NESC REPORT NO. 23

REPORT ON HOUSING SUBSIDIES

Price: £2.70

PRICE £2.70.

NESC

REPORT ON HOUSING SUBSIDIES

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Report on Housing Subsidies

No. 23

NATIONAL ECONOMIC AND SOCIAL COUNCIL

CONSTITUTION AND TERMS OF REFERENCE

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Minister for Finance, on their application. The Council shall have regard, *inter alia*, to:

(i) the realisation of the highest possible levels of employment at adequate reward,
(ii) the attainment of the highest sustainable rate of economic growth,
(iii) the fair and equitable distribution of the income and wealth of the nation,
(iv) reasonable price stability and long-term equilibrium in the balance of payments,
(v) the balanced development of all regions in the country, and
(vi) the social implications of economic growth, including the need to protect the environment.

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

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

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

Ten persons nominated by agricultural organisations,
Ten persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,
Ten persons nominated by the Irish Congress of Trade Unions,
Ten other persons appointed by the Government, and
Six persons representing Government Departments comprising one representative each from the Departments of Finance, Agriculture and Fisheries, Industry and Commerce, Labour and Local Government and one person representing the Departments of Health and Social Welfare

Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.

5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.

6. The Council shall have its own Secretariat subject to the approval of the Minister for Finance in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Report on Housing Subsidies

DUBLIN:
PUBLISHED BY THE STATIONERY OFFICE

To be purchased from
GOVERNMENT PUBLICATIONS SALE OFFICE G.P.O. ARCADE DUBLIN 1.
or through any Bookseller.

45p

(Prl. 5675)

NATIONAL ECONOMIC AND SOCIAL COUNCIL
MEMBERS

CONTENTS

APPENDICES

ABBREVIATIONS USED

1971–72, etc.	Financial year (April to March)
CP	*Census of Population*
CPI	Consumer Price Index
CSO	Central Statistics Office
DLG	Department of Local Government
HBS	Household Budget Survey
HBS 73 I	*Household Budget Survey 1973, Volume I—Summary Results*, Dublin: Stationery Office, 1976.
LLF	Local Loans Fund
QBHS	Department of Local Government, *Quarterly Bulletin of Housing Statistics*

CHAPTER 1

SUMMARY AND CONCLUSIONS[1]

1.1 Introduction

1. "The social policies of Government are those of their actions which deliberately or accidentally affect the distribution of resources, status, opportunities, and life chances among social groups and categories within the country, and thus help to shape the general character and equity of its social relations. Social policies are thus concerned with fairness".[2]

2. In the sense in which the word "social" is used in the previous paragraph, housing policy has a social dimension.[3] This Report is concerned with the social—i.e. distributional—consequences of the complex of subsidies now associated with housing.

3. In everyday usage, subsidy means a payment of money by Government. In this Report, a wider definition is used, because tax reliefs and other fiscal measures can be used to achieve results akin to those of Government expenditure. The subsidies estimated in this Report

[1]Following discussions in the Social Policy Committee at its meetings on 24 May and 16 June 1976, and by the Council at its meetings on 1 July 1976 and 22 July 1976, the successive drafts of this report were prepared by John Blackwell and Andrew Somerville in the Council's Secretariat. The helpfulness of the CSO in providing data is gratefully acknowledged.

[2]NESC. *An Approach to Social Policy,* Report No. 8. Dublin: Stationery Office, 1975. p. 8.

[3]A succinct statement of the basic objective of the Government's housing policy is available:"to ensure that as far as the resources of the economy permit, every family can obtain a dwelling of good standard located in an acceptable environment, at a price or rent they can afford" (Department of Local Government, *Current trends and polices in the field of housing, building and planning: Ireland 1975,* mimeographed. p. 4.)

therefore include not only actual expenditure but also tax allowances, reliefs and exemptions, and other concessions. The amounts of subsidy flowing to the different tenure sectors are, where possible, identified and evaluated. Some tentative conclusions are reached concerning their distributional impact *within* tenure groups. While the Report is primarily concerned with the effects of existing policies, there is some discussion of possible policy options.

1.2 Value of Subsidies, 1971–72 to 1975

4. Households who enjoy housing services can be divided into three broad categories:[1]

(*a*) Local authority tenants (113,000 in 1971).

(*b*) Owner-occupiers (500,000 in 1971, of whom 71,000 were purchasing a dwelling from a local authority).

(*c*) Tenants in the private letting sector (97,000 in 1971; of whom about 50,000 were in rent-controlled accommodation).

Estimates of the subsidies available to each of these tenure groups over the period 1971–1972 to 1975 are itemised in Table 1. It should be noted that many of the estimates in Table 1 are necessarily tentative.

5. The subsidies flowing to local authority tenants are measured by the difference between the aggregate economic rent of the local authority dwelling stock and the aggregate rents which are paid. In turn, the economic rent is the annual debt service charge plus maintenance and administration costs. This is the measure of subsidy which is used by the Department of Local Government. In 1975, total subsidies to local authority tenants are estimated to have been £26·2 million.

6. The other group of tenants who receive subsidies are those in rent-controlled dwellings. These subsidies are measured by the difference between the rents at which the dwellings could be let if there were no rent controls, and the controlled rents. The estimated aggregate subsidy

[1]There is also a relatively small proportion of householders who receive special terms (e g. caretakers).

TABLE 1—State commitment to Housing Subsidies, 1971–72 to 1975
(£m)

Source/Year	1971–72	1972–73	1973–74	April-Dec. 1974	1975
1. Subsidies to local authority tenants	11·2	12·5	16·1	20·0	26·2
2. Tax foregone on rent of tenants in rent-controlled dwellings	2·1	2·5	2·7	2·2	3·5
Explicit subsidies to owner-occupiers					
3. State and local authority grants for new houses	5·1	7·3	8·9	6·8	8·7
4. State and local authority grants for reconstruction and repairs	1·8	2·7	2·8	2·3	4·0
5. Subsidisation of building society loan interest rates			1·7	1·5	2·1
6. Total explicit subsidies to owner-occupiers (rows 3 to 5)	6·9	10·0	13·4	10·6	14·8
Implicit subsidies to owner-occupiers					
7. Cost to Exchequer of stamp duty exemption	0·7	1·3	2·2	2·2	4·3
8*a*. Tax relief on building society loans	2·3	3·1	4·7	4·4	7·9
8*b*. Tax relief on local authority loans	0·7	0·8	0·9	0·8	1·5
8*c*. Tax relief on life assurance loans	2·4	2·6	2·7	2·2	3·5
9. Effect of fixed interest charges on local authority loans	1·5	1·5	2·8	2·8	4·3
10. Rates remission on new and reconstructed houses	5·3	5·3	5·3	5·1	6·0
11. Tax relief on capital gains				0·03	3·0
12. Total implicit subsidies to owner-occupiers (rows 7 to 11)	12·9	14·6	18·6	17·5	30·5
13. Total subsidies to owner-occupiers (row 6 plus row 12)	19·8	24·6	32·0	28·1	45·3
13*a*. Total subsidies to owner-occupiers, excluding tax relief on capital gains	19·8	24·6	32·0	28·1	42·3
14. Subsidies at point of sale to local authority tenants who purchase	5·5	6·8	4·4	11·9	21·0
15. Total subsidies to all households (row 1 plus row 2 plus row 13 plus row 14)	38·6	46·4	55·2	62·2	96·0

Source: Tables 7, 10 to 14; see Appendix C.

Notes

1. Line 13*a* shows total subsidies to owner-occupiers, excluding tax relief on capital gains.
2. Line 2 shows only the tax foregone by the State. Total subsidies to tenants of rent-controlled dwellings, most of which come from landlords, are estimated as follows (£ million):

1971–72	1972–73	1973–74	April-Dec. 1974	1975
5·9	7·0	7·6	6·4	10·0

3. There is an implicit subsidy to owner-occupiers which does not involve a loss to the Exchequer. This arises from the charging of fixed rates of interest on life assurance loans. The value of this subsidy is as follows (£ million):

1971–72	1972–73	1973–74	April-Dec. 1974	1975
1·5	1·8	2·3	2·2	3·3

to these tenants in 1975 was £10 million; the immediate burden of this fell on private landlords. However, in the absence of rent controls, the State would receive income tax on the higher "market" rents. Thus, part of the £10 million represents foregone tax revenue which amounted to *at most* £3·5 million in 1975.[1]

7. There are no direct subsidies to tenants in the uncontrolled private sector.

8. By far the largest element of subsidy to owner-occupiers is the cost to the Exchequer of the tax exemption of the imputed net rent[2] from owner-occupation. There are alternative estimates of this net rent: one a CSO estimate, the other an estimate based on house price data. Based on the CSO data the estimate of tax foregone is £6 million in 1974, while based on the house-price data it is £36 million in 1974.

9. This measure of tax foregone on net rent would cover *all* owner-occupiers. Any such measure, however, is necessarily tentative, given the data at present available. In Table 1, a less comprehensive approach is therefore used, as explained in paragraph 14. It should be noted that many of the subsidies listed are available to owner-occupiers only at a point in time (e.g. when they purchase a house) or over a limited period (e.g. when rates remission is being enjoyed).

10. The first *explicit* subsidy to owner-occupiers listed in Table 1 is the value of State and local authority grants for new houses. These increased from £5·1 million in 1971–72 to £8·7 million in 1975.

11. Another explicit subsidy to owner-occupiers is the value of grants for reconstruction and repairs, which increased from £1·8 million in 1971–72 to £4·0 million in 1975.

[1]Since Table 1 estimates the State commitment to housing subsidies, rather than the benefits which each tenure group receives, only this estimate of tax foregone appears in this Table.

[2]Imputed net rant equals gross market rent less: maintenance plus insurance charges. The interest payment on any loan is accounted for by the present income tax system. Thus the subsidy is measured by the tax not paid on net rent.

12. From May 1973 until January 1976, the Government paid a direct subsidy to building societies. This resulted in a lower rate of interest on loans from building societies than otherwise would have obtained. The value of this lower rate of interest to borrowers is estimated in Table 1 at around £2 million a year.

