality dwellings would be likely to pay higher rents. This would be desirable on both efficiency and equity grounds. One of the deficiences of the current system is that higher income households — some of whom inherit the dwelling under the lifetime tenure which operates — can pay relatively low rents. In turn, this has led the State to design expensive incentives to encourage these households either to leave the tenure or to purchase their dwelling. If there were a better relation between maximum rents and dwelling quality, such households would have an incentive to "exit" and purchase a dwelling in the private sector.

In moving from the current system of setting maximum rents to a different system there could be a transitional period before the new system came to into operation. The problems of change-over need be not greater than occurred when the maximum rents system changed in the 1970s at a time when a much higher proportion of tenants were paying maximum rents than is currently the case.

**The Differential Rent System**

The option of moving towards a comprehensive housing benefit system is outlined below. This could embrace the current diferential rent system. If some form of the differential rent system were to be retained for local authority tenants, there is need to consider the structure from the point of view of equity. The reason why equity would be the main consideration is that the efficiency "signals" would already be given through the structure of maximum rents, as outlined above.

The structure of an ideal differential rent system is one with a gentle progression or "tapering in" of higher rents as income rises over part of the range of income with no evidence of a poverty trap or serious disincentive to work.

The existing many differential schemes, which give rise to inconsistencies between different areas should be replaced by a uniform national scheme. There is little or no case to be made, or equity grounds, for such spatial differences in treatment. Moreover, such differences (for dwellings of equivalent quality) can act as barriers to mobility and hence be economically inefficient.

In moving to a national scheme, there would be need for consultation with, and involvement of local authorities at the design stage. At the moment there is quite a difference between local authority systems: among these, the type to be avoided is the use of income bands as in Dublin Corporation (and the old



national scheme) as it worsens the poverty trap as outlined below. A system with smaller gradations in rent paid as one moves over the income range, would be preferable.

Currently, the redistribution of income stops about half way up the income distribution as the higher income tenants hit the rent maxima. The recommendations on maximum rents would slightly improve progressivity.

The question arises as to whether there is scope for improving the "propressivity" of the differential rents scheme, by means such as counting overtime payments in assessable income or by increasing the rent fraction for higher income households. In this regard, Chapter 7 takes the 1987 scheme of Dublin Corporation, covering about 40 per cent of the local authority dwellings in the State. This scheme, by comparision with the national scheme which is replaced, reduced the proportion of disposable income goving in rent for the prototype households, but for some households increased the "marginal" rate at which rent increases as a propotion of additional income. This has worrying implications for the proverty trap.

The "poverty trap" describes the case where the net spending power of a worker (typically one on low pay) may increase relatively little as a result of an increase in gross pay. The poverty trap (or "poverty plateau" which has been used as a more precise statement of what occurs) arises because of the interaction between gross pay, direct taxes (income taxes and employees' PRSI contributions), cash benefits and non-cash benefits. The ~~range of earnings~~ over which Family Income Supplement is receivable and differential rents are payable overlaps the range of earnings for which both types of direct taxes are payable. Because these benefits are means tested and decline in value or are cut off entirely as gross income rises, families can find that much or all of an increase in earnings is offset by the combination of increased direct taxes and reduced recipiency of means-tested benfits.

The effects of the interactions of income taxes and benefits vary according to family size. Hence, the calculations on the poverty trap distinguish between different sizes of family. Net spending power is defined to be: gross pay (including overtime) plus Child Benefit plus Family Income Supplement (if eligible) plus the value of entitlement to a medical card (if eligible) plus the imputed benefit from a differential rent in local authority accommodation (assuming that the maximum rent would not be payable), less income taxes less employee PRSI contributions.

The effective marginal tax rate as gross earnings increase is defined to be the sum of direct taxes paid and the value of benefits withdrawn, for a £100 increase in income, divided by £100.

There are remarkably high effective marginal tax rates for a family with two children, highest at 136 per cent as gross income increases from £120 a week to £130 a week, next highest at 101 per cent as gross income increases from £130 to £140 a week. As gross income increases from £120 to £160 a week, net spending power increases by only £3.50 a week. One of the elements which contributes to the poverty trap is the discontinuous way in which the local authority rent setting operates, which can lead to sharp increases in rent, at the margin, in relation to income.

There is limited scope for any across the board increase in rents as a proportion of income for those on average earnings, given that the existing proportion is not greatly out of line with that paid elsewhere, with the exception of private rented housing. There is need to reconsider the rent structure, to remove high implicit marginal tax rates while trying to improve the progressivity at higher income levels.

## HOUSING MANAGEMENT

Issues of housing management, which are discussed in Chapter 7, derive from the main weaknesses of the existing management system which are as follows:

(a) The system pays insufficient attention to consultation with tenants and tenant involvement: it is centralised and retains vestiges of its paternalistic origins.

(b) Local authorities have seen their responsibilities in the housing field as strictly housing ones — the building of dwellings and their subsequent allocation according to a scheme of letting priorities. This has not involved social service provision or concern about how the persons will subsequently be able to manage in the dwelling. Housing welfare officers are employed by some local authorities, as are social workers: these people tend to work in isolation from one another. In particular, the social workers report to a different management structure than do other housing officials. Reference across these boundaries does not seem to occur in a regular fashion. For instance, early warning signals about build-ups of rent arrears and the measures which could be taken to contain this are often missing.

(c) Many people — that is, clients of the housing authorities — find the system remote and difficult to understand. This is particularly the case if one extends the purview beyond the "narrow" one of housing services and considers the interaction of housing provision, income support and social service provision. For instance, the location of offices in Dublin may involve people trekking from place to place. The delivery of the service can be seen as uncaring and impersonal, epitomised by the hatch interview.

(d) There is a lack of follow-up to the housing allocation process. "Small" things, such as inadequate provision of furniture at an early stage, can have a marked impact later on. Under the Community Welfare Officer (of Health Boards) there is provision whereby furniture and facilities can be provided, but the items which are provided are simply inadequate.



Competition is a vital discipline for suppliers of all kinds, public or private. In a neighbourhood which is wholly-owned by a local authority, there should at least be competition among repair and maintenance contractors — some of whom may be direct labour teams employed by the authority. But any single allocation system covering a large area owned by one landlord is apt to produce more social stratification, more "ghettos", than the diverse systems operated by different, competing landlords. However, if there are to be various subsidised landlords, there should be a single public authority capable of monitoring the housing conditions of potentially vulnerable groups and insisting (for instance, through the right to nominate tenants) that each landlord takes his or her share of the people who may be excluded. This authority should also be capable of getting built the types of housing which are in short supply — such as more small units or large units, as appropriate.

Left to themselves, public service professionals tend to centralise their location, they also tend to withdraw from direct exposure to customers and to become anonymous. All this can be reversed *without* additional costs; and when it is reversed, staff tend to behave in more accountable ways.

The ideal to be worked towards is one where housing authorities are more responsive to their tenants as clients, and where there are clear lines of responsibility between them and health boards, together with effective working together with social service agencies for the follow up phase to house allocation. The way forward is through management based on, and visible in, individual estates. Local management, including local repair teams, can provide a faster service in responding to the requirements of tenants. There is no evidence that there are economies of scale is estate management; hence, a move to a smaller scale of operation should not involve economic costs on this account.

In the larger urban areas, pilot schemes with decentralisation of the main functions of allocation, transfer, rent collection, repairs and maintenance to particular areas, should be attempted, together with much greater involvement of tenants. The involvement of tenants' organisations would require some administrative and financial help. The latter can be on a modest scale and can be cost-effective in terms of the overall effects on estate quality of rent arrears. Greater involvement of tenants should also improve management and maintenance (considered below), reduce turnover and improve morale. There are a number of forms by which residents can be involved, ranging from a local management body to a management co-operative to a community based housing association.

In addition, there is need for more varied forms of tenure, with more furnished lettings, and "core and cluster housing". The latter is a group of independent houses which are scattered around a central day centre or care-person's house for mentally handicapped or other vulnerable people. These forms would lend themselves to the use of pilot schemes.

In cases where there is public expenditure on capital costs and environmental improvements in areas with high concentrations of poverty and of unemployment, an opportunity should be taken to help local people to set up their own enterprises to do some of the work (and to bid later for contracts elsewhere in the economy). But that will not happen by itself: support and advice, training and the reversion of various arrangements (e.g. about tendering for contracts) will all be required.

