Focus Ireland

Pre-Budget Submission 2015

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FOCUS IRELAND

Pre-Budget Submission 2015
Introduction

Focus Ireland is one of Ireland's leading charities providing quality services, support and housing to people who are homeless – or at risk of losing their home.

Last year we saw the number of people who were homeless or at risk of losing their homes seeking support from Focus Ireland rise 25% from 8,000 to over 10,000. Focus Ireland responded directly to this growing need by expanding our key Advice & Information services across the country to help prevent many families and people from losing their homes.

Ireland is now working towards recovery but the harsh impact of years of budgetary cut-backs (including the social welfare cuts for young people, reductions in rent supplement and cuts to Child Benefit) is still devouring the financial and emotional reserves of those most vulnerable in our society.

Even as some households are seeing the benefits of economic recovery, an increasing number of people are facing homelessness. In particular more families are at risk of losing their homes than ever before. Many of the families coming to our services had been struggling to stay above the waterline for months and even years before the escalating cost of accommodation meant they could no longer protect themselves and their children.

Ireland has reached the limits of austerity

The rising demand our services saw in 2013 has continued into this year. Focus Ireland has already supported 8,000 people up to the end of June this year. Every day families who have lost their home come to our services and in many cases the best staff can do is get them into a B&B or hotel room due to the lack of available emergency accommodation – so at least they do not have to sleep on the street. Many of these families will remain in this unsuitable accommodation for long periods, with the inevitable damage to the education and well-being of the children. This situation is not acceptable.

The government has announced that we have reached the limits of austerity – as a witness to the growing crisis of family homelessness, Focus Ireland believes we have gone well beyond the limit.

Historically, families who experienced homelessness in Ireland also faced a range of social and medical problems – such as mental health issues, addiction issues, etc. This picture has radically changed over the last two years. This is clearly seen in the rising number of families becoming homeless where there has been no previous experience of homelessness. At the start of 2013, about 60% has some previous experience of homelessness (suggesting social as well as housing issues needed to be addressed), while currently virtually 100% of presenting families have never experienced homelessness before. And, no doubt, never believed it could happen to them.

This growing crisis has not gone unnoticed and a number of responses have been put in place by the Dublin Regional Homeless Executive (DRHE) and the Department of Environment. The problem is that they are insufficient given the scale of the problem.

Focus Ireland also acknowledges that there has been good work at a policy level in recent years putting in place a Housing Led approach to tackling homelessness, and a target of ending long-term homelessness by 2016. This agreed strategy to tackle homelessness is to reduce the level of homeless emergency services and transfer resources to help people to secure a home and settle in the community.

However, the benefits of this work is not being realised because the mechanisms in place are not delivering homes. There are still up to 5,000 people who are homeless while just fewer than 90,000 households are on housing waiting lists nationwide. Unless action is taken immediately and the actions set out in the Homelessness Implementation Plan are delivered on, the Government will fail to meet its target to end long-term homelessness by the end of 2016.

Focus Ireland believes that Budget 2015 must start a process of reform which will implement policies and deliver services to prevent people from losing their home and to help others find a route out of homelessness. Our proposals to help achieve this are outlined in this submission.

We have focused in detail in our first proposal on the situation in the private rented sector, because this is where the immediate crisis is being experienced. The Homeless Implementation Plan correctly focuses on better utilisation of public housing for people moving out of homelessness, but unless we can simultaneously halt the growing number of families losing their accommodation in the private rented sector, the number of households becoming homeless will swamp all our efforts.

These proposals, if implemented have, we believe, the potential to provide effective and immediate solutions for individuals and families who are homeless. It could also provide incentives to landlords/receivers to bring vacant properties into the market.