13. As well as these explicit subsidies there are *implicit* subsidies to owner-occupiers. First, there is exemption from stamp duty on grant-aided houses which are newly-built. The estimated cost to the Exchequer of this exemption increased from £0·7 million in 1971–72 to £4·3 million in 1975.

14. Second, there is the tax treatment of owner-occupiers. The estimates of tax foregone on imputed net rent are widely divergent, as mentioned in paragraph 8 above. In place of the tax foregone on net rent, the implicit subsidy is estimated by the value of tax relief on loan interest. This relief is enjoyed while the house is being purchased. About one-third of owner-occupiers are making repayments on a loan and thus benefit from this relief. There are three components in this estimate: tax relief on local authority loans (which increased from £0·7 million in 1971–72 to £1·5 million in 1975), tax relief on building society loans (which increased from £2·3 million in 1971–72 to £7·9 million in 1975) and tax relief on life assurance loans (which increased from £2·4 million in 1971–72 to £3·5 million in 1975).

15. Third, there is rates remission, which purchasers of certain new houses enjoy during their first nine years of occupancy. The loss to public funds from this remission[1] is estimated at £6·0 million in 1975.

16. In addition, owners who sell their houses do not have to pay capital gains tax (which applies to realised gains at a flat rate of 26%)

[1]It can be argued that this is a case where there is income redistribution *within* the group of ratepayers only, and that rates remission does not imply a total loss to public funds. This should not greatly affect the calculations here since a significant proportion of rates is paid by non-owner occupiers; furthermore, the abolition of rates remission would be likely to lead to some increase in local authority income and expenditure.

on the difference between the value of the house in April 1974 and the price at which it is sold. The estimate of tax foregone is £0·03 million in 1974 and £3·0 million in 1975.

17. At a time of rising interest rates, there is an implicit subsidy to borrowers of local authority loans, and to borrowers who finance purchase through life assurance loans. These loan are at fixed interest rates, while building society loans are granted at interest rates which can subsequently vary. The subsidy is measured by the difference between actual loan charges and the higher loan charges which would have arisen had these loans been subject to the rate of interest on building society loans (or subject to the current life assurance rate, in the case of life assurance loans). However, in the case of life assurance loans the income redistribution is from one group of policy-holders to another—there is no loss to the Exchequer.

18. The subsidies flowing from the State to owner-occupiers can now be aggregated. The total explicit subsidies which they received increased from £6·9 million in 1971–72 to £14·8 million in 1975. It is estimated that, over the same period, total implicit subsidies increased from £12·9 million to £30·5 million. Thus the total implicit subsidies which are estimated are greater than total explicit subsidies. It is estimated that total subsidies to owner-occupiers increased from £19·8 million to £45·3 million in this period.

19. Local authority tenants who purchase their dwellings receive subsidies, at the point of sale—namely, an allowance of £900 per dwelling, and a discount from the purchase price. These subsidies totalled £21·0 million in 1975.

20. The measures of aggregate subsidy in this Report relate to a short period of time—i.e. for each year from 1971–72 to 1975. While this is justifiable from the point of view of measuring the State's commitment to housing subsidies, it ignores the variation of housing expenditure and subsidies over the life-cycle of each householder. For example, an owner-occupier with a mortgage will typically experience declining

money payments over time, as a fraction of income.[1] In the case of an owner-occupier who sells a house and acquires a more expensive house, the annual subsidy can increase over time. By contrast, under the differential rents scheme, if the basic income of a local authority tenant increases, the rent paid will increase. The rent paid can thus be a constant fraction of income—until the tenant reaches the maximum rent.

1.3 Distributional Effects

21. It is not possible with the data at present available to get a clear picture of the overall effects of the present range of explicit and implicit housing subsidies on the distribution of real income. However, some partial and tentative conclusions can be drawn. Hereunder the technical term "progressive" is used to denote a case where there is a larger proportionate subsidy to households, the lower is their income; the term "regressive" is used to denote a case where there is a larger proportionate subsidy to households, the larger is their income.

22. In 1965–66 the highest average income was in the owner-occupied sector, and the lowest average income was in the local authority sector; average income in the private letting sector was slightly higher than in the local authority sector. Preliminary estimates of *disposable* household income (that is, gross income less income tax and social insurance contributions) in 1973 for all households—urban and rural—show that those who owned with a mortgage had a significantly higher average income than those in other tenure groups. In each of the other tenure groups there was about the same average disposable income.

23. In 1975 the total subsidies to local authority tenants were £26·2 million. These tenants number about 110,000.[2] In the same year, total subsidies by the State to owner-occupiers were an estimated £45·3

[1]Over the space of ten years the proportion of income spent on loan repayments can decline from over 20% to about 10% (NESC *Op. cit.*, 1976).

[2]However the average size of household is higher in the local authority sector, where there were about 4·7 persons per household in 1971, compared with about 4·0 persons per household in the owner-occupied sector. (Source: CSO based on CP 1971).

million and the number of households which benefited from these subsidies was about 175,000.[1] Thus, it is estimated that in 1975 the aggregate subsidisation of owner-occupiers exceeded that of local authority tenants. However, this comparison must be qualified. The local authority subsidies use the historic costs of local authority dwellings as a benchmark: by contrast, the subsidies to owner-occupiers are estimated largely by reference to market values.[2] The final category of subsidy is composed of the discounts and allowances given at the point of sale to local authority tenants who purchase dwellings. The total value of these discounts and allowances in 1975 was £21·0 million, received by 10,000 former tenants.

24. Any estimate of average subsidy per household, based on the above aggregates, must be treated with great caution. Data on average subsidies are of limited value, because some subsidies are not received by all households. For example, a local authority tenant who pays a maximum rent may not be subsidised;[3] and in any one year only a proportion of households obtain rates remission. Another example: local authority tenants have a lower average income than those who own with a mortgage, thus, their subsidisation might be judged to be progressive. Even this conclusion must be qualified, because this tenure group contains a considerable range of incomes.

25. Tenants of rent-controlled dwellings are subsidised in that they pay very low rents. However, many of them receive a low net benefit from housing due to the poor quality of the dwellings—this reflects the fact that the average return which landlords receive from dwellings in this sector may hardly cover maintenance plus insurance.

26. Tenants in the uncontrolled private sector receive no direct subsidies. They spend a higher proportion of income on housing than householders in any other sector. On the whole the effect of this is

[1]This is the estimated number of households where houses are owned with a loan. The subsidies to owner-occupiers which are itemised in Table 1 are received almost entirely by those who own with a loan.

[2]In para. 108 there is a brief discussion of an alternative measure of local authority rent subsidies.

[3]A tenant on maximum rent will be subsidised unless this maximum reflects the current costs of maintenance and management.

probably regressive, since average income in the *uncontrolled* private sector is not likely to be significantly higher than that of other sectors. It is estimated that the average disposable income of *all* tenants in the private sector is about the same as that of local authority tenants, so that some of the private sector tenants must have very low incomes.[1]

27. The tenant purchase scheme gives a relatively large subsidy to one particular group of householders: local authority tenants who purchase their dwellings are subsidised during their period as tenants (unless they pay maximum rents throughout), then through the terms of sale, and finally receive tax relief on interest payments on the loan. To the extent that the tenants who purchase dwellings are those with relatively higher incomes—and this is likely—then the effects of the sales scheme work in a regressive direction.

28. Within the owner-occupied sector, many of the subsidies are regressive. The fact that the imputed income from owner-occupation is not taxed 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. As explained in paragraph 8, the estimates of the value of this subsidy are not very reliable, and the value of tax relief on loan interest payments is taken as an alternative, albeit less comprehensive, measure of the subsidy to owner-occupiers. On this basis also, owner-occupiers are subsidised in a regressive manner, for two reasons. First, the higher the income the greater the loan which it is possible to obtain, given the criteria of building societies and of life assurance companies. Second, the higher the marginal tax rate, the greater is the subsidy.[2] Moreover, those whose incomes are low or who have large families, and thus have no taxable income, get no benefit from this arrangement. The introduction in 1974 of the £2,000 limit on tax relief on loan interest does put an upper limit to the regressive nature of this subsidy: at the current loan rate of 11·85% by building societies, the

[1]This is because the group of uncontrolled tenants includes some with relatively high incomes. Source: *Household Budget Inquiry* 1965–66.

[2]For example, if the marginal tax rate is 50%, then the present value of tax relief on a loan of £10,000 (using a discount rate of 10%) is £4,220 compared with £2,954 at a marginal tax rate of 35% (over 20 years at 12% mortgage rate).

maximum loan which stays within this limit is £16,900.[1] The same £2,000 limitation applies to those buying a house with a life assurance policy, though they still enjoy an additional benefit because a part of the premium is allowed as a deduction from taxable income. The present value of rates remission varies directly with the rateable valuation of the house and, as a general rule, those with high income tend to occupy dwellings with high rateable valuation.[2] The one limitation on the regressive nature of this subsidy is that only houses below 117 square metres qualify for remission. The relief due to the exemption from stamp duty varies directly with the value of the house at the time of purchase, and for that reason may be regressive. On the other hand, the limitation of this subsidy to houses within a restricted size range introduces an element of progressiveness. The supplementary grants of local authorities are progressive.

29. The local authority differential rents scheme is designed to distribute subsidies in a progressive manner. This happens to some extent; for example, tenants with low "basic" incomes pay low rents—down to a nil rent. "Basic income" excludes overtime, shift allowances and bonus payments, and is the income which is taken into account when assessing rents. However, the somewhat arbitrary manner in which *maximum rents* can vary across different dwellings can limit the progressive effects of the differential rents. (The rent paid on a dwelling cannot exceed this maximum rent). For instance, under the Dublin Corporation schemes, maximum rents on identical houses can depend on the date of first occupancy. In at least one other major local authority area, rents can vary greatly according to various rules, e.g. depending on whether the dwelling was built within the past four years, or whether a tenant entering a vacant house was previously a tenant or not. Thus, both within and outside Dublin, tenants who have the same incomes

[1]Furthermore during the initial period in which there was a Government subsidy to the building societies, 90% of the value of societies' loans had to be within a limit of £9,000—subsequently this limit was raised to £11,000.