With regard to maintenance, there are currently major problems. Despite the volume of expenditure, houses are being re-allocated which are not in a suitable state of repair. Moreover, the requisite promptness in repairs is not being achieved. There is need to distinguish between (a) early responses to demand, (b) cyclicial renewal, (c) major modernisation. Parts (a) and (b) may be smoothed out into a steady, predictable flow for 300 or more houses but only if carefully planned and if not long delays in expenditure are permitted. Part (c) calls for major expenditure in large lumps and tends to be forgotten until it causes a crisis of obsolescence or heavy public subsidy.

There are a number of options which would aim at achieving a more efficient system of maintenance, one which was more responsive to the demands of tenants:

(i) a decentralised management system on the part of local authorities;
(ii) the devolution of at least some repairs and maintenance to tenants;
(iii) contracting out of some maintenance services by local authorities to the private sector;
(iv) giving tenants a voucher which they could use to buy maintenance services or to purchase supplies and to complement this with the contribution of their own time.

A more decentralised and responsive management system, as recommended above, should bring benefits in the form of more efficient and prompter maintenance and repairs. To this end, there would be estate budgets; and a maintenance and management allowance per dwelling with a certain proportion for planned maintenance.

Some repairs and maintenance should be devolved to tenants. There could be a trade-off for this in the form of lower rents. Pilot experiments should involve devolving all routine maintenance to co-operatives whch are run by tenants.



Co-operatives could be given a maintenance and management allowances by the local authority. This could develop organically whereby some of management could be devolved similarly.

Such a policy of tenant devolution ties in with the general objective of achieving a system which involves tenants at every level and responds to their needs.

**Management of Priority Estates**
What should be done about the "priority estates" of hard-to-let public housing, the problems of which have intensified in recent years?

There are a number of possible approaches, focused on housing, which can tackle these problems, as follows:

(a) Improved design and the renewal of the decayed stock, including the overcoming of deficiencies in estate layout.
(b) Increasing the transfer of public rented housing to owner occupation — leading to greater stability and more private investment in the property by those who remain, but a considerable turnover as poorer people are excluded, and probably to problems of under-maintenance and premature decay later.
(c) Concentrating on management — taking account of design, and emphasis on the delivery of a more efficient and prompt service through accessible, locally based managers and repairs staff, and resident caretakers; prompt, locally decided (and often locally allocated) reletting of vacant stock; improvements and minor capital works inside and outside the houses planned in close consultation with the tenants; prompt, personal follow-up of neighbour disputes, rent arrears, breakages, etc. — and more generally a policy of involving the local people in every way possible and supporting their efforts.

The recommended strategy is one which emphasises (c) and (a) above. These approaches can be combined with an allocation policy which avoids herding vulnerable people and families together. The option of demolition should be avoided where possible as this can lead to break up of communities and in a "worst case" a change of client would be preferable to demolition, e.g., the letting of high rise housing to students or to single persons at close to market rents. There is room for pilot experiments for such schemes, on specific estates. This is not a narrow housing problem and its resolution will require a number of discipline working together.

The upgrading of run-down estates is best done by concentrating on specific areas rather than by "pepper-pot" improvement. This can have spin-off benefits and can help urban renewal. It can generate a volume of expenditure which may enable local people not only to get a few jobs but — with suitable help and advice — to set up enterprises which are later on capable of bidding for contracts elsewhere, e.g., in landscaping, painting, provision of security guards.

Such work should not be limited to the physical fabric of the dwelling. It should involve judicious combinations of structural improvement, security measures, and improvements to the environment (as in the cases of estate layout and landscaping). Some of the inner city housing which has been built by local authorities since the mid 1970s has been structurally sound but has been in areas with poor and deteriorating quality of the environment.

It should also be recognised that the areas which have been worst hit by unemployment and stigma can be "turned around" — not by housing alone but by housing in combination with policies which relate to the quality of the environment, and to provision of community facilities.

Public investment of the sort implied above in (a) (e.g., building a community centre, landscaping derelict spaces, cleaning off graffiti, putting up fences, etc.) should be planned to employ local people and give them managerial experience which helps them to compete for other contracts in the wider economy.

Other elements which go beyond housing are required. The professionals in the public services and, to a lesser extent, the executives in the private sector have training systems, a conference circuit, professional institutions and trade unions to develop their capacities and defend their interests. The community based local activists lack these advantages but need them even more. Steps should therefore be taken to build up networks between such groups to help them learn from each other's experience and give each other support, and to provide training (but in new ways — e.g., for women who have to bring young children with them or meet outside working hours).

One of the ways in which community workers can be helped is through the use of professional advice services (e.g., through architectural and other services). With the recent downturn in local authority house building, there is scope for seconding local authority professional staff, for a limited period on a pilot basis, to work with local community groups.

If the residents are to be taken seriously it will soon be found that their most pressing demands are often directed at services other than housing: the refuse collectors, the Parks Department, the Garda, the electricity and public transport bodies. Thus, policies for these areas must take more seriously the need to involve all services and coordinate their efforts. If housing services were to move in the recommended direction and to decentralise, gear up their efficiency, consult the customers, etc., while others made no changes, there



would be likely to be trouble as local residents with rising expectations and a growing capacity to organise, encountered rebuffs from services which failed to respond to the new demands.

The difficulties in letting public rented housing in particular areas may be largely due to the poor quality of the housing and of the environs: in such cases, no advance will be achieved until a better service and improved quality of the environment is offered. But such difficulties may also be due partly to the exclusion of large numbers of potential tenants from the lists of those considered for rehousing. Students, newcomers, young single people, and people held in residential institutions may all be amongst those excluded, simply because public services mistakenly assume that they could not cope with ordinary housing. Thus, a policy of extending and diversifying the range of social groups accommodated is required on a systematic basis — rather than as a temporary expedient when there is a surplus of local authority housing in particular areas. This needs to be coupled with involvement of local people in a programme designed to promote the acceptance of a wide range of tenants.

The financial implications of the above for the Exchequer need not rule out such iniatives. The combinations of reduced "new building" and a policy of selective purchase for additions to stock should yield savings. Moreover, policies which should yield a better use of housing stock and reduced vacancy rates should be set against the existing waste from high vacancy rates in local authority estates and the impact of the security bill on local authority finances. And one should not lose sight of the fact that, to the extent that people who otherwise would have been in institutions are enabled to live in the community, there are savings to the Exchequer.

## SALES OF LOCAL AUTHORITY HOUSES TO SITTING TENANTS AND SHARED OWNERSHIP SCHEMES

Chapter 8 discusses two sets of initiatives which involve an increase in owner occupation. The first is the scheme of sales of local authority houses to sitting tenants which is assessed on the basis of its impact on economic efficiency, the finances of the local authorities and income distribution.

The scheme can make it more difficult for the local authorities to meet their letting obligations, especially in particular areas where there is already a relatively high proportion of owner occupied housing and where there have been high levels of sales in the past.

The argument made in favour of the sales scheme that there is a net saving in maintenance expenditure as a result of sales assumes implicitly that "nothing can be done" about the rising costs of maintenance in the rented stock. Such an assumption would be unwarranted. Moreover, to the extent to which — in order to meet housing needs in particular areas — local authorities have to replace sold stock by newly constructed stock, there is an unequivocal loss to the Exchequer. The sale price will be well below replacement cost of the dwelling and the newly built unit will attract a relatively high current subsidy.

Furthermore, the calcultions of Chapter 8 show that, while in the short run there can be some increase in revenue to the local authorities, in the long run, revenue declines. The capacity of the local authorities to obtain increases in rent revenue — or indeed to maintain their existing rent revenue in real terms — is undermined. In particular, the loss of higher-income tenants means that the prospects for future increases in rent are slimmer.

Finally, before turning to equity issues, the financial arrangements under which sales take place have — since the generous sales scheme of the early 1970s — been inept. The loan charges falling on the Exchequer have continued long after the dwellings have been sold and reverted to the private sector. Meanwhile, *new* loan charges are incurred on any replacement dwellings which are constructed. Especially in recent years, when the building societies have had a surplus of funds over and above what has been needed to service the demand for loans, the societies could have been used to finance local authority sales.

The sales scheme also has implications for equity and income distribution. As shown in Chapter 8, the scheme has given a relatively high benefit to those who already have benefited from the higher quality housing in the public sector in relatively favoured locations. These benefits are captured by the initial beneficiaries and subsequent purchasers of the dwellings receive no particular benefits. Those in the bottom income range and in the worst housing are hardly affected by the scheme.