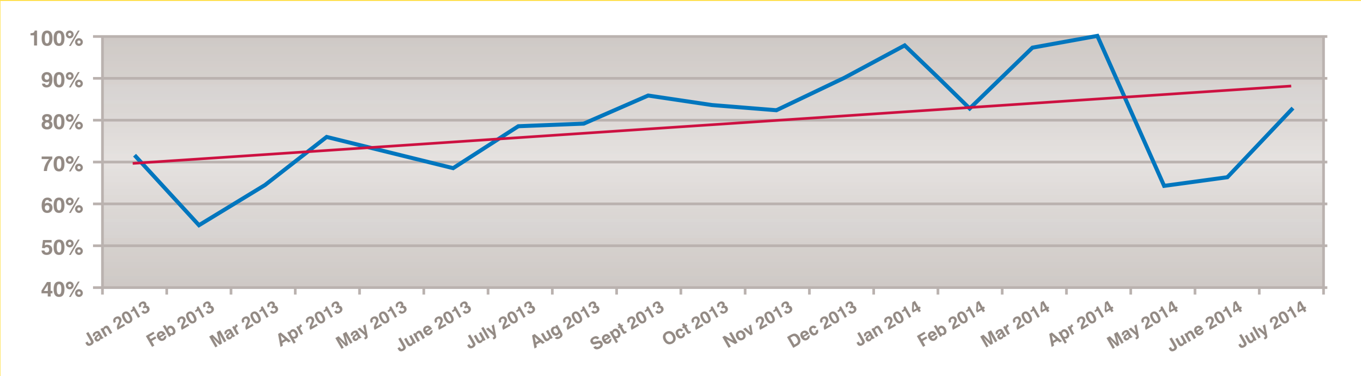

Figure 1: Families with no previous experience of homelessness (%)

1 Increasing the supply of housing

The current shortage of affordable housing for families and individuals, particularly in urban areas, is driving the current increase in homelessness, and also making it increasingly difficult for people to exit homelessness. The response to this crisis requires a range of actions to be initiated urgently. While the underlying problems require actions with medium to long-term outcomes, we also require instant, crisis measures, to tackle the immediate problems. The measures required involve both the private sector (private rented and private construction and development) and public sector (public housing, rent regulation and control).

1.1 Immediate actions in the Private Rental Sector

The current crisis of family homelessness is to a large extent caused by underlying problems in the private rented sector. After over a decade of rapid expansion, in which it emerged as a substantial provider of homes for Irish households, the private rented sector is currently contracting substantially. This contraction is largely occurring because landlords are deciding to withdraw from the market and sell up. Focus Ireland experience suggests that it is both professional landlords (with a number of properties) and 'investment' landlords (with one or two properties) which are selling up.

Just as the growth in the private rented sector was supported by the prevailing tax regime, the contraction of the sector is driven by tax changes. In particular, the decision in the emergency budget of 2009 to limit the tax relief that landlords could be set against rental income to 75% of interest means that many landlords with high borrowings are no longer viable. The result is that many private and professional landlords are putting their property up for sale. The decision by a landlord to sell their property is one of the legitimate circumstances in which sitting tenants can be evicted, and this is one of the primary causes of homelessness in Dublin families.

These properties are then being purchased by owner occupiers – and so are no longer available in the rental sector. A similar process is occurring where lending institutions are repossessing buy-to-let homes where the landlord has been unable to keep up repayments. Sherry Fitzgerald reported that in the opening three months of 2014, 30% of vendors were selling 'investment properties' [1].

This contraction is likely to speed up in the next year as other forms of investment tax-breaks which have sheltered landlords from the worst effects of the 75% restriction expire. Furthermore, the extent to which these units are recycled back into the rental market will be reduced as the number of cash investors declines as a result of the 7 year Capital Gains Tax exemption expiring at the end of 2014. The contraction of the private rented sector has further consequences in rising rents and greater reluctance of landlords to take on Rent Supplement tenants.

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1 http://www.sherryfitz.ie/ABOUTUS/NewsItem.aspx?id=630

The contradictions in current policy are evident when, in the middle of a housing crisis, investors enjoy more favourable tax treatment if they invest in commercial property to rent than if they decide to invest in homes to rent.