[2]See *Household Budget Inquiry* 1965–66, Table 7. This is corroborated by data on rateable valuation of dwellings of owner-occupiers in four income groups in 1973 (i.e. the income groups which are used in Tables 16–18: *Source* is CSO, based on HBS 1973).

can pay widely different rents. Again, tenants who pay the same rents can have very different incomes. In a small number of cases it is likely that there is cross-subsidisation of one group of tenants by another group—for example, the rents obtained on some older dwellings may exceed the sum of their (historic) construction costs and their maintenance costs. Another form of cross-subsidisation can arise as a result of averaging maximum rents over flats and houses. Finally, the data from the Household Budget Survey 1973 show that only a limited amount of income redistribution takes place within the local authority sector, since households in different (gross) income groups had about the same average expenditure on rent.

1.4 Policy options

1.4.1 General

30. The following discussion of policy options is not exhaustive[1] and does not attempt to quantify any of the changes considered. It is difficult to put firm figures on the change in the cost of subsidies if a certain scheme were withdrawn, since any significant change in policy can result in a change in the price of accommodation. Any policy changes would need to take account of their effects, not only on income distribution but on output, on employment and on the allocation of resources. These lie outside the terms of reference of this Report. It is recognised that certain subsidies may be desirable on their own merits. For example, a capital gains tax applicable to all sales of private dwellings could cause hardship to those who had to sell for personal or business reasons. To some extent the present level of subsidisation is a reflection of prevailing views about the proportion of income which should be spent on housing. In this regard it is noteworthy that, for both local authority tenants and those who owned houses with a

[1]It is arguable that, although subsidies may be the best means of achieving a greater output of housing, income redistribution ought to be done primarily through the income tax and cash benefit system. In this way, conflict between different areas of Government decision could be avoided. Furthermore, the tax and cash benefit system is likely to be a less uncertain instrument than the use of tied subsidies, since the impact of subsidies can only be known after the event, as they alter relative prices and hence expenditure patterns. However, a defence of the use of housing expenditure to redistribute income is that society wishes to see a different distribution of housing consumption *per se*.

mortgage, the proportion of total expenditure devoted to housing remained reasonably steady between 1965–66 and 1973.

31. As far as the distributional effects are concerned, the present range of subsidies should be critically examined to determine what modifications would help to ensure that those in greatest need enjoy the greatest benefits. Such an examination would be more feasible at present than a radical change to some different approach, such as the introduction of housing allowances.[1] This examination must encompass *all* subsidies—a change in an individual subsidy could work perversely. Some of the present subsidies would merit special attention in any critical reassessment. There have been two changes in policy within the past year—the change in the new house grant scheme, and the termination of the interest subsidy payable to building societies. The net effect of these changes was likely to reduce the regressive effects of the complex of subsidies.

1.4.2 Local authority rents

32. In the local authority rented sector, a minority of tenants—about 35–40% of those who pay differential rents—are on the maximum rent. This minority includes relatively few tenants of recently-built dwellings. The limited number of tenants on maximum rents is a reflection of the

[1]Under a housing allowance scheme, aid would be given to households irrespective of their tenure group. The intention would be that this would replace much or all of the existing network of subsidies. The basic principle would be to provide the household with cash or certificates which can be tied specifically to the consumption of housing. The housing allowance can be related to the family size and income of the household, and to the level of its expenditure on housing. A typical housing allowance scheme would provide flat rate allowances to households, fixed at a certain level depending on the number of children and the number of adult dependants, with special allowance for disability. The allowance could vary according to the amount of rent which is paid and could be taxable. One possible disadvantage of such a scheme is that in the private letting sector much of the benefit would be appropriated by suppliers of housing services. There are also problems about the costs of the scheme and its relation to family life-cycle. (Among the literature on the housing allowance is: Adela A. Nevitt, *Housing, Taxation and Subsidies*, Nelson 1966; Della Adam Nevitt, "A national housing allowance scheme", in *Social Services for All?* London: Fabian Society, July 1968; Frank de Leeuw, *The Housing Allowance Approach*, Committee on Banking and Currency, 92nd Congress, 1971: Reprint, The Urban Institute, Washington, D.C.; Stewart Lansley and Guy Fiegehen, *Housing Allowances and Inequality*, London: Fabian Society, 1973.)

B

fact that, in the case of first lettings of local authority tenancies, only about 5% of principal earners in local authority tenancies have, early in 1976, a "basic income" greater than £45 per week. In the same period the average "basic income" of these tenants was about £36 per week; this figure contrasts with average weekly *earnings* for males on adult rates of £54·09 a week in transportable goods industries in 1975. If maximum rents were held constant for long periods then a greater proportion of tenants would be paying maximum rents, and after a certain number of years these tenants could be paying a relatively low proportion of income in rents.

33. To some extent, maximum rents have lagged behind economic rents. This has happened in particular in the case of Dublin Corporation, where in the 1970's the maximum rents applying to newly-built dwellings have remained static for periods of greater than three years in some cases, while building costs continued to rise. While in other major local authorities the maxima are in principle set on a scheme-by-scheme basis, in practice in these local authorities the maxima are still held constant for a certain period. Furthermore, the maximum rents of existing dwellings are revised infrequently. One option—closest to present policy—would be to re-set maximum rents, related to historic costs, more frequently and to increase them regularly as maintenance costs increase. However, if this were done on a scheme-by-scheme basis, it could give rise to inequities between tenants in one area and those in another, due mainly to differences in costs of land acquisition. It can be argued that, under any alternative, part of the relatively high acquisition costs of dwellings in centre-city areas, including the cost of land (and thus part of the rent) should be borne by a wider group than the tenants of these dwellings. This is because the land is an asset in perpetuity for the community. At the least, there is a case for pooling land acquisition costs across dwellings—possibly across all dwellings constructed in a certain year. A second option would be to move towards maximum rents based on replacement cost,[1] which would help

[1]This need not mean that—leaving aside maintenance costs—the schedule of maximum rents would remain constant over time, if interest rates were constant. A scheme which provides for a gradual increase in "economic rents" over time in order that dwellings are fully amortised at the end of the term, is described in: M. F. W. Hemming, "The price of accommodation". *National Institute Economic Review*, No. 29 (August 1964), pp. 39–54.

to fund the replacement of dwellings. However, this could run counter to the desirable aim of reaching a rough-and-ready equity between local authority tenants, and owner-occupiers whose repayments (leaving aside the changes in interest rates) are based on historic costs.[1]

34. A third possibility, intermediate between setting rents on historic costs and setting them on replacement costs, would be to amortise the outstanding debt over the remainder of the 35-year term at the going rate of interest. This would contribute towards the re-financing of the local authority stock of dwellings. For example, if the State were borrowing over 25 years, then the last 10 years' "economic rent" could be re-calculated at the rate of interest which was current at the time.[2]

35. There is need for more information on the extent to which the present allowance of 1½% of all-inclusive cost, which is intended to cover maintenance and management, is adequate. Aggregate expenditure of local authorities on maintenance and management in 1975 was approximately £13·7 million (of which about £9 million related to maintenance), which exceeded the receipts from rents of £8·1 million in the same year. By comparison, in 1971–72, expenditure on maintenance and management had been £6·5 million (of which

[1]Leaving aside the special case of tenant-purchase.

[2]Difficult problems of "equity" are raised by the variations in maximum rents which, at present, exist between local authorities. Apart from possible revisions of maximum rents due to increased costs of maintenance etc., the maxima are related to the costs of construction and interest rates which held at the time the dwellings were built. Hence variations in maximum rents reflect, not so much differences in quality of dwellings, but differences in the average age of dwellings between one local authority and another. There are two extremes which show the possible variations in maximum rents. One is where maximum rents are strictly related to historic costs, and where there could thus be significant differences in maximum rents between locations. The other extreme is where there would be "pooling" of the loan charge elements in rents within each local authority, or even pooling of this loan charge over all local authorities. In this case, the tenants of older dwellings would pay more than an economic rent based on historic costs, while tenants of recently-built dwellings would pay less than this economic rent. The question is whether it would be equitable to have such pooling, and whether such pooling could be combined with differences in maximum rents which reflect differences in the quality of dwellings.

£3·8 million was spent on maintenance) while rent receipts had been £6·3 million. Since 1971–72, expenditure on maintenance has risen by 137%, while in the same period rent receipts have increased by only 29%. For several reasons, rent receipts no longer cover maintenance expenses. First, there has been a rapid increase in costs of labour and of materials. Second, the introduction of the 1973 national differential rents scheme resulted in reduced revenue from rents, and the scope for recouping much of this increase through changes in rents is limited—partly due to the number of tenants who remain on fixed rents. Third, the phased transfer from the rates to the Exchequer of the net cost of local authority rented housing stimulated some local authorities to undertake substantial schemes of repairs in 1975. In the light of the maintenance and management costs in 1975, the adequacy of the $1\frac{1}{2}$% allowance must be queried. In addition, this allowance may be too blunt an instrument to allow for the variations in maintenance costs which arise.

36. As of July 1976, revisions in maximum rents are in prospect. On 23 June 1976, revisions in maximum rents were announced, with effect from 1 July 1976; as of July 1976, these changes are postponed. Under the revisions of 23 June 1976, maximum rents would be calculated by including an allowance for maintenance and management of $1\frac{1}{2}$% of the all-inclusive cost of the dwelling, updated to May 1973 using the Consumer Price Index, plus a further increment to cover increases in maintenance and management costs which occurred since July 1973. This change would have a significant impact on maximum rents, since the allowance for maintenance has hitherto been based essentially on historic costs. While a lower proportion of tenants would pay maximum rents, this change would affect tenants with higher incomes, and would reinforce the progressive nature of the differential rents scheme.

1.4.3 Purchase by local authority tenants

37. The arguments in favour of the present policy on sales are the following:—

(i) The income from sales annuities can provide a greater flow of

funds to local authorities.[1] This is because the annuities are based on historic costs inflated by a price index, and on current rates of interest, while the tenant's rent is generally based on historic cost which is amortised at historic interest rates.[2]

(ii) The tenant now becomes responsible for his own repairs and maintenance, thus relieving the State of maintenance expenses. This implies that it has proved difficult under the differential rents scheme to obtain a contribution towards maintenance, from tenants who could afford to make such payments.