The 1988 scheme has even more undesirable features than the pre-existing scheme, for two reasons — aside from the fact that no attempt is made to reform the scheme. First, the obligation on local authorities to ensure that dwellings are structurally sound before they are sold, is removed. This builds up problems in future years as low income tenants, already stretched by mortgage commitments, are unable to make necessary repairs and engage in adequate maintenance. There are indeed, questions about the efficiency with which local authorities engage in repairs and maintenance, but the scheme does nothing to address them. Second, even more generous discounts are offered.

The sales scheme should be revamped so that dwellings are sold at replacement cost, without any discount for length of tenancy. There should be an explicit arrangement whereby loan finance is provided at the point of sale, and building societies should be enabled to provide much or all of the finance at market interest rates. It makes no sense for the Exchequer to be meeting loan charges on houses which have long since disappeared into the private sector.



**Shared Ownership**

Chapter 8 also discusses the potential for shared ownership or equity sharing where the local authority tenant would obtain a share in the equity of the dwelling. This is intended to lower the entry costs to owner occupation, and is directed at people with low incomes or little capital. People would pay mortgage repayments on part of the price of full ownership, and rental payments on the remainder of the price.

The way in which shared ownership can have an impact on housing investment is in part through some increase in effective demand for housing, as the "deposit gap" is eliminated, and also people are able to overcome the affordability problem. Furthermore, it is possible for shared owners to move to full ownership gradually by buying greater shares of the equity.

In practice, much of the potential interest of the shared ownership scheme is likely to be confined to urban areas. The reasons for this are twofold. First, the local authority loans have traditionally provided a route to home ownership, but their loan limits and income limits have meant that effectively the scheme has been largely confined to rural areas where land prices are lower and where often the householder was in receipt of land either as a gift or at relatively low cost. Second, there has for years been a good deal of "self-build" in rural areas. This tendency towards self build has meant that the deposit gap has been bridged in part at least through "sweat equity", that is work which is contributed by those who build the dwellings. Moreover, for many years a significant proportion of housing finance has come from outside the normal channels of the housing finance agencies. This partly reflects "self-build", but this is not the entire explanation for the proportion of loans outside the lending agencies: other reasons are the finance which comes from realising capital gains, inheritance, intra-family transfers and intra-family loans.

The extent of the reduction in entry costs to owner occupation through shared ownership would be limited given the cash grant which is already available to first time owner occupiers. Moreover, a significant reduction in entry costs could involve a reduction in the equity share from 50 per cent, and that could bring with it affordability problems in meeting rents plus share of the mortgage payments.

There might seem to be an advantage to the State in terms of lower maintenance costs. But, as in the case of the sales scheme this is only convincing if one assumes that nothing can be done about local authority maintenance. Shared ownership does have the surface attraction of bringing private finance into housing but there are other ways of achieving this. However, the scope for a successful scheme of shared ownership is likely to be limited, as long as existing loan-purchase schemes remain, for the following reasons:

(a) It would be of limited practical use to the lower income households, in view of the restricted range of houses and house types which would be available at the affordable price.
(b) The scheme of sale to sitting tenants — even before its 1988 version — provides a very attractive alternative to tenants.
(c) By contrast with the UK, there has been a range of instruments here available for some years which have been targeted, to some degree at least, at low income households: the former low-rise mortgage loans, income-related loans, Local Authority annuity loans, and loans which are convertible between the annuity type and the income-related type.
(d) Many of the target groups for shared ownership are currently in local authority rented dwellings. But the shared ownership option for them would mean higher outgoings on housing as a proportion of their incomes. In turn this could lead, in some cases, to future difficulties in meeting repayments.

On balance, a pilot scheme would be justified. This scheme would not be a "starter" if it were based on full maximum rents, with the shared owner paying the full maximum rent on 50 per cent (say) of the dwelling cost, irrespective of household income. However, no additional element of subsidy beyond the existing differential rents system would be warranted. There is another option which would be deserving of support. This is a system of co-operative equity sharing whereby grants to co-operatives as legal entities (equivalent, say, to the current subsidies given to co-operatives) could be combined with mortgage loans related to incomes which were raised by the individual members. The individual members would take responsibility for maintaining their dwellings and for servicing the loans. This would save the Exchequer the maintenance and management costs of housing. This could be one way of tackling the problems of managing certain local authority flats, whereby the co-operative would have responsibility for the common areas.

## USE OF SOCIAL WELFARE AND HEALTH BOARD FINANCIAL AID FOR HOUSING

Here we address the use of Supplementary Welfare Allowance (SWA) and of the Department of Social Welfare rent allowance, which are discussed in Chapter 10, and their links with the differential rent scheme. Two sets of problems have arisen from the operation of these schemes. One, which arises from their impact across the housing system as a whole, is that the different schemes use different criteria for inclusion (for example, the SWA excludes people at work, the other schemes do not exclude such people), and have different methods of helping people with their housing costs. Some people qualify for neither of these schemes and yet have incomes and wealth levels which are below the levels of people who qualify. A second set of problems arises from the "internal" structure of each scheme.



Within the present framework of social welfare support, there is room for improvements which would enhance cost-efectiveness and equity. Beyond "patching up" the existing system in such a manner, the more fundamental option is to move to a more comprehensive housing benefit system, which is considered below.

It is inefficient that the SWA is used to make payments in respect of rent arrears, given that the differential rents scheme contains a hardship clause whereby local authorities can accept less than the due rent for a limited period. There seems to be a reluctance on the part of local authorities to use this provision. This leads to duplication of work between health boards and local authorities.

There is a potential role for housing welfare officers of local authorities in intervening at an early stage when rent arrears are first noticed and in helping the tenant with budgeting. Under the current system, there may be little or no incentive for the tenant to catch up on arrears or to avert a slide into a significant build-up of rent arrears.

The requirement that applicants for rent supplements should apply for local authority housing should be dropped. Such a requirement cannot be justified on grounds either of economic efficiency, equity or flows of funds to the Exchequer.

There is need for a clear set of guidelines for the use of SWA for housing purposes in order to ensure uniformity of treatment across different areas including the treatment of non-dependents in the households. This should embrace the exceptional needs payments which are made, with an adequate set of basic furnishings (by current standards) included.

Problems of an "unemployment trap" arise because, while unemployed people are eligible for rent or mortgage supplements under the Supplementary Welfare Allowance, people in employment are not so eligible. In the absence of a full housing benefit scheme, this unemployment trap could be avoided by enabling low income earners to qualify for supplementation under the SWA scheme.

One other issue deserves mention. Those mortgagors who are well into their term receive little or not help through the SWA. For them, local authorities could purchase the outstanding loan from the building society or bank and thereby enable the mortgagor to receive SWA support. This could avoid repossession and the applying for local authority housing in certain cases.

This would leave the Department of Social Welfare rent allowance in place with different rates of payment from the other two schemes which are considered here. However, given the limited number of tenants who are in receipt of the payment, most of them pensioners, it seems best to leave that scheme alone. The overlap between it and the differential rent system is now relatively small.

## PAYING FOR HOUSING

There are two possible approaches to reforming the way the State helps people to pay for housing. First, maintaining the existing framework, reform would concentrate on the structure of the differential rents scheme and on removing the anomalies between the operation of the differential rents scheme and the schemes which operate under the Department of Socil Welfare. This has been dealt with above.

Under the thoroughgoing reform, one option is a unified housing benefit, taking the place of the differential rents scheme in the local authority rented sector and of the limited aid which is available for tenants in the private rented housing. It would also involve the removal of housing costs as an item which is specifically dealt with under the Supplementary Welfare system. Hence, it would not distinguish between those at work and those who are not at work.

The benefit could operate so that those whose incomes were at a certain minimum level received a 100 per cent rebate of eligible housing costs. The benefit would then taper off as incomes rose above the minimum level, up to a point where the benefit was reduced to zero. The benefit need not taper off immediately above the minimum level but at some point above it, for instance this could occur at the minimum level plus 30 per cent.

There would be a number of variants of such a scheme:

— a single taper option, with benefit tapering off by a percentage of the amount by which income exceeded the minimum level. Within this option, the taper could be set (e.g. at 0.5 times each additional £1 of income) or there could be an increased rate of withdrawal as income rose;
— A dual taper option, with a higher rate of withdrawal of benefit over the lower ranges of income, followed by a lower rate of withdrawal as income rose. This scheme would go further up the income scale than in the case of the single taper.

Of these two options, for any given expenditure on benefit, the single taper option would be more attractive, partly because of its administrative simplicity, partly because of its impact on the distribution of income. There would be need to avoid too steep a rate of withdrawal, or otherwise there could be problems with a poverty trap.