In the immediate future, in the absence of any countervailing measures, the crisis in the rental sector is only going to get worse – with consequent impacts on rising homelessness among families.

Focus Ireland recognises that the process of rental homes coming on the market can represent a very welcome opportunity for people which now have an opportunity to purchase their own home. However, in the current extreme housing conditions which we are experiencing – and are likely to experience for the next couple of years – this is a process in which hard-pressed families are being set against highly vulnerable families. The tax regime favours the interests of the hard-pressed families, while social services pick up the costs of housing the vulnerable. Focus Ireland welcomes the range of reports which the Government has commissioned on the Private Rented Sector and hopes these will be discussed over the coming twelve months resulting in a coherent and long-term strategy for the private rented sector – including appropriate taxation of profits, quality standards and rent certainty for all parties. However, while we are waiting for this and waiting for the delivery of new homes, immediate measures need to be taken to prevent dramatic contraction of the private rented sector with serious social consequences.

PROPOSAL

Government should consider increasing the tax relief allowed to landlord from the current 75% of interest, this could be off-set by a small levy on all landlord profits, so shifting the taxation burden from investment landlords to all landlords.

This measure should be seen as a short-term measure (over two years) while the Government is considering the recommendations of a number of reports it has commissioned on the private rented sector. It is explicitly a measure to address the current emerging crisis of homelessness caused by landlords withdrawing from this sector. It can be balanced with other measures concerning rent regulation and non-discrimination discussed later.

PROPOSAL

Develop tax treatments that would create a 'social dividend' for landlord and companies that make their accommodation available specifically to help end long-term homelessness.

Focus Ireland – with many others – has long argued that there needs to be significant increases in the provision of homes if we are to end homelessness. The Homeless Oversight Group appointed by the Minister in their recent report argued that: the goal of ending long term homelessness and the need to sleep rough by 2016 can be achieved if:

> "a policy on social housing in a broad sense (i.e. including provision of rent supports for tenants in the private rented sector) fully accepts the 2016 objectives and goes further to meet them than it does at present;"

It is clear to all that there will have to be a significant increase in the provision of housing if there is to be any hope at all of achieving the Government's target of ending long-term homelessness by the end of 2016. In the medium and long term we have to increase the number of homes available from local authorities and approved housing bodies. We will outline the response to the medium and long term later in this submission.

However, in the short-term more accommodation has to be secured from the private rented sector for people who are experiencing homelessness as any capital investment building programme will require at least 18 months before new homes become available.

Focus Ireland believe that a favorable tax treatment or 'social dividend' for those property owners willing to make their homes available to help address homelessness is more than justified as increasing access to the private rented market is the only immediate solution available.

There is also great social and economic benefit to ending long-term homelessness. In the initial stage, Focus Ireland is proposing a tax treatment with a defined period of admission of 24 months for an identified population of less than 4,000 households.

Factors that have influenced the development of these proposals include:

- Reluctance on the part of landlords to accept rent supplement.
- Rent supplement rates are not in line with market rates and do not keep pace with them.
- There is a significant lack of supply of rental accommodation available.

(i) Capital Gains Tax (CGT)
A property let to 'qualifying individuals'[2] would be exempt from CGT for any gains attributable to the period it is let to such an individual.

(ii) Capital Acquisitions Tax (CAT)
A property let to a 'qualifying individuals' for 3 years or more can be exempt from CAT, with a claw back clause that it has to be available to let for 3 years after it has been gifted or inherited.

(iii) Earned Income for Companies
For companies rent received from 'qualifying individuals' to be treated as trading income at 12.5% rather than passive income (typically 40% where the close company surcharge applies).

One of the phenomena of the crisis has been that many creditors that have taken hold of residential property have removed any sitting tenants as they do not wish to be landlords. A restructuring of the tax treatment of income for property for business in this way would serve as a 'social dividend' for companies and could increase the stock of housing available for rent.