A further possible reason for the present sales terms could be that the encouragement of owner-occupation has become a dominant aim of housing policy.

38. Before the change in the sales scheme was introduced in recent years, tenants in urban areas who wished to buy a house commonly moved out of the local authority rented sector, thus freeing local authority dwellings for re-letting. The selling of local authority houses at the rate now being undertaken reduces the number of houses available for meeting the principal aims of local authority housing policy: to provide dwellings "for persons living in unfit and overcrowded conditions, for persons who cannot afford to provide adequate accommodation for themselves, and for special classes . . .".[3] Currently, these sales number 10,000 a year, while there were 40,000 applications for sale (covering about 43% of the total stock of local authority houses) under the sales scheme which operated from July 1973 until March 1975.[4] There is thus a danger that, if sales continue at this rate, the local authorities will be left managing the most

[1] Up to 1975 inclusive, 50% of the income from sales annuities was used for approved housing capital purposes; in 1976, 25% of this income will be used mainly for local authority loans and for supplementary grants by local authorities.

[2] In a small number of cases the revenue from the sales annuities may not exceed that obtained formerly from the rent, because of the discounts which are applied to arrive at the purchase price.

[3] Department of Local Government. *op. cit.*, 1975, p. 5.

[4] Many of these houses were sold in 1974 and 1975.

unattractive portion of the dwelling stock. Another argument which can be adduced against the present policy on sales is that it is short-sighted, since on a time horizon of greater than 35 years, the State is disposing of its dwelling stock on very concessionary terms—especially in view of the fact that as tenants' incomes rise and as maximum rents are raised, the rent subsidies—as defined by the Department of LocalGovernment—fall. The likely life of a dwelling is at least 50–60 years, which is about double the present loan period of 35 years. Rented dwellings would therefore generate net revenue for local authorities after this loan period has expired. One of the aims of the sales scheme is the stimulation of owner-occupation. Consideration should be given to other means of achieving this aim directly—e.g. through additional incentives when tenants move from the local authority sector into owner-occupation, while at the same time retaining the stock of local authority dwellings for the achievement of the aims cited above.[1]

1.4.4 Owner-occupied dwellings

39. Other changes would merit consideration in any endeavour to modify the present system so that it would work in a less regressive direction: for example, confining tax relief on interest payments to tax at the standard rate only or for a limited period, or the fixing of a lower maximum on loans eligible for tax relief.[2] These would have some limited impact on the distribution of income (the total value of tax relief in 1975 is estimated to be £12.9 million).

40. One of the subsidies estimated is that accruing to borrowers of local authority loans who are charged a fixed rate of interest—a subsidy

[1]Concern over the sales terms is already evident in the "clawback" arrangement whereby local authorities have discretion in securing one third of a capital gain realised on resale within five years of the original purchase. Local authorities must bear the costs of any foregone contributions.

[2]More radical methods have been proposed from time to time—e.g. in place of the present tax relief, tax reductions which vary with income and family size, together with a grant for those whose income and family size is such that they pay no tax. Another option would be the allowing of tax relief on the so-called "single annuity" principle. At present, if a house is sold and another one bought, the tax relief can increase. Under the "single annuity", tax relief on the mortgage for a second-time buyer is allowed only on the interest which is calculated as if (say) a 20-year mortgage for the new higher value had been taken out at the date of the first mortgage.

estimated at £4.3 million in 1975. Consideration might be given to the introduction of interest rates which change over time, rather than remain fixed, on these loans (on a par with the rates charged by building societies). To the extent that savings could be made on some of the present subsidies, there is a case for using the proceeds to increase the limit placed on the size of local authority loans and the present income limit (£2,350) for eligibility. The loan limit means that at the moment a deposit of about £3,000 can be required for dwellings financed through local authority loans.

41. More information on the scheme which provides grants for reconstruction and repair is required. This is an area in which there are re-distributive consequences, which depend on the take-up of these grants, and on the characteristics of those who receive them.[1]

42. The composite rate, under which building societies pay tax to the Exchequer, has not been reviewed since 1956. The composite rate may no longer be neutral between the building societies and the Exchequer, and might be based on a more up-to-date sample of depositors.

1.4.5 Private letting sector

43. Finally, there is the private letting sector. Short of the State or housing associations taking a direct part in managing part of the sector, the provision of accommodation in it could be assisted through the tax system, including the way in which depreciation is treated, or through improvement grants, or through a relaxation of the existing rent controls. This could take some of the pressure off the existing stock of local authority dwellings.[2] However, some of the benefits of these measures would be likely to be obtained by private landlords. The possibility of

[1]These grants have implications which go outside the confines of this Report. The grants can have desirable side-effects in staving off obsolescence, and in helping the regeneration of centre-city areas. These grants may also be of particular importance in leading to improvements in the quality of housing in rural areas. The question is whether grants should be more discriminatory in meeting these ends.

[2]A full consideration of the private letting sector would need to encompass its role in providing a degree of flexibility in housing, aiding labour mobility and assisting the fullest utilisation of dwellings.

assisting those on the waiting lists for local authority houses and flats, by providing some form of income-related housing allowance might be considered. The data from the Household Budget Survey 1973 suggest that many of those living in furnished accommodation had low incomes —the probability is that these consisted of families queuing for a local authority dwelling.

Chapter 2

ESTIMATION OF EFFECTS ON INCOME DISTRIBUTION

2.1 Effects of policy on distribution

44. The ideal measure of the effect of housing policy on the distribution of real income is: the net benefit obtained from housing consumption, plus the effects of public expenditure (e.g. on housing renewal), plus receipts from subsidies, minus outgoings in taxes and rates.[1] This measure is unattainable, given present data.[2]

45. This Report considers the subsidies which go to tenure groups. There are differences in the quality of housing services between these groups, not only because of differences in the quality of the dwellings, but also due to differences in security of tenure, and in potential for mobility. For example, the quality of dwellings in the privately rented sector varies enormously, from slum dwellings to luxury "apartments". To take another example: in recent years the quality of local authority dwellings has improved—as measured indirectly by the increase both in the average number of rooms per dwelling and in the average size of room. Differences in security of tenure are particularly important in the private letting sector—this security is much less assured for uncontrolled tenants than for those in the rent-controlled sector. Such differences in quality of dwellings and in treatment of householders are not considered explicitly in this Report, although they are relevant to any exhaustive study of housing policy.

2.2 Subsidies

46. In official statistics, different definitions of the term "subsidy" are used. For instance, the definiton used by the United Nations is as follows:

[1]See: R. M. Kirwan, "Measuring the distributional effects of housing policy", forthcoming in Vera Morris (ed.), *The distributional effects of public expenditure on social policies*, London: Centre for Studies in Social Policy.

[2]Furthermore, this Report leaves out of account the effects on income distribution of both land acquisition policies and the costs of such acquisition in cities.

"Subsidies include all grants on current account which private industries receive from government . . . Transfers by public authorities to private industries for investment purposes . . . are classed as capital transfers rather than as subsidies . . . Subsidies also include all grants on current account which government makes to public corporations, for example, in compensation for operating losses".[1]

In most respects, this view of subsidies is reflected in the Irish National Accounts, with the qualification that State grants for new private dwellings, and supplementary grants for these dwellings, are regarded as subsidies, while grants for reconstruction and repair are not.

47. Three important features of the UN definition are that it excludes Government transfers to households, it excludes capital transfers, and ignores measures such as tax remission which affect the revenue side of the Government budget. In this Report, the approach suggested by Prest, after the Joint Economic Committee of the US, is followed, namely:

"A subsidy can be conceived as affecting either relative prices of goods and services or relative rewards of factors (i.e. relative incomes of all kinds)."[2]

This definition permits the inclusion of measures which affect the revenue side of the budget—for instance, tax remission allowed against specific forms of expenditure.

48. Appendix A deals with some technical issues which arise in the measurement of subsidies. There are two broad methods of estimating the value of subsidies:

(i) *Value to consumers*
One method would estimate the value placed by consumers on the subsidy. A standard method of estimating this, for publicly-provided housing, is by the difference between the rent paid

[1]United Nations, *A System of National Accounts*, New York: UN, 1968, p. 124.
[2]A. R. Prest, *How Much Subsidy?* Research Monograph 32, London: Institute of Economic Affairs, 1974, p. 20.

and the rent of an equivalent dwelling in the private (and uncontrolled) sector. A difficulty with this method is that in some cases it will simply not be possible to estimate a market price which would have any validity at the aggregate level. 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 for reasons given in Appendix A.

(ii) *Production Cost*
The alternative is to compare cost of production (rather than market value) with the rent which is paid. Measures of production cost are available in some cases, including the local authority dwelling stock. Some may find production costs attractive in this context on grounds other than the merely practical—for instance, if market price is believed to embody any element of monopolistic profit. In the case of a long-lived good such as housing, computation of production cost poses certain difficulties. The economic rent of local authority dwellings is measured (by the Department of Local Government) by 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 Report the "production cost" method is essentially used in estimating subsidies to local authority tenants. The main emphasis in the Report is on the subsidies as they are received by the beneficiaries. Thus, the various subsidies which flow to a particular tenure group are aggregated. But the State finances these subsidies in different ways. For example, in the case of new house grants and reconstruction grants, the capital costs which newly arise each year are given, rather than an amortised value which would rise cumulatively each year.

Chapter 3

CLASSIFICATION OF HOUSING SUBSIDIES

3.1 Introduction

49. In 1971 there were 726,000 dwellings in the State, distributed between tenure groups as shown in Table 2. Owner-occupiers constituted 500,000 or 69% of the total, of which 71,000 were acquiring

TABLE 2

Private Dwellings by Nature of Occupancy, 1961 and 1971

Nature of occupancy	1961		1971	
	Number	Per-centage	Number	Per-centage
	'000	%	'000	%
Owner-occupied, excluding purchase from local authority *(a)*	362·6	53·6	428·4	59·0
Being acquired from a local authority	42·0	6·2	71·2	9·8
Total owner-occupied	404·6	59·8	499·6	68·8
Rented in private sector				
—unfurnished	100·5	14·9	65·0	9·0
—furnished	15·8	2·3	31·8	4·4
Total rented in private sector	116·3	17·2	96·8	13·3
Rented from local authority	124·6	18·4	112·7	15·5
Other	30·9	4·6	17·2	2·4
Total	676·4	100·0	726·4	100·0

Note: (a) Including cases where loan or mortgage repayments are being made.
Source: CP 1961, Volume VI, Table 16A; CP 1971, Vol. VII, Table I.

their dwellings through a tenant purchase scheme operated by local authorities.