There is a third option, designed to overcome a possible problem that households can move upmarket at zero cost. If housing benefits discourage



appropriate responses by tenants, they should perhaps be paid on a proportional scale in order that people who "trade down" to smaller houses get some reductions in their housing costs. Under the so-called "rent-porportional" scheme, the net rent (gross rent less benefit received) would be zero at some low level of income and as income increased, net rent would increase by some proportion of the income increase. The problems of people moving upmarket are surely not significant, though.

If the unified benefit were to have no effect on Exchequer revenue, it would involve gainers and losers. The gainers would include those on low pay in the private letting tenure. Depending on the taper, the losers could include some in the local authority tenure. Could sums be found to fund a more generous scheme by amending policies towards owner occupiers? One possibility is a universal tax allowance, not means tested, available across tenures and "funded" by the abolition of mortgage interest relief which would provide £140m. A less radical alternative would provide funds by the following:

— substituting tax credits for tax allowances, whereby a fixed amount would be offset against taxable income, thereby giving relatively most help to the lower income taxpayers;
— limiting relief to the standard rate or by an income-related interest deduction which tapered off at incomes above a certain level;
— limiting tax relief to, say, the first five years of repayment.

A degree of progressivity could be imparted by taxing benefit through the tax system. One question which arises is whether this should apply only to owner occupiers with a mortgage? There are other, more fundamental questions. Evidence from US experiments is that an experimental housing allowance programme had little effect on housing consumption and investment, as little of the allowance money was actually spent on housing. And will a housing allowance work unless there are measures to ensure a sufficient supply of moderately priced accommodation? Otherwise, rents in the private letting tenure may simply rise to reflect the allowance.

In summary, the aim should be to move towards a housing benefit system, on a single taper basis, payable for all households across tenures which took account of family size. This is not recommended in one step. Rather, the first step should be to modify the local authority differential rents and SWA systems and the Department of Social Welfare rent allowance, as outlined above. From this could develop, organically, a universal housing benefit, in two further steps.

The first step would be a unified housing benefit for all those in the rented sectors, whether local authority or private. There is, however, a dilemma here. The lower the rate of withdrawal, the greater the costs for the taxpayer. If a system which had no net impact on Exchequer finances was to be brought in, the implications are that problems of the poverty trap and of high effective managerial tax rates would remain. The only way in which this dilemma could be overcome, within an overall fixed "housing budget" would be through deploying funds from the cash grant to first time buyers and mortgage interest tax relief. Of the latter two schemes, the cash grant to first time buyers is more transparent and at least is not available to people who are "trading up" and hence has some justification. Yet on balance it has a weak justification and the funds spent on it would be better directed towards a housing benefit. There is a case for releasing funds by restricting mortgage tax relief in one of the ways which is suggested above, and using that degree of leeway in order to insure a moderate rate of withdrawal under a unified housing benefit. This is recommended as the first step beyond "patching up" the existing system whether or not as part of a recosting of housing aid, there is a strong case for altering the tax relief given under endowment mortgages so that fewer benefits accrue to the financial institutions for any given benefits which go to mortgagors.

The second step which could develop would be a unified housing benefit across all tenures, involving the abolition of mortgage interest tax relief and its redeployment towards the housing benefit.

On balance, it is felt that there are advantages in having the local authorities rather than the Health Boards or the Department of Social Welfare administer any scheme of housing benefit, as the housing authorities have had the requisite experience with the differential rents system and are closer to the tenants than these other bodies. This still leaves the question, raised in Chapter 9 about the tax treatment of housing. As shown in that chapter, tax neutrality — and from the efficiency point of view, incentives to economise on housing consumption — would require that the imputed income (using a real rate of return) from housing be taxed. Against this taxable income, mortgage interest relief (using a real interest rate) and maintenance expenditure would be allowable. It would be desirable to move towards this system, with appropriate remissions for low income owner occupiers who owned outright.

## IMPROVEMENT POLICY

Improvement grants have not been well targeted. Some of the take-up has involved work which would in any event have been done. And much of the take-up was by higher income groups. The constant changes in policy have been undesirable. Apart from well targeted schemes — such as for the elderly and the particular problems of urban renewal (below) — future reliance should be on loans at market interest rate rather than grants. In some restricted circumstances there can be a rationale for cash subsidies for improvement —



where there is a danger of a unit (which could be economically improved) disappearing from the stock and where the household lacks the ability to fund renewal. But the concentration should be on loans plus area imrovement through local authorities, and expenditure on the Task Force for the Elderly.

There is scope for local authority giving loans for improvement, using variable rates of interest which would be designed to recover borrowing costs fully. The justification of this are as follows:

(a) the economies of scale in operation which can be present;
(b) the need to give competition to the building societies and the banks.

The local authorities should also offer maturity loans, where the principal is recovered from the value of the property when the house is sold. This would be designed for elderly owner occupiers who lack the means to engage in repairs, and who have paid off any mortgage which they have had.

## URBAN RENEWAL

### General issues

The main housing problems which concern the existing building stock in urban areas are those of dereliction, especially in the inner core, and the likelihood that certain tracts of the urban housing stock will need renewal over the next two decades.

Most of the current explicit financial aids for housing are targeted at new building. When account is taken of the stamp duty exemption on new building, the bias in incentives towards new building rather than renewal is magnified. This is undesirable from the standpoint of efficiency. First, it is inefficient in the sense that more building than otherwise is likely to take place in "green field" suburban sites and less in inner city sites. This has contributed to urban sprawl, an inefficient pattern of land use, and the need for the State to provide complementary services in outlying areas.

Second, this set of incentives is inefficient in the sense that some dwellings which would otherwise have an economic life are demolished to make way for new buildings; not only is a move towards neutrality in housing aids desirable, but there are arguments in favour of tilting the balance of aids towards the inner city, at least for a period. These arguments have essentially to do with the "spillover" effects of a vibrant urban centre, embracing a diversity of land uses, for economic activity, tourism and the quality of life. The other broad reason for intervention is on ground of equity, given the fact that many inner city residents are currently on low incomes (whether from work or through social welfare support).

One way of reducing the balance somewhat would be the equalisation of stamp duty on new and second-hand dwellings at a lower overall rate — the lower the rate, the more efficiency in the housing market would be improved. Another would be to tilt the balance of aids away from tax expenditures and move towards explicit grants of public investment. Tax expenditures (that is, adjustments to the tax structure which mean that certain activities receive favourable treatment) have a broadly similar effect on the Exchequer finances as does explicit expenditure.

Among other desired initiatives are the formation of renewal policy for urban areas on an area basis. Experience from Glasgow and other cities is that private sector investment in housing for low and middle income housing in decaying areas must be preceded by public sector investment to renew the physical and social environment and revive confidence.

Ways in which local authorities should be encouraged to help urban renewal through housing are as follows:

(a) Site assembly, where necessary through the use of compulsory purchase orders of local authorities.
(b) Environmental improvement, landscaping and upgrading of neighbourhood quality by the public authorities is required in advance.
(c) Selective use of revolving fund schemes. Under this type of scheme, local authorities could purchase run-down housing and repair and renew some of the housing stock which is in poor conditions and in private ownership, before selling off and generating funds for further renewal work. The revolving fund scheme has been little used by local authorities with the exception of Cork County Borough, in part because the management system of local authorities has geared itself more to building anew than to renewing and renovating units in the stock. Admittedly, a renewal programme can call for a diverse range of skills to be deployed, a different set of skills than that which is associated with new building. One constraint which inhibits the local authorities in this work and which should be removed is that they are not allowed by the Department of the Environment to sell a renovated dwelling at below the price at which it was acquired: in other words, that individual transactions have to be self-financing. Given the state of the housing market in Ireland in recent years, this has inhibited the use of revolving funds.
(d) The acquisition of derelict sites which are suitable for housing — available in old mixed use areas and in disused industrial areas for local authority housing development and for joint venture schemes with the private sector.

There is also a need to use the potential of housing associations to build and



to renew dwellings in the urban and inner urban area. Revolving funds could be used to help housing associations acquire sites or old properties and to develop housing renewal projects. These revolving funds could be replenished from the mortgage loans and grants which are available on completion. Already pilot projects have been initiated in this regard by NABCO, the Co-operative Housing Association. This should involve the co-operation of local authorities by means such as site provision.

Chapter 12 has shown that some of the ways in which the physical planning system operates and the organisation of local authorities have contributed to urban dereliction and housing decay. Specifically there has been

- unrealistic zoning for commercial use and not enough zoning for mixed use;
- the operation of local authorities on a functional, service basis rather than on an issue-orientated basis which relates to the problems of individual areas.