1.2 Capital investment in construction of new housing

PROPOSAL

Increase the capital budget for social housing through a multi-annual commitment (starting with €500 million in Budget 2015), channeled through direct finance utilisation of the Housing Finance Agency and development of a housing special purpose vehicle (SPV).

Since very early in the economic crisis, Focus Ireland has warned of a growing housing shortage in Dublin. Since 2008 we have consistently called on the Government to make a timely response to this and to increase the capital budget for social housing from its all-time low. Last year's budget resulted in provision for the build of only 185 new units over 2013/2014 under the social housing investment programme.

Focus Ireland recognise and welcome the recent report from NESC and the Department of Environment's preparation of a Social Housing Strategy (to be finalised at the end of 2014). These documents must herald a sea-change in the approach which has dominated social housing provision for the last number of years.

The current approach to investment in social housing is based on an understanding that existing housing stock (mainly privately held) could be secured by the state, through leasing, for social housing purposes. However, significant increases in demand for rental accommodation, and the exit of many landlords from the sector, have resulted in this stock being no longer accessible or available to meet social housing need. The NESC report in particular has drawn attention to the extent to which reliance on

[2] Qualifying Individuals would be those individuals who have been identified by the relevant housing authority as homeless.

this approach makes the tax-payer vulnerable to increases in market rents.

The Construction 2020 Strategy confirms the Government's commitment to prioritise the delivery of good quality social housing including the return to mainstream local authority housing construction.

Focus Ireland recognises that given the scale of the social housing crisis, the extent of the financial constraints on the government and the level of public debt that a return to exclusive provision of social housing through Local Authorities is not viable.

We believe that – given the scale of the task ahead of us, and the need to build inclusive and vibrant communities – a range of actors are needed to supply social and public housing. The role of Government is (i) to provide a clear and sustainable framework for financing and delivering social housing (ii) making a substantial capital contribution to this process through a mechanism which is consistent with our Government borrowing commitments.

This can be augmented by ensuring that approved housing bodies have access to capital through the Housing Finance Agency and an arm's length social housing SPV that would allow local authorities to undertake an ambitions building of social housing without putting the cost to the national debt figure. We also envisage a role for private investment capital in the provision of purpose built social housing with long-term certainty (for both the State and the investors) on rental/lease arrangements.

Focus Ireland has made more detailed submissions in relation to how the provision of social housing should be restructured, and will be making further submissions to the Department of Environment Social Housing Statement. Many such proposals are not budgetary in nature, and the central message of this recommendation is that, in order for any of the Government deliberations on this issue to be meaningful, the 2015 Budget must ensure that resources are available.

2 Social Protection

2.1 Rent Supplement

PROPOSAL

Instigate annual reviews of rent supplement rates. Immediately review current rates, set in line with market average rates and introduce the change on Budget day.

Focus Ireland have called on the Department of Social Protection to review the rent limits set in June 2013 to take account of the increased rents nationally. There has been a massive increase in the numbers of people and families presenting as homeless due to their inability to meet the financial demands of their tenancy agreement. For many, particularly in urban areas, the level of income support currently provided through the Department of Social Protection for accommodation is not sufficient.

This has been recognised by the Department with the development of a protocol in Dublin to encourage deciding officers (formerly Community welfare officers) to use the discretion available to them to prevent families becoming homeless. While Focus Ireland has long argued for the use of such discretion to support families and individuals to retain their homes, or to move out of homelessness given the scale of the crisis evidenced in figure 2 (showing the number of families presenting having lost their home and become homeless in Dublin) we have real concerns about the capacity of such a 'case-by-case' approach to deal with the systematic problem of Rent Supplement levels being below actual rents.

