



# **Social Housing Supply**

**Submission to Oireachtas Committee on  
Housing and Homelessness**



## Introduction

*Social Justice Ireland* welcomes the opportunity to make a submission to the Oireachtas Committee on Housing and Homelessness. We would welcome the opportunity to meet with the Committee to discuss these proposals further.

The scale of the social housing challenge that Ireland faces is immense. There are 90,000 households on the waiting list for social housing. Securing sufficient finance to provide the scale of social housing required is a major challenge. There is no possibility of providing the level of financing required to deal with the scale of the problem on the Government balance sheet within the current fiscal rules. *Social Justice Ireland* recommends that Government put in place an off-balance sheet mechanism that could access the low-cost finance required to address the lack of supply of social housing sufficient to eliminate waiting lists.

If social housing waiting lists are to be addressed in a sustainable way and pressure taken off the private rental market *Social Justice Ireland* believes that Government must:

- Put off-balance sheet financing structures in place to generate sufficient capital to finance the supply of new social housing needed to eliminate current waiting lists and also meet the additional demand that will emerge as Ireland's population grows.
- Explore the utilisation of NAMA as a housing agency with the ability to access and distribute appropriate off-balance sheet funding and to take an active role in the direction and support of Approved Housing Bodies (AHBs) in the provision of social housing.
- Reduce the time spent by anyone on a waiting list for social housing to a maximum of one year by 2021.
- Implement a cost rental system in the social housing sector once supply is sufficient to eliminate social housing waiting lists.

This briefing will focus specifically on social housing supply issues and our proposed solution.

## 1. Overview

Ireland is in the midst of a serious housing crisis. Demand far exceeds supply especially in the Greater Dublin area. As a result the cost of accommodation has risen steeply and is now far beyond the financial capacity of many. Currently there are about 90,000 households on waiting lists for social housing. This number is set to rise quite dramatically as a growing number of households will not be in a position to finance their own accommodation. These households are not in a position to purchase a house. The number of households becoming homeless because their rent has been increased has been escalating steadily. There is also a relatively large cohort of householders who are unable to meet their mortgage payments following on from the crash of 2008 and the subsequent recession.

In recent years Government policy was based on the premise that the private sector would provide sufficient rental accommodation to meet the total need for accommodation in Ireland. However, the private sector is nowhere near delivering the number of units required to meet the demand.

The Government's Social Housing Strategy (SHS) is very welcome. It is on a scale that Ireland has not seen for many years. However, even if it succeeds in providing the planned level of increase in social housing it will be far from the level required to eliminate housing waiting lists. The Strategy is not going to meet the demand unless a new approach is taken to securing the necessary finance. Further initiatives on a much larger scale are required if Ireland is to respond effectively to the current housing crisis.

The key challenge is to increase the supply of housing generally and of social housing in particular. Increasing the supply of social housing units will take the pressure off the private rental market and supply in the private sector. It will also take families out of hotels and enable them to find a home, to feel secure, to build a base, find an identity and participate in a community and society<sup>1</sup>.

Consequently, *Social Justice Ireland* recommends that Government fully resource the Social Housing Strategy and expand its scale to effectively eliminate the current waiting list of 90,000 households while also providing for the increased demand for social housing in coming years. It will not be possible for Government to finance this level of provision 'on the books' because of the fiscal rules that have been adopted since the crash. A viable means of financing this provision 'off-the-books' is urgently required.

*Social Justice Ireland* proposes that Government (i) put off-balance sheet financing structures in place to generate sufficient capital to finance the supply of new social housing needed to eliminate current waiting lists and also meet the additional demand that will emerge as Ireland's population grows, and (ii) explore the utilisation of NAMA as a housing agency with the ability to access and distribute appropriate off-balance sheet funding and to take an active role in the direction and support of Approved Housing Bodies (AHBs) in the provision of social housing.

### ***Housing Supply***

The Department of the Environment, Community and Local Government put total housing stock at over two million dwellings for the year ending 2014 (Department of the Environment, Community and Local Government, 2015(a)). Table 1.1 shows house completions in the various sectors from 2001 to date. While the rate of private housing completions saw a moderate increase in 2014, local authority and voluntary/non-profit housing remains low, with local authority development likely to reach its lowest point in 14 years in the year ending 2015.