In addition, there is a notable inefficiency in the lack of use of the upper floors in urban areas — which have the potential to be used for residential accommodation. There is need for the authorities to examine (a) the extent to which byelaws of the local authorities are an unnecessary barrier to such use, (b) whether there are restrictive practices at work whereby it is not possible to obtain insurance for such uses, (c) whether building regulations impede such use.

**Area Improvement**

What is the scope for area improvement policies which focus on an area rather than on individual properties? The problems of area improvement vary considerably in: (1) the run-down urban neighbourhoods of predominantly private housing and (2) the difficult-to-let public housing estates. The latter has already been referred to. The needs of the first sort of area arise from the fact that it has for a long time been starved of investment, both in its housing and (probably) its commercial and public services and enterprises. That has to be changed, but all the evidence suggests that the State has to demonstrate its commitment to "turning the area around" by investment over a long period in the whole environment — not only its housing — before the private sector will come in. But, with that encouragement, private investors will eventually come in.

In areas like the Liberties or the North Central City of Dublin where there may be scope for "gentrification" on a big scale, it is particularly important to improve housing and the general environment for the existing (generally poor) residents over a period of years, in order to stabilise the community, convince local people that their needs are not forgotten, and establish the social character of the area before upwardly mobile "entrants" buy into such areas.

If that can be achieved, experience in Glasgow and elsewhere suggests that the house buyers who do come into the area will frequently have local connections of some sort (relatives living in the area, or a job to do nearby) and make some contribution to the local economy, by sending their children to local schools, using local shops and local pubs, etc. Inner city areas have typically lost population heavily over the past generation, so there are many people who would like to come back if given an opportunity of finding a good house there. Many want to buy rather than rent, and the case for extending people's choices by diversifying tenures in such areas is a strong one.

**Private Sector Investment**

In the inner city areas of the larger urban centres, the only gross additions to housing stock over the past decade have occurred through public sector housing. While much of this housing has been of a high structural quality, the combination of the poor environmental quality and community facilities in some of these areas and the stigma which attaches to local authority housing means that this expenditure has not been sufficient to revive these inner city areas. It would be desirable if private investment in housing could be attracted to these areas in order to achieve a more diversified tenure and social mix.

In order to achieve private investment, the following is suggested:

1. Clarify the kinds of demands which might be served in the area concerned. The commercial centre, the old inner areas dominated by privately and publicly rented housing and decayed commercial property, the run-down inner public housing estates, and the peripheral estates — each can attract users of both residential and commercial or industrial kinds, but *different* ones. Thus, there is need to start with market research leading to the creation of a carefully chosen 'image' for the area.
2. Demonstrate over a period of years that public authorities are committed to turning the area around, by improving not only the housing and public buildings but also the whole environment: stone cleaning, landscaping, pavement repairs, etc. may all be needed. The private sector must be given confidence that the risks of investing in the area are being steadily reduced and that land values are likely to rise.
3. Provide subsidies — cheap land, improvement grants, etc. — for the first private projects in the area, while making it clear that these may be become less generous in future, as the area "takes off".
4. Set up within the appropriate Department a competent 'Private Sector Department' staffed by people whose job is to build credibility in the private sector — some of them recruited from it — and to represent its interests within the bureaucracy and amongst politicians. Set up also a co-operative housing development unit to work in collaboration with NABCO in developing housing rehabilitation and urban renewal projects.
5. Mobilise civic loyalty behind a clearer and more positive image of the city



and its future whenever opportunities arise, and disseminate this image by bringing outsiders in for conferences, exhibitions, sports meetings, etc. — trying to involve the whole city in these events rather than treating them as isolated projects.
6. Carry residents in the areas to be developed along by keeping them informed and ensuring they get something out of it themselves: not just sweeping floors and serving cups of tea but also setting up cleaning and catering firms capable of bidding for contracts in the wider economy. Ensure that subsidised private investors recruit and train local labour.

## HOUSING FOR THE ELDERLY

It is projected that there will be an increased proportion of the population aged 75 and over, and a significant increase in the number of elderly persons living alone. Moreover, current policy implies an increased shift from institutional care to care in the community. Given these projections and policy changes, and the fact that full care in residential homes will be essential for only a small minority, there is likely to be an increased need for appropriate sheltered housing. This can come in various forms, with varying levels of social and para-medical support. The need is for housing authorities to forge more effective links with health boards, social service agencies and voluntary bodies in delivering services to the elderly, including in the "follow-up" phase to housing provision.

There is scope for using pilot projects with regard to the provision of different types of sheltered housing, some with communal facilities, some with warden services, for example. There is also scope for encouraging a greater contribution by voluntary organisations and housing associations. Under the capital loan and subsidy scheme, criteria about the category of the elderly who may be housed could be eased while still covering the elderly of limited means.

Some elderly people may benefit from modifications to their own (or their caring relatives') homes, provision of day care or lunch clubs coupled with advice and recreation, "respite care" to take the burden off caring relatives at regular intervals, building of "granny flats" adjoining homes of younger relatives, etc. Pilot projects could test the desirability, in certain cases, of helping elderly people to adapt their own housing rather than providing sheltered housing.

Two housing schemes which have been addressed at elderly persons have been: (i) the essential repairs scheme in rural areas, which has the intention of prolonging the useful life of old houses which are in poor condition and are not capable of being made fully fit for habitation at a reasonable cost, (ii) the Task Force on special housing aid for the elderly which has understaken an emergency programme to improve the housing conditions of elderly persons who live alone in unfit or unsanitary housing. These two schemes by comparison with most housing programmes would score highly on grounds of effective targeting — bearing in mind the need to "hit" both dwellings of poor standard and households who are likely to lack the economic resources to effect the needed repairs — and on grounds of efficiency and cost minimisation for the Exchequer. The efficiency reflects the fact that a number of dwellings have been retained in use which otherwise would have fallen well below tolerable standards or been lost from the stock.

However, such schemes will be inadequate to deal with a problem which is likely to increase in magnitude — that of elderly owner occupiers who are unable to maintain their dwellings in good repair due to lack of sufficient income. In some cases, a solution to this would involve the elderly person vacating a dwelling which has become too large to manage, and to move to a smaller dwelling. The drawback is that this could involve a move to a different area. Moreover, given the high cost of selling one dwelling and buying another, reflecting the legal penalty attached to moving home, even within the same area, such moves are unlikely to occur.

Maturity loans, calling for interest payments only, may be a useful device and the property can provide the collateral required for the loan. Other possibilities will include purchase, repair and lease back, coupled with a housing allowance system which enables an elderly person with low income to pay the higher costs of an improved home.

Housing associations may have a part to play here which need not be limited to the building or rehabilitation of blocks of housing for the elderly: an assocation could own houses which it had taken over and improved to rent back to their householders. There is also scope for associations providing a package of repair and maintenance services for elderly owner occupiers who cannot engage in repair and maintenance.

Owner occupation gives many people a large capital asset at the end of their lives when incomes are low and care may be needed. It should be possible to devise arrangements with the insurance companies enabling home owners to convert their asset into whatever mixture of income and care they need. The National Council for the Aged is currently examining the feasibility of such schemes. The economics of it depends heavily on the tax relief provided and the social welfare system's treatment of these schemes.

**PRIVATE RENTED HOUSING**

In principle, private rented housing offers a number of advantages to the individual household:

— speedier access to housing than through owner occupation or local authority housing (other than in "hard-to-let" estates where housing may be vacant from time to time);
— lower transaction costs of entry by contrast with owner occupation;
— in many cases, relative accessibility to shops, places of work and leisure facilities;
— private landlords prefer to meet demands without compelling people to register their claims by turning them into "needs", e.g. by becoming homeless and being rehoused after many months of misery in that state.



These advantages are especially marked for the younger, smaller and more mobile households, and for those (say low income and single persons) who are less concerned with asset acquisition than are others.

Balanced against this are the perceived disadvantages:

— an anti-landlord ethos
— the fact that an asset is not acquired
— less security of tenure than in other tenures
— limited freedom to engage in decoration and improvement; where the tenant does this, the landlord captures any capital appreciation
— less financial aid than in other tenures.

From the point of view of public policy, private renting holds out the prospect of a tenure with less bureaucracy than is evident in local authority rented housing, with a speedier response to tenant demands.

The future prospects for supply of private rented housing are hardly encouraging, except towards the top end of the market. This is partly because of the perceived economic weakness of tenants in other parts of the market and the management problems in this tenure. Private landlords can survive in the long run only when they do not have to contend with heavily subsidised competition — whether that comes from owner occupation, the local housing authorities or other sources. Thus, private landlords are likely to stay in business only for higher income people with small or no families, business visitors or tourists and students, rather than for families on moderate or low incomes.