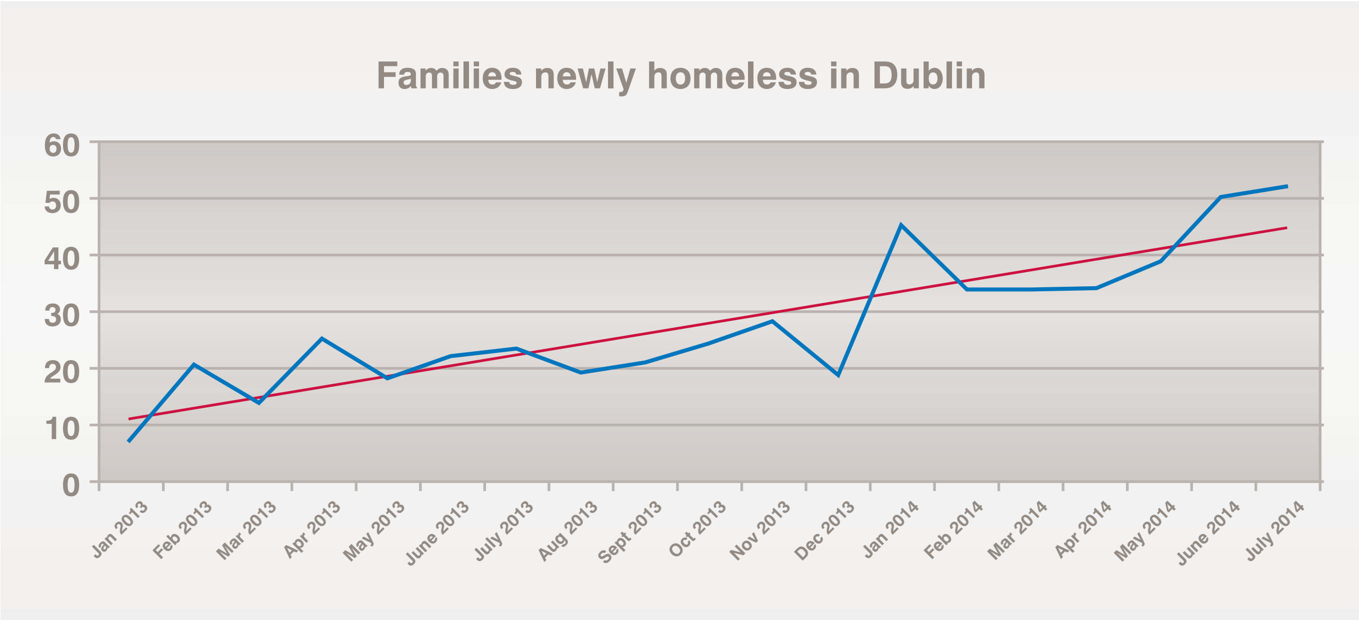

Figure 2: Families newly homeless each month in Dublin

The Department of Social Protection argues that increases in Rent Supplement levels will simply be swallowed up in rent increases. However, the evidence suggest that other factors (taxation issues addressed above, limited opportunities for prospective owner-occupiers and demographic factors) are the primary drivers of rising rent, and that Rent Supplement simply failing to keep up. In 2009 the Department cut the rate of rent supplement by 8% unilaterally as, they argued, the rent supplement exceeded market rent. However, rental data from DAFT and the PRTB reflect no resulting reduction in the levels. In any case the risk of such an increase pushing rents further could be offset through strengthening the existing measures in place to regulate rent levels.

In the current review of Rent Supplement levels, the Minister has decided that the rent levels available to people on Rent Supplement will be set on the cost of the bottom 35% of the market.

It is important to acknowledge that the Department has a role in balancing the public good with the needs of the individual family, and there is a fair case to be made in ensuring that tax payers do not end up covering the cost of extravagant accommodation. However, since people on low wages and students are also seeking low cost accommodation, 35% of the rental market simply cannot provide enough homes for all the people on Rent Supplement. As a result, as we see month on month, people enter into unsustainable and illicit contracts for accommodation which is above this threshold in a desperate attempt to keep a roof over their or their family's heads.