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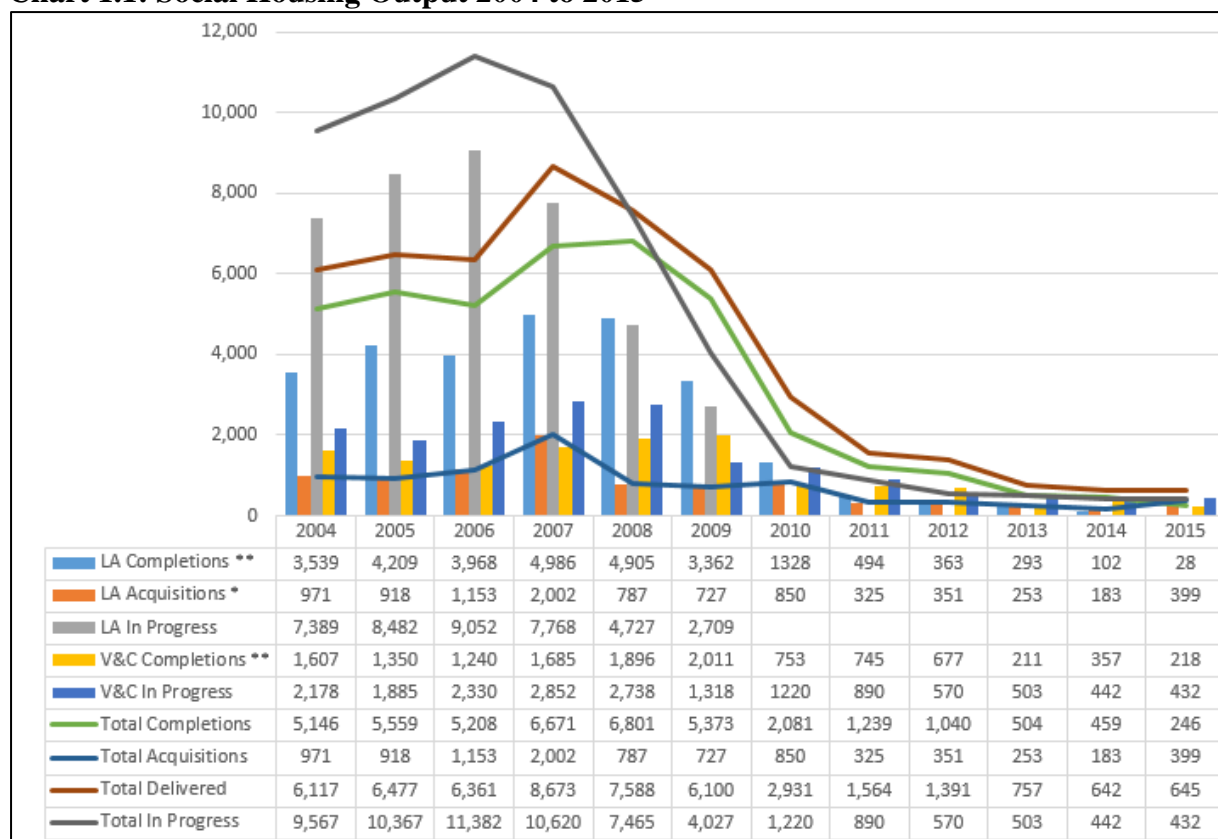
<sup>1</sup> *Social Justice Ireland* sees housing as a fundamental social right as outlined by Drudy, P.J., (2006), *Housing in Ireland, Philosophy Problems and Policies*, in Healy, S. Reynolds, B. and Collins, M. (eds) *Social Policy in Ireland, Principles, Practice, and Problems*, Liffey Press: Dublin.