Past policy on renting has concentrated on tax expenditures. These have had two disadvantages — they tend to stimulate supply only at the top end of the market and their form has been biased against renewal.

The main options for the tenure (leaving aside municipalisation as being outside the realm of the practical) are: rent controls, supply side incentives to landlords, demand side incentives to renters; increasing the role of other agencies. The proposed changes in housing aid would marginally help private who live alone in unfit or unsanitary housing. These two schemes by comparison with most housing programmes would score highly on grounds of effective targeting — bearing in mind the need to "hit" both dwellings of poor standard and households who are likely to lack the economic resources to effect the needed repairs — and on grounds of efficiency and cost minimisation for the Exchequer. The efficiency reflects the fact that a number of dwellings have been retained in use which otherwise would have fallen well below tolerable standards or been lost from the stock.

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On balance, the only place in the private rented sector for State intervention is the lower end of the market. There is little justification in market failure or equity grounds for tax breaks aimed at the upper end of the market. The prospect facing the lower end is futher shrinkage. The enforcement of the regulations, recommended above, will probably add further to the shrinkage but that will be a price that will have to be paid. Consequent on any housing benefit, there would need to be a monitoring of the impact on rents to ensure that landlords do not gain all or most of the benefit. It would be best to avoid a rent tribunal because of its resource costs but that might be necessary if abuses of market power were evident. The best which the State can do is ensure an orderly retreat in this segment of the market and encourage housing associations and local authorities to fill the gap.

## HOUSING FINANCE

Recent policy changes whereby private finance has been brought in to meet some of the demand for local authority loans (with a State guarantee on certain losses) is to be welcomed. In the long run the State may be able to disengage itself from the business of providing local authority housing loans with the exception of income-related loans. But in the short run, as long as the building societies are reluctant to lend to certain persons, there is justification for local authority loans — on a variable interest rate basis, fully remunerating the borrowing cost. Even in the long run, with the building societies anxious to get into banking, there is a danger that market failure may persists and low-income borrowers be left without loan facilities — in that case there would be a continual need for local authority loan facilities. There is also need for careful monitoring of the State guarantee in order to ensure that an unnecessary subsidy is not given to building societies and banks.

There is no justification for a State guarantee unless it can be shown that there is a higher risk of default on loans to low income buyers. Experience with the new arrangement should be tested to ascertain if this is the case. If there is not a higher risk of default on such loans, the guarangee should be withdrawn.

The main aim of the State should be to ensure the maximum degree of competition in the market for loan finance, subject to prudential requirements



with regard to the protection of
and current weak management structure (with some exceptions) in the building societies reflects a history where they were insulated from competition.

Is there a role for the Housing Finance Agency? It is considered that there is, for the immediate future, for two broad reasons. First, it is sensible to obtain loan finance on an index linked basis as this avoids the "front loading" problems which would otherwise obtain in servicing loans. Second, it enables income-related loans to be offered, which widen the menu of choice. The loan limits for the income related loans should be increased as these loans should be of interest to higher income borrowers than currently benefit.

There is a potential role for the HFA in organising mortgage funding for housing associations including housing co-operatives. Associations could borrow from the Agency to provide social housing for those on middle or low incomes. The HFA could develop this type of funding through raising funds from the financial sector including the building societies. This would be desirable — it would *not* be desirable for the building societies to get into provision of private rented housing.

## THE POTENTIAL ROLE OF HOUSING ASSOCIATIONS

Reference has already been made to housing associations under urban renewal. The main characteristics of social housing associations is that they are primarily non-profit organisations which work for community benefit or the common interests of their members. Housing associations have a potential role in a number of different areas of the housing market, as follows:

- In catering for some of the people who have traditionally been housed in local authority accommodation but where in the immediate years ahead there may not be an adequate supply of local authority dwellings to meet need, given the restrictions on public expenditure.
- In dealing with special housing needs where the associations have the opportunity to try innovative approaches and to display flexibility both with regard to management styles and with regard to allocation procedures. This would include housing for the elderly including sheltered housing, and would include the role of the associations in meeting homelessness problems. "Half-way houses" can provide support for people who have left institutions.
- The increase in the housing stock which has occurred and the likely decline in demand on the part of first-time buyers gives an opportunity to focus more on policies towards the existing building stock. It would be necessary for the associations to work together with the housing authorities, as often a comprehensive approach to urban renewal is called for, involving some combination at least of the compulsory purchase

powers of the local authorities and contributions by the local authorities towards environmental improvement.

- Making up for the decline of the private rented sector, which is probably irreversible in the absence of strong policies in favour of private renting (and maybe even then). This could be achieved in part through the channelling of private funds through the housing associations. The opportunity for this arises in particular as the demand for loans on the part of first-time owner occupiers is likely to decline relatively over the coming years, especially in the case of building society finance. This should be done in combination with a degree of devolution of management and maintenance to the tenants themselves.
- The use of revolving funds, whereby dwellings are renewed and are sold after renewal, thereby generating a flow of funds to finance further renewal.
- Working with the housing authorities in achieving urban renewal, for example through the allocation of sites on the part of local authorities for development by housing associations.
- Overcoming the problems which elderly owner occupiers can have in financing repairs and maintenance through a combination of advice and maintenance services, possibly on a package basis.

There is need for the finance and regulatory system to provide the means and stimulus to housing associations to grow organically and take on these roles. European countries, east and west, have generally separated the management of publicly subsidised housing from the public authorities (central and local) responsible for policy and basic funding decisions. Hence their term "social rented housing", rather than "public" or "council" housing. A variety of agencies have been used for this purpose.

The main objectives of such a sector should be: (1) to provide housing of a good standard for a large variety of demands or "needs" which the state wishes to see satisfied; (2) to encourage responsible management by giving the tenants, and others involved, a framework within which questions about the standard of housing and the quality of service can be related to questions about the price to be paid for it; (3) to create a framework which makes it easy for an association, as its stock and rent roll increase, to raise funds from the private sector; (4) to strenghten local communities and provide a social environment that will sustain high standards of order — reducing high turnover and vacancy rates, controlling vandalism and theft — and be supportive for people who may need some social support (at least for a while) if they are to settle successfully in the community.

The main dangers to avoid are: (1) the development of exclusive local groups which keep out all potentially unpopular neighbours, leaving them to be housed in some ghetto elsewhere, (2) a pattern of housing finance which —



thanks to inflation — leads to declining real costs in stagnant associations which have stopped building (often at a stage when their tenants' families have group up, leaving small and relatively affluent middle-aged households behind) while newer and more active associations, still building (and housing younger families at a more poverty stricken stage of their lives) have to charge much higher rents. An agreed system will be required for redistributing subsidies year by year to meet needs as efficiently as possible, and for ensuring that all associations house a fairly wide variety of people (backed by rights of nomination for public authorities monitoring the associations' performance).

Many different kinds of association should be encouraged, for different models will meet different needs, both from the tenants' and the investors' points of view: (1) associations which are publicly accountable bodies, funded initially mainly by the State to operate much like a commercial landlord except that they have obligations to house certain kinds of tenants at "reasonable" rents and provide a good service in return for the support they receive — building locally in designed territory, or encouraged to develop throughout a region in collaboration with its local authorities; (2) associations consisting of the tenants, operating through whatever management committee they choose to appoint; (3) more specialised associations which develop and build housing for other associations to own and manage — or provide management services in addition for an appropriate fee; (4) associations of tenants which manage and allocate their own houses for a payment provided by the public authority (or housing association) to which the houses belong. Several of these types of association may build for sale, or help their tenants acquire their housing.

There has already been a growth of non-profit, co-operative and voluntary housing activity in Ireland, though from a small base by comparison with other countries. Some central bodies — possibly organised by the associations themselves and funded partly from a levy on rents — will be needed (1) to provide advice for new associations, to monitor progress, to take over associations which fall into chaos; (2) to act as the associations' trade union, representing them in their dealings with the state, private sector investors, etc. and (3) to represent tenants in negotiations with management, fixing of rents and subsidies, etc.

Currently, the Housing Centre is doing valuable work as a resource centre but has little resources. A small grant-in-aid is provided by the Department of the Environment for the Housing Centre, but this is palpably insufficient to enable the Centre to act as an effective resource centre. The disparity between this level of support and the minimum which the Centre needs (e.g. to hire one or two specialist staff) will grow as the numbers of dwellings which are constructed or managed by housing associations increase slowly from a small base.