Consequently, the illicit practice in which tenants in receipt of rent supplement pay additional 'top-ups' to their landlord is now ubiquitous, forcing households into arrears and debt. Evidence from Focus Ireland services demonstrates that this practice is particularly prevalent in towns which are highly influenced by Dublin rents but where the maximum rent payment has been set for their rural hinterlands.

This fundamental flaw in the methodology of the review, as set out by the Minister, will ensure that, even before we enter into discussion on rent levels and top-ups, many families and individuals will continue to be unable to provide themselves with a sustainable home in the private rented sector and will be forced to avail of unsuitable emergency accommodation. This is at complete variance with the State's constitutional obligations to protect families from unjust attack.

2.2 Protection for Individuals aged 25 and under

PROPOSAL

Provide an exemption from the reduced rate for under 26's who are experiencing homelessness, in line with the exemption for those leaving care.

The basic social welfare rate was cut for those under the age of 26 over the last number of budgets. While there are exemptions to this reduced rate for some categories of people (such as those leaving State care, which is discussed further below) the impact that the reductions are having on young people experiencing homelessness is very severe.

The policy objectives of these measures generally were to incentivise young people to take up training and employment. However, for homeless young people these opportunities are virtually impossible to realise given the chaotic and insecure nature of life without a home.

Young people, particularly those under the age of 25, who are using emergency accommodation or who are sleeping rough simply cannot survive on the basic payment of €100 per week (given the cost of emergency accommodation which can be €50–€75 per week). €100 does not allow young people to look at options that would enable them to move on from homelessness as they are unable to afford any form of independent accommodation.

We are calling for an exemption to the reduced rates for all those under the age of 26 to be provided to those who have been assessed as having a social housing need by their local authority in addition to being assessed as being homeless. The social and economic cost of young people using emergency homeless services is much heavier than giving these young people the opportunity to lead an independent life.

2.3 Rent Regulation

PROPOSAL

Link allowable rent increases to consumer price index rather than market rent and extend Part 4 tenancies from 4 to 6 years.

To date rent control attempts by the Department of Social Protection have been to restrict the resources available to rent supplement tenants – the result of this was to push households out of their homes or leave them with no alternative but to 'top up' their rent payment by bridging the gap between the rent supplement limit and the actual rent. This has left many families struggling to provide for other necessary basics. The Private Rental legislation already regulates rents by stating that rents can only be reviewed on an annual basis and that increases should be in line with market changes. Tenants can refer disagreements on such annual reviews to the Private Rental Tenancy Board (PRTB) for resolution.

Linking rents to the CPI would regulate rent and ensure a fair deal for landlord and tenant. It would also serve to provide some level of protection to those in receipt of rent supplement as it would protect against the 20% annual increases in rent that Focus and other service providers have seen tenants become victims to and, by extension, protect the exchequer from the same swings given that the private rental market is envisaged to play a greater role in social housing provision with the role out of the housing assistance payment (HAP). Extending Part 4 tenancies from 4–6 years would provide a greater level of tenancy security to those low income individuals and families who are eligible for social housing while they are waiting to move up the housing list.

2.4 Basic Social Welfare Rates

PROPOSAL

Increase social welfare rates in line with the Consumer Price Index.

The major cause for the significant increase in the numbers of families accessing homeless services has been identified as being primarily economic. While the basic social welfare payment for those over the age of 25 has been protected since 2011 it was reduced in the two budgets that preceded it. The reasoning given at the time of the cuts to basic payment centered on the contention that the cost of living was declining.

However as demonstrated in figure 3 below, the cost of living has now risen beyond the point at which social protection rates had reached €204 and will continue to increase with the introduction of additional charges such as the water charges.

Furthermore, the Survey on Income and Living Conditions (SILC) data shows yearly increase in consistent poverty rates since 2008 showing that if social welfare rates do not keep pace with inflation we see more individuals and families falling into consistent poverty. The long-term consequences of this are dire both for the individual and family concerned and more broadly for society. However, if an individual or family can access a payment that enables them to live above the poverty line they are more likely to be healthy, economically active and valued members of society.