50. The number of dwellings rented from local authorities actually declined by 12,000 between the Census dates of 1961 and 1971, despite a total of 31,000 local authority completions in this period. The stock of local authority dwellings was about 106,300 at the end of 1975, approximately the same as at the end of 1970–71.[1] These figures reflect the number of sales to tenants. In the privately rented sector, there was a decline of 17% in the total number of tenancies between 1961 and 1971. There are considerable differences in the patterns of tenure between urban and rural areas[2]—in rural areas, 85% of dwellings were owner-occupied in 1971, and only 5% were rented from local authorities. The importance of the owner-occupied sector is reflected not only in the data on the stock in Table 2, but in the pattern of new construction in recent years. Between 1960–61 and 1975, dwellings built by agencies other than local authorities accounted for 71% of all dwellings completed.[3] In addition, many dwellings built by local authorities ultimately become owner-occupied.

51. This Chapter summarises the present set of subsidies in each of the principal tenure groups. 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* via policies which result in a reduction in the interest rate charged to borrowers, and *indirectly* via tax arrangements which result in a lower interest rate being charged to borrowers.

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

[1]This estimate is based on the stock at December 1975, the addition of completions in 1975 and deduction of sales in 1975.

[2]In the Census of Population, rural areas cover all population clusters of under 1,500.

[3]*Source*: QBHS, December 1975, Table 1.

3.2 Dwellings rented from local authorities

3.2.1. Introduction

52. Local authorities provide dwellings for families living in unfit or overcrowded conditions, for those who cannot afford to house themselves adequately, and for certain other categories such as the aged and the disabled. This Report ignores the financial relations between central and local authorities. On 30 March 1973, the Government decided to transfer gradually the charges for local authority rented housing from local taxation to the Exchequer, beginning in 1973–74 and being wholly effected as from 1 January 1977.

3.2.2 Re-financing

53. The construction of local authority housing is financed through borrowing by local authorities from the Local Loans Fund (LLF). The loans to local authorities are amortised over thirty-five years[1] at the LLF rate of interest prevailing when the loan was made. The LLF rate is in turn related to the long-term rate at which the government can borrow. Until 1970–71, the LLF rate was sometimes marginally less than the rate offered on the longest dated Government stock issued in the same year, but it usually exceeded the "long rate" of the previous year.[2] In 1972–73, 1973–74 and 1974 the LLF rate was less that the Government's long rate in both the current and previous years.[3] The margin between the LLF rate and the "long rate" of the previous year was 0·75% in both 1972–73 and 1973–74, and was 1·4% in 1974.

54. A more important feature of the LLF financing procedure has been the inability of the Exchequer to float stock issues of more than 25-year

[1]Prior to 1948, the loan repayment period was 35 years. Until January 1972, loans were amortised over 50 years. Since then the period has reverted to 35 years.

[2]See Appendix D. Table D1. In recent years, new issues have assumed a diminished importance in total Government borrowing. For example, the issue of tranches of Government stock has been done more frequently in recent years. Nevertheless the data in Table D1 do indicate the interest rates and the terms (in years) of loans current at each date.

[3]However, see reply by Minister for Local Government to Dáil question on 18 May 1976: "The Exchequer . . . is currently paying in excess of 14½ per cent for capital issued by the local loans fund to local authorities at 12 per cent" (*Dáil Reports*, Vol. 290, No. 10, Col. 1385).

maturity in recent years, or indeed of more than 15-year maturity in the most recent period. Apart from an issue in 1968, the longest-dated stock has typically been 20–25 years, and less than this on a number of occasions. The implication of this is that sometime within the term of the loan to the local authority, the Exchequer will have to re-finance it. The trend of nominal interest rates over the past thirty years has been upward, so that re-financing imposes a cost on the Exchequer. However, it is unlikely that re-financing will be a major problem in the foreseeable future, unless the assumption is made that the interest rates on long-term Government borrowing will remain as high as in 1974 and 1975. This conclusion is strengthened by the relatively low volume of local authority dwellings completed in earlier years.[1]

3.2.3 Fixed and differential rents

55. At the end of 1974, 29% of all local authority dwellings were let at fixed rents, the remainder being let at rents related to financial and family circumstances known as differential rents. Fixed rents apply mainly to older dwellings, since all new lettings made after April 1967, and many made prior to that date (e.g. all made since 1950 in Dublin City, and all since the 1930s in Cork City) are on differential rents. However, almost half of the dwellings let by Urban District Councils in 1973–74 were on fixed rents.

56. In July 1973 the differential rents scheme was altered; since that date there has been a uniform scheme operating throughout the country. Under this scheme, the actual rent has been determined by reference to the "assessable income" of the household: this is the post-tax income of the principal earner in the household (excluding overtime earnings, shift allowances and bonus payments), a further deduction for each child, and an allowance for other elements such as subsidiary income-earners. The maximum fraction of "assessable income" which is payable as rent is one seventh, and it may be considerably less for those on small incomes. However, the rent paid cannot exceed a

[1]For example, in the period 1933–48, a total of 54,500 local authority dwellings was completed. *Source: Housing-Progress and Prospects*, Pr. 7981, Dublin: Stationery Office, 1964, Appendix I.

maximum rent which is determined for each dwelling. About 35–40% of those who pay differential rents are on the maximum. Full rates are payable in addition to rent, but may be waived where a rates waiver scheme operates. 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 1973–74.

3.2.4 Calculation of maximum rents

57. 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 accommodation. (Thus in the case of old dwellings of poor quality, high maxima would have been avoided). The *economic rent* of a local authority dwelling is now defined by the Department of Local Government as the (historically determined) annual debt service charge, plus annual maintenance and administration charges. These annual charges for maintenance and administration are calculated as 1½% of the all-inclusive cost (which is the cost of land acquisition, including the cost of the site, plus construction costs).[1] Throughout this Report, "economic rent" is used in this sense. The adequacy of the allowance for maintenance and management can be roughly tested by dividing the total cost of these services—approximately £13·7 million in 1975 (of which about £9 million relates to maintenance)—by the average number of local authority dwellings, i.e. by 106,000. This gives an average cost per house of £129 in 1975, or about 1·7% of the cost of a new house (£7,500) in that year. However, the cost is greater than 1·7% of the historic cost of construction, updated by the CPI.

58. While it is intended that the maximum and economic rents should coincide, in fact the maximum rents of newer dwellings are frequently below their economic rents. This can happen for two reasons:

[1]This applies to all new schemes. Formerly, a maintenance charge of 1% to 1½% was applied to some schemes.

(i) maximum rents are revised at intervals of a number of years. (Maximum rents are now reviewed at intervals of three years).

(ii) The maximum rent is based on the pooled average cost of houses and flats in a scheme. The construction costs, costs of land acquisition and expected maintenance costs of all dwellings with, say, four rooms built at the same time are likely to vary significantly. To take the most obvious example, the all-inclusive costs of a centre-city flat with four rooms will be significantly higher than those of a suburban house with four rooms. However, the number of flats is likely to be significant only in the case of Dublin Corporation, where the proportion of flats is about 38% of all dwellings.

59. These two effects—(i) and (ii) above—are illustrated hereunder by reference to Dublin City. (Admittedly, practice varies among local authorities, but the significance of Dublin Corporation is evident from the fact that at the end of 1973–74 it accounted for 44% of the national total of dwellings let at differential rents). Dublin Corporation determines a schedule of maximum rents which covers all dwellings built by the Corporation during a given period; the current schedules are set out in Table 3.

60. Because maximum rents are revised only at intervals,[1] in times of inflation the economic rents of *existing* dwellings move ahead of their maximum rents, due to the increases in maintenance costs. In addition, as construction costs rise, the economic rents of *new* dwellings move ahead of their pre-determined maximum rents. This has happened in particular in the case of Dublin Corporation where in the 1970's, maximum rents have in many cases remained static for periods of up to three years. Furthermore, while in other major local authority areas the maxima are in principle set on a scheme-by-scheme basis, these maxima are held constant for a certain period. The extent to which economic rents move ahead of maximum rents has been accentuated by rising interest rates and by the extent of the increase in construction costs in recent years. The following cases exemplify this.

[1]For example, in Dublin City, revisions have occurred in 1953, 1966, 1970 and (for some housing schemes) in 1975.

61. First, take a four-roomed house built in 1965. The loan charges[1] relating to this are about £3·28 per week. The addition of the maintenance allowance (1½% of cost) to the loan charges results in an economic rent of £4·03 per week.

TABLE 3

Weekly maximum rents of Dublin Corporation dwellings (a)

Number of Rooms *(b)*	Scheme A *(c)*	Scheme C *(c)*	Scheme B *(c)*	"1970 Scheme"	"1975 Scheme"
	(1)	(2)	(3)	(4)	(5)
	£	£	£	£	£
1	0·83	1·25	1·63	4·25	10·50
2	1·14	1·75	2·37	5·25	12·50
3	1·85	3·00	3·75	6·25	14·50
4	2·09	3·37	4·25	6·75	16·50
5	2·35	3·75	4·75	7·25	18·50
6					22·00

Note: (a) Scheme A applies to dwellings let prior to 28 February 1966.
Scheme C applies to vacancies which occur in dwellings first let between 1932 and 1953.
Scheme B applies to dwellings first let between 25 February 1966 and 1 November 1970, and vacancies in those first let from 1 January 1954 to 1 November 1970.
"1970 Scheme" applies to dwellings first let after November 1970, excluding those covered in Column (5).
"1975 Scheme" covers certain dwellings let since March 1975.

(b) Excluding kitchen, bathroom.