The 1984 capital loan and subsidy scheme is limited to the provision of rental accommodation for "elderly and disadvantaged" persons. This means that there is no captial funding scheme for housing associations catering for lower or middle income groups. Since the inception of a new capital loan and subsidy scheme in 1984, voluntary bodies have been more involved than previously in the provision of accommodation for the elderly. The effective level of assistance towards acquisition and building costs is 70 per cent due to the 10 per cent VAT rate. The necessity to raise 20 per cent of the capital cost of the projects and the nature of the 80 per cent loan makes it difficult for many voluntary bodies to raise the funds, especially in the case of projects which cater for non-elderly households. As recommended above, there should be involvement of the HFA in the provision of funds and through the enabling of mortgage finance for housing assocation properties. There is also need to reconsider the maximum assistance per dwelling of £20,000 which does not take adequate account of the housing needs of categories listed in the scheme, especially lone parent families.

There is need to convert the current financial aid system to a straight grant. And the technical standards and cost limits per unit (which were designed with schemes for the elderly in mind) should be re-examined.

For the housing associations to reach their potential there is need for a co-operative approach on the part of local authorities which has not always been in evidence, e.g. through the provision of sites. Another area where there is scope for innovation, possible on pilot area basis at first, is in the provision of "half-way" houses and of housing with a certain set of support facilities and certain communal facilities: this could involve both the housing authorities and housing associations.

## HOMELESSNESS

In recent years the problems of homelessness have been in evidence as never before. This reflects a number of elements as follows: the rise in unemployment, a decline in demand for certain trades which were centred in urban areas, and a rise in rates for marital breakdown. Moreover, there has been a skrinkage of moderately priced private rented accommodation in urban areas on which the more mobile households and non-family households of modest means used to depend. And there has been a lack of a comprehensive housing benefit while there has been an increasing emphasis on shifting from institutional care to living in the community. Those who have left institutions have not always been able to find satisfactory accommodation and as a result some have ended up homeless. It should be added that it was always the case that some of the homeless problem in Ireland was "exported" through emigration. In the 1960s, many of the homeless in Greater London came from Ireland. Some of the homeless of the 1980s has involved people who returned from Britain around the 1970s, typically in the building trades, relied on the



private letting sector for accommodation and became homeless when the economic recession hit the building industry. The tougher social security regime in Britain for paying unemployment benefit to young people, which dates from April 1988, could have the effects of discouraging young people from emigrating to Britain and may also result in some young unemployed people returning from Britain with consequent effects on the numbers of young homeless people.

The stereotype of the homeless as a group of vagrants, predominantly male, aged over forty, is often misplaced. Whether defined in the narrow sense of "houselessness" or in the broader sense as being marginalised with regard to housing, the homeless are not a homogeneous group. They include families and single persons, increasingly women and increasingly people aged under forty. They include the single homeless who live in hostels and night shelters and who sleep rough. While there has been little agreement on the number of homeless people at any one time, such estimates pick up only part of the problem. There is a continual flow of people into homelessness at different stages of the life cycle.

In the Budget of January 1988 a special allocation of £3 million over the three years 1988 to 1990 was announced: this would finance the provision of accommodation for homeless persons by voluntary bodies. The allocation is being provided as an expansion of the scheme for the provision by non-profit and voluntary organisations of housing for elderly, homeless and other special categories. In the case of homeless persons, the limit for assistance under the scheme has been increased from 80 per cent to 95 per cent of the cost. While the additional allocation must be welcomed, it should not be thought that this will be the "solution" of the homelessness problems, for a number of reasons. First, there is need for a response which goes beyond the provision of "bricks and mortar". Second, the allocation should be seen in the light of a severe cut-back in the provision of local authority housing, just when some local authorities have begun, for the first time, to widen the scope of their allocations policy to include the single homeless, even though that accommodation which was offered to single homeless people and to lone-parent families was too often in low-demand or hard-to-let accommodation and less than satisfactory in terms of overall quality. It is unfortunate that the scheme of aid for voluntary housing is now a two-tier one with the homeless as a special category. Instead, the provision of housing for the homeless should be seen as an integral part of overall housing provision and the homeless should not be seen as a particular problem group — that is one way of perpetuating the problem.

It is also unfortunate that the *Housing Act* of 1988 does not contain a clear duty on local authorities to house homeless people. Whatever happens to the *Housing Act* of 1988 and irrespective of particular allocations of expenditure for voluntary housing, solutions to homelessness will call for a coherent response through housing authorities, health boards and social service personnel working together, with close attention being given to settlement strategies at the post-housing allocation stage. The early period of settlement in the community is a crucial one: here the operation of the Supplementary Allowance can be most important as the provision of household materials can be pitifully inadequate. If the Housing Bill is passed, it will be crucial to monitor its interpretation and the way in which individual local authorities interpret the legislation, in particular with regard to schemes of letting priorities — bearing in mind that many local authorities operate no explicit scheme at the moment.

The problems of homelessness seem to be twofold: that of the young family, usually being looked after by a mother on her own — though lone fathers are increasingly common — and the "single homeless" which, on closer inspection, seems to concern people on their own, drawn from a wide range of age groups and both sexes.

There should be a commitment to provide conventional housing for the great majority of both kinds of people — i.e. all those who want it. That calls for a firm policy commitment which everyone understands, a system of housing allowances or social benefits which enable all to pay the rent, a means by which people can get full information on their welfare rights, the provision of furnished short term lettings in subsidised rented housing (housing associations), coupled with some reception centre in each major town which is prepared to take in people off the street, even if they have no money. But it must be backed by conventional housing to which hostel residents can readily gain access. Otherwise, hostel-type accommodation quickly creates its own demand, and then "silts up" with residents who have nowhere else to go. For people who have never had the experience of running a home, a home advisor service is needed which will help them learn how to go shopping, to cook and run a household, and to get all the benefits to which they are entitled.

The most visible of the homeless are the "stock" of middle aged, poverty stricken men — some with obvious alcohol problems. But most research shows that the "flow" of those who become homeless at some stage of the year consists largely of younger men and women in their twenties or 'teens'. It also shows that few people like living in hostels: they prefer mainstream housing. This puts the question in a different light. The typical homeless person is much like the rest of the population, of whom quite a large proportion become homeless briefly at some stage of their lives. If they can be helped to find a way back into normal housing as soon as they are ready, they will not be homeless for long. That should be the aim of policy.

As in the case of policy towards housing for the elderly, this calls for close



collaboration between housing, social work, social security and health authorities, together with the voluntary agencies in this field; a comprehensive approach on settlement strategy and follow-up supports to housing allocation. That is unlikely to be achieved unless formalised to some extent and led by some local "council for the homeless" set up to bring together these people.

The persistent nature of homelessness has brought into sharp relief the lack of clarity in regard to dealing with this issue which has existed between the housing authorities and the health boards. The Health Boards have often found that they were in disagreement with housing authorities over respective responsibilites for dealing with homelessness. As a result, there was a continuous referral of people backwards and forwards between Health Boards and housing authorities, each of which was either reluctant or unable to deal effectively with the problem.

There is need for a clear responsibility — falling on the housing authorities — for housing homeless people. In addition, a post-allocation policy on settlement in the community would involve the housing authorities and social service agencies. This could involve the housing authorities contracting services from Health Boards if necessary. Specific responsibility for homelessness and resettlement should be fixed on units within the housing authorities.

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# Appendix A
# Statistical Tables

Table A.1

**Dwelling Stock Classified by Tenure, 1971, 1981**

| Nature of occupancy | 1971 | 1981 |
|---|---|---|
| Rented from local authority | 112,709 | 111,739 |
| Rented unfurnished, other than from local authority | 65,048 | 33,697 |
| Rented furnished or part furnished | 31,836 | 56,618 |
| Total private rented | 96,884 | 90,315 |
| Being acquired from local Authority by households under a purchase or vested cottage scheme | 71,174 | 71,817 |
| Owner occupied where loan or mortgage repayments are being made | | |
| Owner occupied where no loan or mortgage repayments are being made | 428,386 | 667,005 |
| Other (including not stated) | 17,210 | 26,995 |
| Total | 726,363 | 896,054 |

Note: The number of dwellings here is taken as the number of private households in permanent housing units.

Source: *Census of Population 1971*, Vol. 6;
*Census of Population 1981*, Vol. 8, Table 12.