To begin to reverse the trend of increasing poverty in the country Focus Ireland is calling for the basic rates of social protection to be increased above the annual rate of inflation (the CPI).

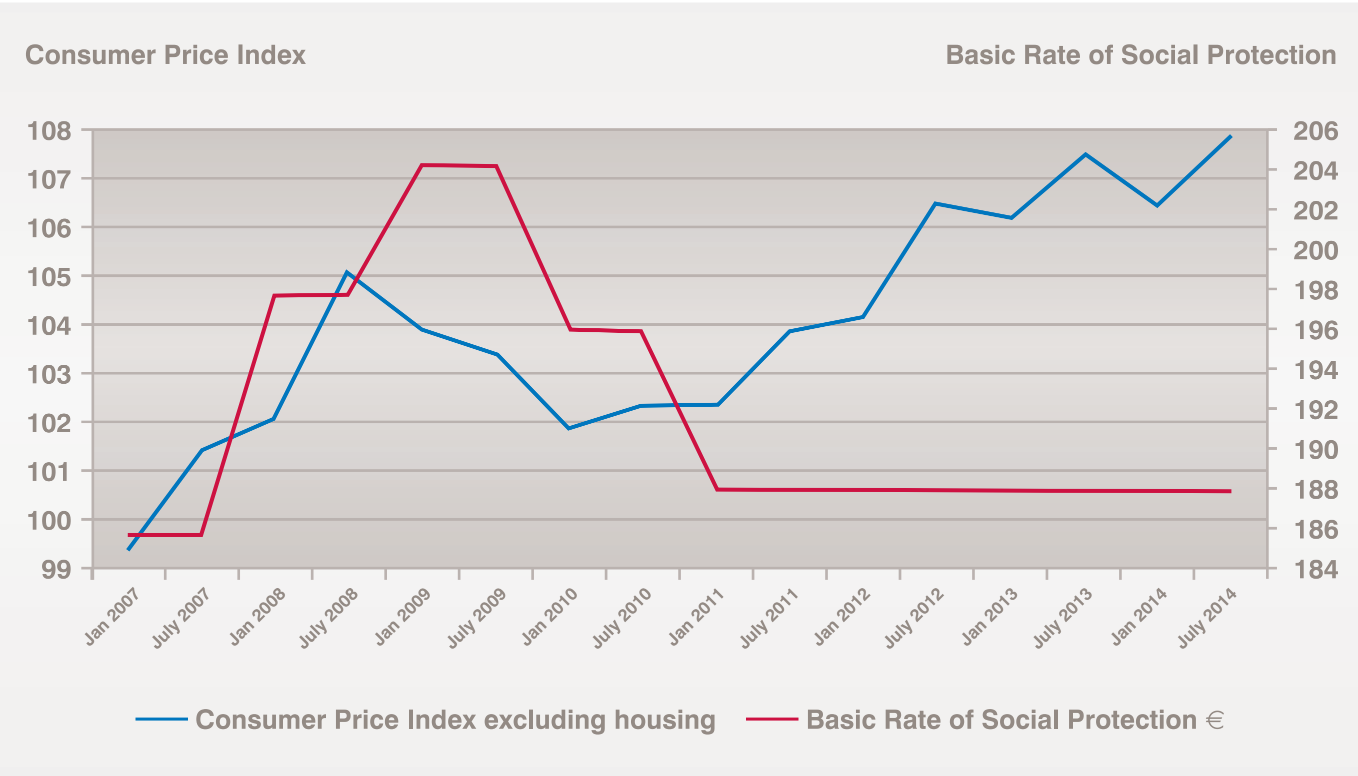

Figure 3: CPI (excl. Housing) (Base Dec 2006=100) and Basic Rate of Social Protection

PROPOSAL

Extend the proposed arrangements to compensate households in receipt of welfare payments for the cost of the Water Charges to include all those currently in receipt of Fuel Allowance.