**Table 1.1: House Completions, 2001-15**

Year	Local Authority Housing	Voluntary / Non Profit Housing	Private Housing	Total
2001	3,622	1,253	47,727	52,602
2002	4,403	1,360	51,932	57,695
2003	4,516	1,617	62,686	68,819
2004	3,539	1,607	71,808	76,954
2005	4,209	1,350	75,398	80,957
2006	3,968	1,240	88,211	93,419
2007	4,986	1,685	71,356	78,027
2008	4,905	1,896	44,923	51,721
2009	3,362	2,011	21,076	26,420
2010	1,328	741	12,533	14,602
2011	486	745	9,295	10,480
2012	363	653	7,472	8,488
2013	293	211	7,797	8,301
2014	158	357	10,501	11,016
2015 up to Q.3	28	218	8,668	8,914

## 2. Social Housing Supply

According to the Department of the Environment, Social Housing output has been in decline since 2007/2008, reaching its lowest rate in 2015 (see chart 1.1 below).

**Chart 1.1: Social Housing Output 2004 to 2015**

Source: Extracted from Department of the Environment, Community and Local Government, Housing Statistics, Overall Social Housing Statistics 2004 to 2015

\*acquisitions by local authorities of second hand houses

*\*\*includes units acquired under Part V, Planning and Development Acts 2000-2008 for rental purposes*

*V&C (Voluntary and Cooperative) housing consists of housing provided under the capital loan and subsidy and capital assistance schemes.*

The Government published two major initiatives in 2014; Construction 2020 (Government of Ireland, 2014) and Social Housing Strategy 2020 (Department of the Environment, Community and Local Government, 2014). These two policies aimed to overhaul the construction and social housing sectors, creating greater transparency and accountability in decision making.

The Social Housing Strategy committed to providing 35,000 new social housing units by 2020, in addition to sourcing a further 75,000 from the private rented sector, thereby delivering a maximum of 110,000 social housing units by 2020. According to the Social Housing Statement 2015 (Department of Environment, Community and Local Government, 2016), 1450 units were delivered from the Current Expenditure Programme with a further 1823 sourced by way of the Rental Accommodation Scheme and 5680 by way of the HAP payment. These figures are far below the yearly averages required to deliver on the number promised under the Social Housing Strategy.

The private rented sector is currently providing a large proportion (79,788 units) of social housing (NESC, 2014(b):8). These households are supported through Rent Allowance payments and while the number of households renting has increased in recent years, Rent Allowance expenditure has been in decline since 2010. The increase in rent and insecurity of tenure is likely to have the most detrimental effect on this cohort of renters.

### ***Housing Finance***

In September 2015, the Government launched its Capital Plan detailing plans for an exchequer spend of €27 billion over six years and a further €15 billion from semi-state investment. Of this €42 billion, around €3 billion has been earmarked for the provision of Social Housing. This is not nearly enough to secure the almost 90,000 units required to provide accommodation for those on the Social Housing Waiting list in 2013. Given the increase in repossessions and homelessness, it is reasonable to assume this figure has risen significantly since 2013.

Budget 2016 allocated €432 million in capital expenditure for social housing, an increase from €376 million for 2015. Acknowledging the need for further off-balance sheet funding, a new body, the Social Housing Investment Proposals Clearing House Group, was established in 2015 to consider proposals from private sector individuals or bodies who wish to invest in Social Housing. This group consists of representatives from the Department of the Environment, Community and Local Government, the Department of Finance, the Department of Public Expenditure and Reform, the Housing Agency and the National Economic and Social Council, and is chaired by a representative of NAMA. The Clearing House Group reviewed 25 proposals received from private investors and reported to Government in November.

Following which revisions have been made to existing schemes under the Social Housing Current Expenditure Programme to expand the current leasing arrangements of AHBs and local authorities with a view to introducing larger property investment into the area. An affordable rental pilot scheme was introduced with Budget 2016 attracting a total spend of €10 million. The affordable rental pilot scheme involves subsidising the housing provider to provide dedicated rental accommodation which would then be provided to tenants at 70% of market rent. Tenants would be expected to provide most of the rent themselves with an additional payment from the State meeting any shortfall. These schemes were reviewed by

the National Development Finance Agency and reportedly (RTE, 2015) provided no new model capable of financing social housing off-balance sheet.

In their report, *Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental* (2014(c)), NESC reviewed current social housing policy in Ireland and selected European countries, and made a series of recommendations towards a 'more unified, cost-effective and sustainable model in Ireland'. In order to achieve this, NESC outline three main goals for Irish housing in the coming years (2014(c):42):

1. Affordable house purchase in a stable market that prioritises housing for occupation rather than speculation;
2. Affordable and secure rental accommodation available to a significant share of the population;
3. Future supply and a growing stock of homes, in well-designed sustainable neighbourhoods, available to those on lower incomes.