(c) Rents include rates at 1964–65 poundage, i.e. 4·9p per pound of rateable valuation per week. Hence for a specific dwelling, rates must be subtracted from the figure in this column in order to obtain the maximum rent. Rates are then payable in full on the individual valuation of the dwelling.

Source: Dublin Corporation.

[1]Source for the underlying information on construction costs used in the following paragraphs: Dublin Corporation.

In the case of a four-roomed flat built in 1965 the loan charges[1] would be £5·94 per week (or £4·67 per week if the costs of land acquisition and development are disregarded). The addition of the maintenance allowance to the capital charges results in an economic rent of £7·30 per week (including costs of acquisition, etc.). By contrast, the *maximum rent* set for these houses and flats would be either £1·45 or £3·61, depending on the date of tenancy.[2]

62. Consider a four-roomed house built in 1970, the loan charges of which are about £6·15 per week. The addition of the maintenance allowance results in an economic rent of £7·22 per week. For a four-roomed flat built in 1970, the loan charges would be £12·47 per week (or £8·31 per week if costs of acquisition, etc. are disregarded). Adding the maintenance allowance, the economic rent is £14·63 per week. By contrast, the maximum rent set for these houses and flats would be £6·75.

63. Thus the maximum rents for the houses built in 1965 and 1970 were lower than the economic rents at the time the dwellings were built. In addition, increases in the cost of maintenance and management since the date of building have caused a further divergence between maximum and economic rents. There is a far greater difference between economic rent and maximum rent in the case of flats; this is to be expected, given the pooling of maximum rents over houses and flats.

64. Finally, consider the example of a five-roomed house built in 1975, the loan charges of which would be about £17·71 per week, and the addition of the maintenance allowance results in an economic rent of about £20·18 a week. It is likely that the maximum rent[3] on this

[1]The information on costs of houses and flats in 1965 which underlies these figures is consistent with the data on costs in the 1964 White Paper, which cites typical costs of about £2,400 for a four-roomed house, and about £3,400 for a three-roomed flat, in Dublin city. *Source: Housing-Progress and Prospects*, Pr. 7981, Dublin: Stationery Office, 1964, p. 19.

[2]That is, £2·09 and £4·25 respectively (see Columns 1 and 3 of Table 3) less rates for 1964–65, assuming a rateable valuation of £13.

[3]The maximum will be £7·25, unless it was in one of the few housing schemes to which the maximum rents of 1975 shown in Col. 5 of Table 3 apply, in which case it would be £18·50.

house would be £7·25—the same maximum which applies to a house built in 1970. This is despite the fact that since 1972 loan charges are calculated over 35 years (compared with 50 years previously), which of itself would increase economic rents. This example shows a considerable divergence between economic rent and maximum rent.

65. 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.[1] The annual loan charges at 4·25% over 35 years are £31, and cease after 1975. The maximum rent on such a house[2] will be either £2·88 or £1·60. The maximum rent of £2·88 is likely to exceed the economic rent, since the weekly maintenance and management costs would hardly exceed £2·88.

66. In cases where the maximum rents are based on current building costs, it is most unlikely that any of the tenants would be paying the maximum rent. For example, for the 1970 Scheme of Dublin Corporation, a married tenant with 3 children would need a post-tax income of £2,800 (pre-tax income of £3,100) in order to pay maximum rent of a four-roomed house. The corresponding income requirement for the 1975 Scheme is £6,300 post-tax (pre-tax £9,800).

67. The 1973 national differential rents scheme provides that revised maximum rents may be fixed for dwellings built after 1 July 1973: recently Dublin Corporation has taken advantage of this (see Col. 5 of Table 3), and other local authorities have done so earlier. In addition, the scheme provides for general revisions of the maximum rents of *existing* houses at three-yearly intervals to take account of increased costs of maintenance and management. The first revision was due not earlier than 1 July 1976.[3]

[1]*Source: Housing: A Review of Past Operations and Immediate Requirements*, P. 8573, Dublin: Stationery Office, 1948, p. 12.

[2]If a vacancy occurred after 1 January 1954, then the maximum rent is £2·88: that is £3·37, less rates of £10 rateable valuation multiplied by £0·049 poundage. If no vacancy occurred, then the maximum rent is £1·60.

[3]On 23 June 1976, revisions in maximum rents were announced, with effect from 1 July 1976; as of July 1976 these changes have been postponed (see para 36).

68. Finally, Table 4 shows that maximum rents vary considerably between one local authority and another. In the absence of more information 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.

TABLE 4

Some maximum rents of dwellings provided April 1950–March 1973

Number of dwellings let on income-related rents in each local authority	Maximum rents in the corresponding local authority
	£
1,042	3·00
710	3·50
937	9·00
469	4·42
632	1·40–10·50 *(a)*
402	4·50
429	7·75
6,187	2·50–8·00 *(a)*
27,976	10·31
3,399	8·50
696	9·50

Note: Data relate to a number of different local authorities, and cover County Councils and County Boroughs. Only those local authorities where the number of dwellings in question exceeds 400 are included.
(a) This is the range.
Source: DLG.

3.2.5 Subsidy to local authority tenants

69. This subsidy arises in two ways. First, many tenants are paying either fixed rents, or 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—for reasons given above in para. 60—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.

70. If subsidies were estimated by reference to market rents, then local authority tenants would be subsidised *vis à vis* private uncontrolled tenants, even if they paid economic rents for the dwellings they occupied. This is principally because, in the rented sector as a whole, the quantity of dwellings which is demanded exceeds the quantity supplied. Thus, in this sector market rents would exceed economic rents as defined above. A subsidiary reason for the subsidisation is the exemption of local authorities from taxation on rental income. Finally, it has been argued that there is an unacknowledged benefit which derives from the relatively low valuation of local authority dwellings, especially in the major urban areas.[1] There is no evidence that this is the case.

71. 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. In urban areas where there are flats, there is likely to be such cross-subsidisation, since the maximum rents of flats are less than economic rents, as mentioned in paragraph 58.

3.3 Treatment of owner-occupiers: general

3.3.1 Introduction

72. The tax treatment of the imputed income from owner-occupation affects all owner-occupiers, and this is discussed in 3.3.2. The effects of capital taxation on owner-occupiers are discussed in Chapter 4. There are grants and tax measures which relate to the purchase of dwellings, which are discussed in 3.4. While local authority tenants who purchase

[1]P. R. Kaim-Caudle, *Housing in Ireland: Some Economic Aspects*, Dublin: The Economic Research Institute, 1965, p. 10.

dwellings benefit from the tax measures which are discussed in 3.4, they obtain certain allowances etc., at the point of sale, which are discussed in 3.5. Finally, the grants for reconstruction and repairs, etc. affect owner-occupiers, whether the dwellings are owned outright or not. They are discussed in 3.6. The classification of subsidies leaves out of account the annual payments which are made by the Exchequer to Shannon Free Airport Development Company and to the Gaeltacht areas for housing purposes; in aggregate these payments have not so far exceeded £0·7 million per annum. It also leaves out of account site subsidies. These subsidies are given to local authorities and certain approved bodies which can provide developed sites for moderately-priced houses. These bodies may dispose of these sites at a price related to the cost to them of acquisition and development, less the equivalent of a State subsidy (the maximum of which is £300). The total expenditure on site subsidies is now around £80,000 per annum.

3.3.2 Taxation of imputed income from owner-occupation

73. 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. Consider two individuals earning the same income from employment and owning identical amounts of assets—say £2,000. Suppose one (the renter) lends £2,000 thus augmenting his earned income by interest earnings, and rents a house to live in while the other (the buyer) holds his £2,000 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 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.

74. If neutral tax treatment between renting and owning were to be

attained, the buyer's taxable income would need to be increased; his 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".[1]

75. Until 1969, income tax under Schedule A was levied on an owner-occupier's beneficial interest in his property. This was calculated as the valuation for local rates less the ground rent. The valuations thus calculated were extremely low—there has never been a general revaluation of property—and this was reflected in the low annual yield of the tax.[2] If imputed rent were taxed then 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.

76. Therefore, in principle the subsidy is measured by the tax which is foregone on the imputed gross rent less maintenance costs. However, the measures of imputed rent diverge markedly (see paragraph 110) and therefore 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 in Chapter 4. (This tax relief is discussed in 3.4.5).

[1]Richard Netzer, "Housing Taxation and Housing Policy", in *The Economic Problems of Housing*, ed. Adela Adam Nevitt, London: Macmillan. 1967, p. 126.

[2]There is a discussion of the taxation of "residential premises owner-occupied" in *Commission on Income Taxation, Second Report*, Dublin: Stationery Office, 1959. The Commission recommended the exemption from Schedule A tax on owner-occupation for dwellings of up to £30 in valuation.

3.4 Grants and tax measures—purchasers of houses

3.4.1 Grants

77. Until the end of 1975 all purchasers of new private houses were eligible to receive a grant from the State.[1] These grants had been limited to houses between 35 and 116 sq metres from 1970, and the grants[2] after this revision are set out in Table 5.

TABLE 5

Ordinary rate of State grant for new houses, operative 1970–75

Floor area, sq metres	35–44	45–74	75–99	100–116
Rate of grant *(a)*, £	175	250	325	300

Note: (a) Where sewerage facilities and piped water supply are provided.

Supplementary grants are payable by local authorities to purchasers of grant-aided houses subject to an income limit which at present is £1,950 for a single person rising to £2,350 for a person with four or more dependants.[3] The supplementary grant equals the State grant in all but a few local authority areas. In recent years, supplementary grants have been given in relation to about half of the dwellings which were bought with the aid of local authority loans. Since January 1976, the scheme of supplementary grants remains unaltered, but the State grant is paid only to those who qualify for the supplementary grant. The extent to which the State grants are shifted to the buyer is discussed in paragraph 111.

3.4.2 Rates remission

78. Under the rates remission scheme, purchasers of new houses within the range of 35–117 sq metres pay local rates on only 1/10 of the rateable valuation in their first year of occupancy, rising to 9/10 in the 9th year and full rates thereafter. The burden of this is borne entirely by other ratepayers: there is no possibility of local authorities

[1]The State grant for houses built speculatively has normally been paid to the builder.