The introduction of charges for the provision of water and waste water removal from October 2014, with the first bills to arrive in January 2015, will introduce significant new costs for all households. These charges will account for approximately 2% of household income. For families which are already in debt and/or rent arrears the imposition of this new charge will push them deeper into poverty and closer to homelessness.

At present, the Government intends to compensate some welfare recipients for these new charges through an additional €100 payment to those in receipt of a household benefits package. While this proposal is welcome it provides no support at all to large numbers of households which are on the lowest incomes – for instance the unemployed and lone parents will receive no support on this proposal.

In their analysis of the affordability of water charges the ESRI considered both the Household Benefit package and the Fuel allowance as a 'passport' for compensation for the cost of water charges. It was clear from this analysis that different groups would benefit from the two approaches. In the view of Focus Ireland, a strategy which is designed to alleviate the poverty impact of the new water charges would ensure that recipients of either payment would receive the €100 payment towards the cost of water.

It should be noted that in any case the proposed €100 compensation will only cover a proportion of the cost of water and leave them deeper in poverty.

3 Protecting Homeless Services

PROPOSAL

No cuts to the Department of Environment Section 10 budget and HSE social inclusion budget.

The Implementation Plan on the State's Response to Homelessness, which was approved in May 2014, recognises that the achievement of the objective to end long term homelessness by 2016 will be 'particularly challenging' within existing resources. It is therefore vital that funding levels are increased to meet the objectives or, at the very least, are maintained at their current levels.

Homeless organisations throughout the country continue to report increased demand for both crisis and prevention services. In response to this challenge there has been a concerted efficiency drive over recent years. This has resulted in much higher utilisation of emergency beds. Meanwhile, staff costs have been cut through restructuring, wage cuts and freezes and also redundancies.

Homeless organisations have also pooled resources and several services are now delivered through partnerships. For instance Focus Ireland partners with Merchant's Quay in the provision of Extended Day Services and with Peter McVerry Trust in the delivery of SLI (Support to Living Independently). For the last three years we have participated in a joint street outreach team led by Dublin Simon.

Funding for homeless organisations comes from three primary sources: the local authorities/ Department of Environment (DOE), the HSE and public fundraising. All three are under pressure. The Government's Homeless Oversight Group recommended that there should be no cuts to funding for homeless services in order to achieve the 2016 target. Focus Ireland supports this recommendation and argues that this position should hold until such as time as there has been a drop in the number of people who are homeless or at risk and in need of support.

Focus Ireland
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A Summary

The Government has accepted that homelessness has become a crisis. In the medium and long term the solution must be to increase the level of social housing provision and a €500 capital investment in social housing is required to start this process. But action is also needed to tackle the crisis while these measures are being put in place.

In the short-term more accommodation has to be secured from the private rented sector for people who are experiencing homelessness as any capital investment will require 18 months before homes become available.

Taking account of this, current market conditions, the social and economic benefit to our society of addressing homelessness and the commitment of the Government to end long-term homelessness by 2016, Focus Ireland believe that short-term tax measures need to be adopted in the 2015 budget to prevent further contraction of the private rental sector. We also believe that a targeted tax relief or 'social dividend' to landlords willing to make their homes available to help address homelessness would make a contribution.

We are also seeking an increase in Rent Supplement to better reflect the reality of rent levels and measures to address the problems faced by young people on reduced welfare payments who find themselves homeless. We are seeking cost of living increases in the basic welfare payment and the extension of water charges compensation to people who qualify for fuel allowance.

These measures would have a social and financial benefit not only to the State but also to society. The proposals will help to stem the growing number of families becoming homeless, lift more households out of homelessness and also provide a boost to the economy through capital investment in housing which would create much needed homes and jobs.

For more information about Focus Ireland and its work go to www.focusireland.ie

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