In order to achieve the latter two goals, a fourth requirement was identified; the need for new institutional arrangements for housing finance, planning and land management, development, construction and housing management. The report proceeds to identify an interdependent three-strand approach for achieving the ultimate goals, based on supply, finance and cost rental. There needs to be an adequate supply of housing for those on low incomes, financed by way of new off-balance sheet mechanisms relying on public policy interventions on development. That supply is required to stabilise the rental market and enable cost-based rental to work with the market, which in turn will require initial subsidies to allow housing bodies to service available loans. One of the options considered is the creation of a local-authority linked housing body or housing trust that would be outside the general government sector and that would provide a combination of affordable and social housing.

In considering available finance structures, the report discusses (2014(c):48) using a portion of the An Post savings deposits, which would be available through the NTMA to the Housing Finance Agency who would then lend to housing bodies at a moderate fixed mark-up on the rate paid to savers with An Post. Other structures found worthy of further consideration were Real Estate Investment Trusts (REITs) as a vehicle for generating investment in social housing; investment by pension funds and retirement schemes, cooperative equity shares with householders who have the option to take an equity stake in the property; and impact investments in which investors seek to create both financial return and measurable positive social or environmental impact. (2014(c):50).

*Social Justice Ireland* believes that mechanisms are available to increase the stock of social housing to address the current need, and calls on Government to implement policy to support this increase in supply by way of off-balance sheet funding and initial subsidisation to support the framework required.

### **3. Social Justice Ireland proposal**

*Social Justice Ireland's* proposal contains two components: (i) the provision of an 'off the books' financing mechanism for social housing stock through a Special Purpose Vehicle to be followed by (ii) the introduction of a cost rental system for social housing where the differential rent ceiling is removed.

#### **Finance**

Securing sufficient finance to provide the scale of social housing required is a major challenge. It is clear that the Exchequer cannot provide the funding necessary to deal with the current demand, and more sustainable solutions are required. *Social Justice Ireland* recommends that Government put in place an off-balance sheet mechanism that could access the low-cost finance required to address the lack of supply of social housing sufficient to eliminate waiting lists.

*Social Justice Ireland* supports proposals contained in a recent report by the National Economic and Social Council (NESC) that cover areas such as rent certainty, secure occupancy, tax treatment and others. However, there is an urgent need to address the issue of financing to underpin the provision of social housing in the years ahead.

To put this in context it is important to note that while Budget 2016 increased funding for social housing by €56m to €811m<sup>2</sup> (a very welcome decision), this is still far below the expenditure of €1.5bn in 2008 when the demand for social housing was far less than it is today.

Ireland cannot continue to borrow using traditional methods such as an increase in borrowing to fund local authority social housing because this adds to the Government deficit which Ireland is committed to reduce as part of the Fiscal Compact and related initiatives. There needs to be an adequate supply of housing for those on low incomes, financed by way of new off-balance sheet mechanisms. That supply is required to stabilise the rental market and enable cost-based rental to work within the market, which in turn will require initial subsidies to allow housing bodies to service available loans.

Currently, the Irish Government can borrow substantial sums of money at record low interest rates. *Social Justice Ireland* recommends that Government put in place an off-balance sheet mechanism that could access low-cost finance required to address the lack of supply of social housing sufficient to eliminate waiting lists. Off balance sheet funding is necessary to address the scale of the social housing problem.

One possibility might be to use a vehicle such as NAMA which has expertise in developing such a mechanism. Given the fact that there are about 107,000 social housing units owned by Local Authorities and paying rent regularly it should be possible to put together a proposal that meets the Eurostat conditions for an acceptable off-balance sheet initiative. One of the advantages of using NAMA is that it already has a Special Purpose Vehicle that has been approved by Eurostat (Eurostat, 2016)<sup>3</sup>.

It is worth noting that Eurostat classification of Public Private Partnerships (PPP's) implies that this method is unlikely to be suitable to address the supply of social housing units as Government would be required to take on the construction risk meaning that the PPP expenditure would remain on balance sheet<sup>4</sup>.