Table A.2

**Housing Units Classified by Date of Construction, 1980**

% of all units

| | Pre 1860 | 1860-1899 | 1900-1918 | 1919-1940 | 1941-1960 | 1961-1970 | 1971+ |
|---|---|---|---|---|---|---|---|
| All urban areas | 4.1 | 9.6 | 6.0 | 15.9 | 23.6 | 17.3 | 23.4 |
| All rural areas | 13.5 | 16.2 | 11.8 | 16.0 | 14.3 | 9.2 | 19.1 |
| State | 8.5 | 12.7 | 8.7 | 16.0 | 19.2 | 13.5 | 21.4 |

Source: Blackwell and Brangan (1984).

Table A.3

**Permanent Housing Units Classified by Date by Construction, 1971, 1980**

% of all units

| | Pre-1919 | 1919-1940 | 1941-1960 | 1961 + |
|---|---|---|---|---|
| 1971 | 44.8 | 19.7 | 20.0 | 15.4 |
| 1980 | 29.9 | 16.0 | 19.2 | 34.9 |

Source: *Census of Population* 1961, Vol. VI, Table 13.

Table A.4

**Proportion of Housing Units in each Age Category which are Declared Unfit and Uneconomic to Repair, 1980**

| Date of construction | Pre 1860 | 1960-1899 | 1900-1918 | 1919-1940 | 1941-1960 | 1961-1970 | 1971 + | Total |
|---|---|---|---|---|---|---|---|---|
| Proportion % | 10.6 | 5.6 | 3.0 | 0.9 | 0.2 | 0.9 | 1.4 | 2.5 |

Source: Blackwell and Brangan (1984), Tables 1, 18D.

Table A.5

**Obsolescence in Three County Boroughs and in all Other Areas, 1971-1981**

| | Obsolescence | Average annual rate of obsolescence as percentage of 1971 stock % |
|---|---|---|
| Cork | 2,570 | 0.84 |
| Dublin | 11,596 | 0.82 |
| Limerick | 1,016 | 0.79 |
| All other areas | 61,718 | 1.14 |

Notes: In making these calculations, housing completions over the calendar years 1971-1980 inclusive are used.



Table A.6

**Average Income and Expenditure on Housing by Tenure, 1980**

| Tenure | Average weekly disposable income | Average household size | Expenditure on housing as % of total expenditure |
|---|---|---|---|
| | £ | | % |
| Owned outright | 97.5 | 3.4 | 2.6 |
| Owned with mortgage | 134.2 | 4.4 | 10.6 |
| Rented from local authority | 78.1 | 4.4 | 5.3 |
| Rented from private owner | 92.6 | 2.4 | 12.3 |

Note: Direct income is earned income, retirement pensions, income from property and investment etc.

Source: *Household Budget Survey 1980 Vol. 1: Summary Results.*

Table A.7

**Rate of Interest on Mortgage Advances, 1976-1987**

%

| Year | Interest rates on building society advances: Nominal | Real |
|---|---|---|
| 1976 | 12.24 | −4.9 |
| 1977 | 11.78 | −1.6 |
| 1978 | 10.89 | 3.1 |
| 1979 | 14.15 | 0.8 |
| 1980 | 14.15 | −3.4 |
| 1981 | 14.42 | −5.0 |
| 1982 | 15.73 | −1.2 |
| 1983 | 12.69 | 2.0 |
| 1984 | 11.75 | 2.9 |
| 1985 | 11.54 | 5.8 |
| 1986 | 10.65 | 6.6 |
| 1987 | 11.31 | 7.9 |

Notes: Interest rates are yearly averages of monthly rates. Real rate of interest is calculated as $(1+r)/(1+p)$ where r is the mortgage rate, and p is the annual rate of change in the Consumer Price Index.

Source: Central Bank of Ireland, *Quarterly Bulletin.*

# Appendix B

# Assumptions for Population Projections

This appendix concentrates on the assumption which are needed for the population projections by marital status, other then those in Central Statistics Office (1988).

The projections of population by marital status are derived as follows, for age groups from 15-19 up to 65 and over. The assumptions on the proportion of females who are married, in each age group, come from Central Statistics Office (1988). Assumptions are then made about each of the following.

(i) The ratio of married males to married females in each age group, 1986-1996. Up to age group 45-49, the ratio of married males to married females is tending to increase over time; while for age groups 50-54 and over it si tending to decline. Hence, the ratio is tending to pivot around 1, with the pivot set at around age 50. While it might be plausible to assume a continuation of 1971-1981 trends, in the absence of any underlying explanation of these trends, the ratios of 1981 are used in the projections.

(ii) The proportion of males and females, respectively, who are widowed in each age group, 1986-1991, the proportion in 1981 are used in the projections.

The numbers of single males and single females in each age group, respectively, are then derived as a residual.

# Appendix C

# Projections of Number of Elderly People Living Alone

## PROJECTIONS OF NUMBER OF ELDERLY PEOPLE LIVING ALONE

**Trends, 1977-86**

The main trends in the number of persons aged 65 and over who are living alone can be given. Table C.1 gives the trends of those living in permanent housing units. As there is little information available on the number of persons by age and sex who are living in temporary housing units in 1971, the trends over 1971-81 are given for those who live in permanent housing units only. The marked increase in the number of elderly persons living alone between 1971 and 1981 can be noted, as well as the differences in the trends for males and for females.

There was a substantial increase in the number of elderly persons living in temporary housing units between 1971 and 1981: from 269 in 1971 to 1,949 in 1981 (Table C.2). The rise over time in the number of one-person households among elderly people reflects partly the fact that women have been living longer (with little or no increase in survivorship occurring among elderly men), and because of rising rates of household formation among the elderly.

In 1986 there were 168,731 males aged 65 and over and 215,624 females aged 65 and over in private households, of these, 27,973 males (17.8 per cent of the total) were living alone and 53,201 females (27.4 per cent of the total) were living alone.

Table C.1

**Number of Elderly Persons Living Alone in Permanent Housing Units by Age and Sex, 1971 and 1981**

| Age | 1971 | 1981 | % change 1971-81 |
|---|---|---|---|
| | | *Males* | |
| 65-69 | 5,895 | 8,268 | +40.3 |
| 70-74 | 5,280 | 6,900 | +30.7 |
| 75 and over | 5,587 | 7,654 | +37.0 |
| 65 and over | 16,762 | 22,822 | +36.2 |
| | | *Females* | |
| 65-69 | 7,958 | 12,844 | +61.4 |
| 70-74 | 8,936 | 12,958 | +45.0 |
| 75 and over | 9,453 | 17,461 | +84.7 |
| 65 and over | 26,347 | 43,263 | +64.2 |

Source: *Census of Population 1981*, Vol. 3.

Table C.2

**Number of Elderly Persons Living Alone in Temporary Housing Units and in all Housing Units by Age and Sex in 1981**

| Age | Males | Females |
|---|---|---|
| | *In temporary housing units* | |
| 65-69 | 466 | 190 |
| 70-74 | 390 | 238 |
| 75 and over | 375 | 290 |
| 65 and over | 1,231 | 718 |
| | *In all housing units* | |
| 65-69 | 8,734 | 13,034 |
| 70-74 | 7,290 | 13,196 |
| 75 and over | 8,029 | 17,751 |
| 65 and over | 24,053 | 43,981 |

Source: *Census of Population* 1981, Vol. 3.

**Projections: The Method**

The projections of the number of elderly persons living alone are done for the age groups 65 and over and 75 and over respectively, for those living in permanent housing units and in temporary housing units respectively, and by sex. First, a brief outline of the method is given.

The method is based on projections of the number of elderly persons who are either single or widowed, by sex. These projections are done as follows.

The main element which underlies the projections, apart from the population by marital status, is the assumption about the ratio of the number of independent households of the elderly to the number of single and widowed elderly persons. The key ratio is the ratio of the number of one-person households to the number of persons who are either single or widowed. The trends in this ratio over the decade 1971-1981 show a considerable increase in the propensity of elderly persons to form independent households and to live alone rather than to live in households with other persons such as inlaws. The ratios are as follows, for persons aged 65 and over living in permanent housing units.

| | % | |
|---|---|---|
| | 1971 | 1981 |
| males | 24.6 | 32.4 |
| females | 20.4 | 30.6 |



For the projection period the assumed ratios are derived by a modified linear extrapolation, that is, it is assumed that the average annual change (in percentage point terms) is half that of the period 1971-1981.

For those who live in temporary housing units, there is (as indicated above) less information on the 1971 position. Hence, a formal extrapolation of household formation rates is not used. Rather, account is taken of the trends over 1971-81 in the number of elderly persons (both males and female) who live alone in temporary housing units and account is taken of the projected number of elderly persons.

NOTE: The date on the front cover of the report refers to the date the report was submitted to the Government. The dates listed here are the dates of publication.

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