[2]Special rates of grants applied to those engaged in agriculture. Furthermore grants are also made available for new flats.

[3]In the case of farmers a valuation limit of £60 replaces the income limit.

recovering, from the Exchequer, rates "lost" via this graduated remission. Instead, in order to raise a given total revenue, local authorities must strike a higher rate than would hold if no remission existed. Therefore, this is an example of income redistribution *within* the group of ratepayers as a whole.

3.4.3 Exemption from stamp duty

79. There is exemption from stamp duty on the purchase price of the house, and on the value of the mortgage. Since 1 January 1976, this exemption is conditional on the granting of a certificate of reasonable value[1] (which is available in relation to new houses whose floor area is within the range 35–117 sq metres).

3.4.4 Cost of borrowing

80. There are two ways in which Government policy has directly influenced the real cost of borrowing for house-purchase: by direct regulation of interest rates on local authority loans, and by a subsidy which for a period affected the mortgage. rate These are considered hereunder.[2]

81. First, borrowers from local authorities have received favourable treatment *vis à vis* mortgagors because:—

(i) The rate of interest charged to them has usually been lower than the building society loan rate (Appendix D, Table D3).

(ii) Over the last twenty years the trend of interest rates in general, and thus the trend in building society and local authority loan rates, has been upwards. The interest rate on local authority loans is fixed for the duration of the loan, while borrowers from building societies pay a variable rate—in recent experience a rising rate, even though this has not fully reflected the rate of inflation but has adjusted to inflation with a lag.[3] Of course, at a time of falling interest rates, the roles of gainer and loser would be reversed. It is noteworthy that if a house which is financed through a local authority loan is sold, then the local authority loan at the fixed rate of interest can be passed on to the purchaser.

[1]Or the granting of exemption from the requirement to obtain this certificate.
[2]Appendix B describes briefly the loan markets for private housing.
[3]See NESC. *Some Aspects of Finance for Owner-Occupied Housing*, Report No. 16, Dublin: Stationery Office, 1976.

82. Since the nominal LLF interest rate has not kept pace with the rate of inflation, borrowers have paid a negative real rate of interest. This transfer of resources to local authority borrowers from the community as a whole is paralleled in the building society sector,[1] but in that sector the transfer of resources is from those who lend to building societies. There is another distinctive feature of local authority loans—their term is now thirty years, compared with a maximum of twenty (or less frequently, twenty-five) years for loans by the other agencies. At a time of inflation, the real burden of repaying a loan of a given size over a longer repayment period is lower. In other words, since the annual repayments on local authority loans are fixed in money terms, the real present value of the stream of repayments declines as the repayment period lengthens, assuming that prices continue to rise over the term of the loan. Finally, local authority loans are financed in a similar way[2] to the loans with which local authorities finance dwellings for letting, and the same comments concerning the cost of re-financing apply here.

83. Second, there has been an explicit subsidy to building societies. From May 1973 until June 1975, the Government paid a subsidy to building societies to enable them to maintain an interest rate on shares of 8% rather than 7%. In the absence of the subsidy, they would either have had to lower the interest rate on shares from 8% to 7%, which would have made them uncompetitive in the market for deposits, or to raise the rate on mortgages from 11¼% to 12½%, which the Government wished to avoid. Loans not exceeding £9,000 benefited from this subsidy—this limit was subsequently increased to £11,000. In July 1975 the rate of subsidy was reduced from 1% to 0·75%, following which the mortgage rate rose to 11½% in September 1975, and to 12·5% in November. The subsidy was terminated in February 1976.

[1]*Ibid.*
[2]The difference is in the term which is at present 30 years, compared with 35 years for local authority dwellings.

3.4.5 Income tax—house purchase loans

84. Government policy has affected the real cost of borrowing for house-purchase through the income tax code.[1] All interest payments, up to a maximum of £2,000 per annum in total are deductible from income for tax purposes. Prior to 1974 there was no restriction on the amount of interest allowable. This is part of the income tax code and is not designed specifically as a housing measure; nevertheless, it is of considerable importance to a house purchaser.

85. 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. 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 6 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. For example, at a marginal tax rate of 38·5%, the effective mortgage rate is 7·3%, which implies a real interest rate of about minus 5%.[2]

TABLE 6

Effective mortgage rate for each marginal tax rate (%)

Marginal rate of income tax	0	26	38·5	49·5	60·5	71·5	77
Effective nominal interest rate *(a)*	11·9	8·8	7·3	6·0	4·7	3·4	2·7

Note: (a) A mortgage rates of 11·85%—which applied in July 1976—is used.

[1]The following paragraphs leave aside the taxation of the surpluses of building societies. Their surpluses of revenue over expenditure are liable to Corporation Tax at a rate equal to the standard rate of income tax.

[2]The expected rate of change of prices was estimated at 11·5% in 1974 and 14·3% in January-September 1975 (NESC. *op. cit.*, 1976, Table 1). This redistribution between borrowers and lenders applies to all transactions at a time of inflation.

86. The annual interest charge on a loan from a life assurance company is constant over the life of the loan, and the related tax-free allowance is also constant. In addition, a proportion of the annual premium is deductible for tax purposes—two-thirds if the assurance company is Irish, one-half otherwise.[1] This is tantamount to allowing income tax relief on part of the capital repayments.

3.4.6 Income tax—the composite rate

87. Interest payments to individuals[2] on deposits which do not exceed £15,000 (£5,000 until 1973), are taxed at source at a special composite rate of 24·5%.[3] Not all building society investors are liable to pay tax at the standard rate or at higher rates, and the purpose of the composite rate arrangement is that it should yield the Revenue Commissioners the total revenue that is actually due, taking account of the tax position of each recipient of building society interest. The intention is to minimise collection and administrative costs. If interest was paid gross, tax would have to be collected from thousands of individuals instead of from a few building societies. If tax was deducted at the full standard rate, claims for repayment of tax by those not liable would have to be allowed, and again this would be costly.

88. Investors who are liable at rates exceeding the standard rate gain two further benefits, regardless of the size of their deposit. *First,* although they are liable to tax at the difference between the appropriate marginal tax rate and standard rate, the taxable income is taken to be the net interest payment rather than the grossed-up amount from which tax

[1]There are certain limits to the amount of life assurance premiums which qualify for tax relief. The most important of these is that the qualifying premiums may not exceed 1/6th of total income or £1,000, whichever is the lesser.

[2]Income tax is deducted at source at the standard rate (35%) from all interest payments to institutional and corporate lenders, except in the case of certain institutions such as superannuation funds (which are exempt from income tax), which are paid interest gross.

[3]This is 70% of the standard rate at which institutions pay income tax—that is 70% of 35% or 24·5%. (The composite tax arrangement came into being before the tax rate of 26% was established). Interest on deposits which exceed £15,000 is paid net of tax deducted at the full standard rate.

at standard rate has been deducted. *Second,* the individual and institutional standard tax rates are at present different (38·5% and 35% respectively), because of the 10% surcharge on personal tax rates dating from April 1975. However, the interest is deemed to have been taxed at 38·5%. Hence, for instance, an individual liable at a marginal tax rate of 49·5% would have to pay tax at 11% (i.e. 49·5–38·5) on his net interest receipts, rather than at 14·5% (i.e. 49·5–35).

89. In order that a building society pay 7·5% net of tax (the position at July 1976) at the composite rate of 24·5%, it must pay a gross rate of 9·9%. For the standard rate taxpayer, at 35% marginal tax rate, 7·5% net is equivalent to 11·5% gross (12·2% gross while the 10% surcharge prevails). Thus, the composite tax arrangement gives building societies a competitive advantage in the market for deposits from investors who pay tax at the standard rate or at higher rates. Building societies can remain competitive with other borrowing institutions, while paying a lower gross rate of interest. This means that, in turn, the societies can hold their mortgage rate below the level which would otherwise prevail.

90. Assuming that there is a straight "mark-up" of mortgage rate on the rate of interest on deposits, the mortgage rate is lower—probably by at least one percentage point—than it otherwise would be.[1] If the composite rate is set at the appropriate amount, the arrangement is neutral between the societies and the tax authorities, but it causes two forms of re-distribution. First, there is re-distribution of income from those depositors who are not liable to income tax, to those who are liable at the 35% or higher rates. Second, borrowers from the building societies gain at the expense of those investors whose incomes are not liable to tax.

91. However, if there is a long lag in adjusting the composite rate, then the arrangement might no longer be neutral between the societies and the tax authorities. There could be a subsidy towards borrowers from building societies and towards standard-rate investors in the

[1]There is a thorough exposition of this effect, and of all the re-distributive aspects of the composite rate, in: John Foster, "The redistributive effects of the composite tax arrangement", *The Manchester School,* Vol. XLIII, No. 2 (1975), pp. 144–157.

societies—at the expense of taxpayers in general. This could occur unless a sample of investors in the societies were taken at regular intervals. It is quite possible that the composite rate is now too low: the current rate was set twenty years ago, and it is unlikely that the distribution of investors by marginal tax rate has been so static over time as to make a 1956 rate relevant today. The increase in nominal incomes during the last twenty years has not been fully matched by increased income tax allowances; consequently an increasing proportion of taxpayers is liable to tax at the higher marginal rates.

3.5 Owner-occupation for local authority tenants

3.5.1 Introduction

92. It is estimated that to date about 120,000 local authority dwellings have been purchased by tenants.[1] This is a cumulative total, and includes the 71,000 local authority dwellings in 1971 which were being acquired under a purchase scheme. There are four schemes through which tenants may become owner-occupiers, which are described below. In each case local authority loans are available and confer on the borrowers (at a minimum) the benefits outlined earlier in this Chapter. Furthermore, there is no income limit to eligibility for these loans, while an income limit of £2,350 applies to loans by local authorities for the purchase of private housing. In the case of the first scheme the loans are granted for the full price of the house. Lump sum payment is also possible, and has been quite frequent in the case of purchase under the first scheme.