Once the stock of social housing supply increases to such an extent that waiting lists have been eliminated Government should then move to a cost rental system for social housing stock and remove the differential rent ceiling.

<sup>2</sup> €379m from current expenditure and €432m from capital expenditure.

<sup>3</sup> <http://ec.europa.eu/eurostat/documents/1015035/2993714/Irish-letter-19-10-2009.pdf/e0b0ece9-3abe-482b-ba4d-964cb82c8879>

<sup>4</sup> [ec.europa.eu/eurostat/documents/1015035/7204121/Clarification-note-Statistical-treatment-of-PPP-contracts-accompanying-2016-MGDD.pdf](http://ec.europa.eu/eurostat/documents/1015035/7204121/Clarification-note-Statistical-treatment-of-PPP-contracts-accompanying-2016-MGDD.pdf)

### ***Cost Rental***

Cost rental is a mechanism by which a housing provider, rather than private landlords, develop accommodation and charge rent on the basis of covering capital and maintenance costs only. While these costs would likely increase over time in line with inflation, it is proposed that such increases would still be less than a rise in market rents. In its paper on cost-effective, sustainable housing models, NESC (2014(a)) reported that current social housing rents are set at a level below costs, creating a reliance on State capital expenditure. When this expenditure is cut, as has been the case in consecutive Budgets since 2008, the provision of social housing falls dramatically (2014:52).

From the tenant's perspective, cost rental will at least initially mean higher rents than are currently being paid to AHBs and local authorities. However, as previously referred, successive surveys carried out by Threshold (2014) indicate that approximately half of tenants in receipt of Rent Allowance are making 'top up' payments to private landlords (2014:12) and would welcome greater stability of rental costs. From the provider's perspective, in order to implement a cost rental sector there must be available capital to acquire and refurbish new and existing social housing units. The NESC report (2014(a):44) clearly states that a healthy level of supply is needed to make cost based rental effective. The level of supply proposed in Pillar 1 of the Social Housing Strategy is insufficient to meet existing demand and in order to create conditions in which cost rental would be effective, this shortage must be addressed. The Strategy refers to an annual cost to the Exchequer of funding private rented accommodation of €500 million which could be used more effectively. This figure includes Rent Supplement which accounted for almost €338 million in 2014 (DSP, 2013:121). As mentioned previously, the introduction of the HAP scheme will see 50,000 households (of the approximately 80,000 households in receipt of Rent Supplement) transferred from Rent Supplement with funding to be provided to the local authorities from central sources, accordingly it is likely that only a very small proportion of that €500 million may be available for other schemes.

In the absence of immediately available funding, it is unlikely that a single housing provider would be able to acquire sufficient housing stock to have the steadying impact on market rents required. In the event that the local authorities and AHBs could pool their portfolios under an umbrella agency, there are questions of competition in the market that may need to be addressed. This pooling of resources seems unlikely however as the Strategy foresees a variety of cost rental schemes across the social housing providers, making any collective impact on the private market questionable.

The Social Housing Strategy commits to a pilot cost rental segment with Approved Housing Bodies (AHBs) and local authorities. The terms of reference of this pilot are yet to be agreed.

Ireland needs to develop a cost rental system combined with effective rent regulation. Moving towards a cost-rental system would also be a step in the right direction. This would only be viable if a good supply of affordable accommodation to rent was available. It should be combined with security of tenure. There should also be support for social housing organisations and cooperatives (i.e. non-profit providers) in this approach.



## 4. Recommendations

1. Put off-balance sheet financing structures in place to generate sufficient capital to finance the supply of new social housing needed to eliminate current waiting lists and also meet the additional demand that will emerge as Ireland's population grows.
2. Explore the utilisation of NAMA as a housing agency with the ability to access and distribute appropriate off-balance sheet funding and to take an active role in the direction and support of Approved Housing Bodies in the provision of social housing.
3. Reduce the time spent by anyone on a waiting list for social housing to a maximum of one year by 2021.
4. Implement a cost rental system in the social housing sector once supply is sufficient to eliminate social housing waiting lists.

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**Social Justice Ireland** is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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