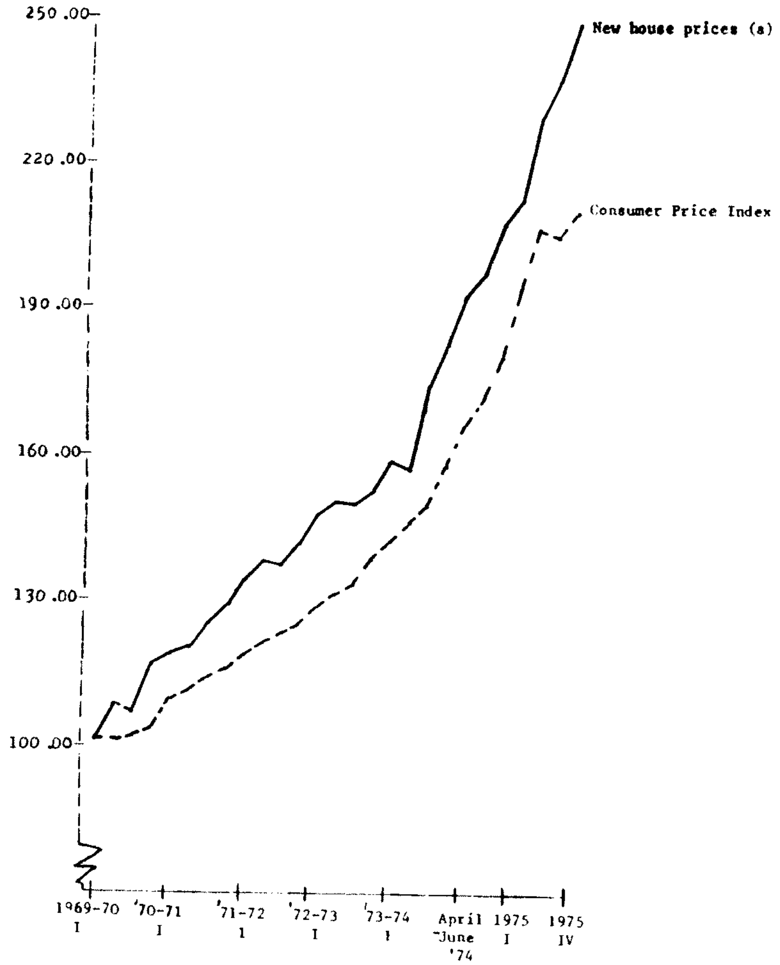
3.5.2 Sale to established tenants

93. Local authorities may sell existing houses to sitting tenants; virtually all of these sales now occur under section 90 of the *Housing Act* 1966. These purchases are far greater in number than those under the three other modes which are discussed below. Prior to July 1973, the terms of sale were based on market value or, in certain cases, replacement value of the house. Since that date the price to the tenant has been based on the historic cost of the house, inflated by the Consumer Price Index. Figures 1 and 2 compare indices of new house

[1]Department of Local Government, *Current trends and policies in the field of housing, building and planning,* mimeo, 1975, p. 14.

FIGURE 1:

New house prices, 1969–70 to 1975 (quarterly),

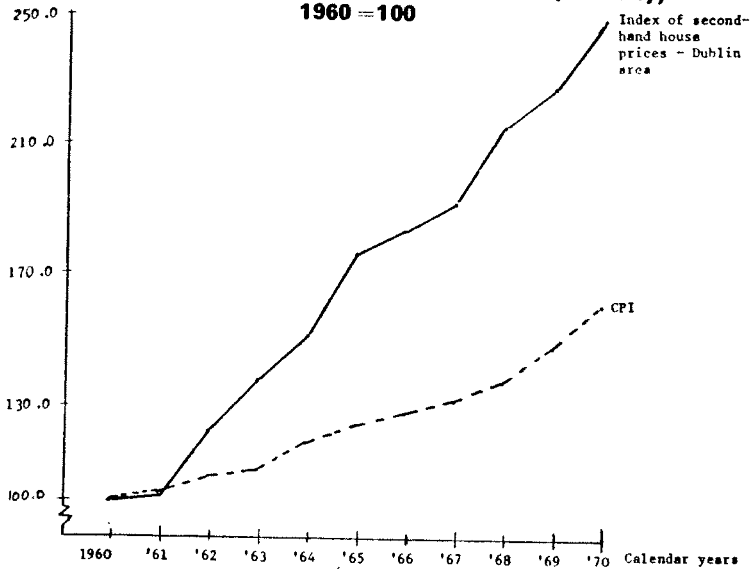


Note (a) Average gross price of new houses for which loans were approved by all agencies.

Source: QBHS; *Irish Statistical Bulletin*

FIGURE 2(a)

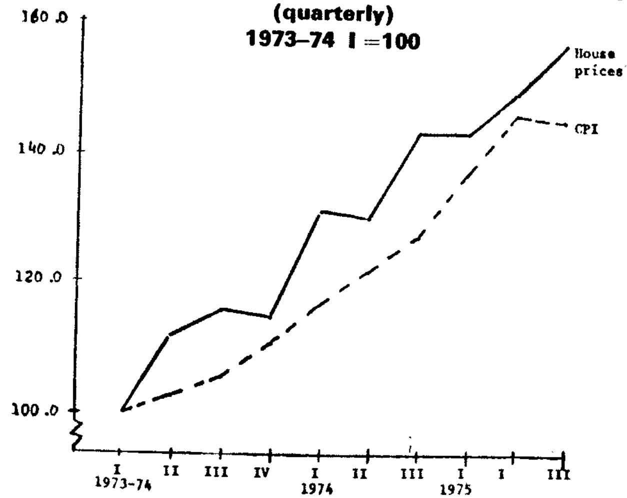
Second-hand house prices, 1960–1970 (annually)
1960 = 100



Source: As for Figure 1.

FIGURE 2(b)

Second-hand house prices, (all areas) 1973–74 I to 1975 III (quarterly)
1973–74 I = 100



Source: DLG

D

prices and of second-hand house prices,[1] respectively, with the CPI. These data suggest that the increase in price of houses has exceeded the increase in the CPI. Thus the gross prices at which local authority houses are sold are likely to be lower than their market value, and consequently the terms of sale since July 1973 should result in a lower sales price than would have applied under the previous terms.

94. The following deductions are made from the basic price:—

(i) 3% for every year of continuous tenancy, subject to a maximum deduction of 30% in built-up areas and 45% elsewhere,

(ii) a fixed sum of £900, which is equivalent to the sum of the maximum State grant and the supplementary grant by a local authority (£650) plus a further allowance (£250) which is stated to equal the capitalised value of the nine year rates remission, calculated in relation to the valuation of a standard new local authority house. This deduction has been available since July 1973.

95. Thus, in relation to grants, tenant purchasers receive differential treatment in two respects. First, they receive the maximum grants and an allowance for rates remission regardless of the age and size of the house. By contrast, in the private sector these benefits only relate to new houses, subject to limits on size, and the grant will vary with the size of house. (Appendix D, Table D2 shows that, judged at least by the distribution by size of local authority dwellings built in 1974, not all the local authority houses which are sold would be eligible for the maximum grant). Second, they receive the supplementary grant regardless of income level; since 1 January 1976 the relative value of this concession is doubled, because other purchasers now receive the State grant only if eligible for a supplementary grant. Furthermore, the

[1]The data on second-hand house prices are not ideal, since what is needed is the price "history" of successive vintages of houses. The index of new house prices is given, since an index of second-hand house prices is not available throughout the period, and since new house prices and second-hand house prices should move together. However, the extent to which they move together in particular cases will depend on location and on other circumstances.

loan can exceed the £4,500 limit which applies to loans by local authorities for purchase of private houses. Finally, there is frequently a lag between the date of the CPI which is used, and the date at which the purchase occurs. For example, tenants who applied to purchase in the period up to March 1975 inclusive bought the houses at original cost inflated by the CPI of May 1973, whereas if the purchase application was in April 1975 or subsequently, the CPI of November 1974 would have been used.

3.5.3 Option to purchase or rent

96. A person on a local authority housing waiting list may, when allocated a house, be given the option of purchasing or renting it. If he opts to purchase, his eligibility for State and local authorities' supplementary grants will be decided in the usual way. In addition, there will be remission of rates similar to that on new private houses. The price charged will be the construction cost, and purchase may be financed through the local authority by a 30-year loan, which can exceed the limit of £4,500 which applies to local authority loans for private houses. Generally, this scheme is less favourable than the sale to established tenants, discussed in 3.5.2. By opting to rent for a few years, the tenant would gain a discount from the purchase price and would automatically qualify for the State and supplementary grants. The number of sales under this option has been relatively small, and no doubt this is a reflection of the less favourable terms.

3.5.4 Tenant purchase schemes

97. These relate to new houses which are built *specifically for sale* by local authorities. Such houses are sold to tenants of existing local authority dwellings, or to persons on local authorities' waiting lists. All the grants and allowances available in the private sector are available here, subject to the same conditions. The price charged is the construction cost: in general this will be below the price which could be obtained on the open market. Finance is available in the form of a local authority loan. The loan limit of £4,500, which applies to loans by local authorities for the purchase of private sector housing, does not apply here. Once again, as in the case of the "option to purchase or rent", the number of houses involved is relatively small, and they are built by the larger local authorities.

3.5.5 Loans for tenants purchasing private houses

98. Tenants of local authority dwellings have the option of purchasing privately-built houses with State and local authority grants (if tenants are eligible), rates remission, and stamp duty exemption. The maximum loan is £4,500 at present, but subject to that limit a loan equivalent to 99% of the net price of the house may be made to tenants who surrender tenancy of their dwellings. This compares with the usual limit (for local authority loans) of 95%.

3.6 Grants for reconstruction and repairs, etc.

99. Grants are available from the Department of Local Government and supplementary grants from local authorities, towards the approved cost of *reconstruction and repairs* of private houses. The State grant is the smaller of £200 or one-third of the approved cost.[1] The local authority supplementary grant may not exceed the State grant, and the combined grant may not exceed two-thirds of the cost. One feature of the grants is that no increase in rateable valuation is made for at least seven years on account of grant-aided reconstruction or improvement. Grants are also payable for the installation of *water and sewerage facilities*. The maximum State grant is £50 for a water supply and £25 for sewerage.[2] The local authority may match the State grant pound for pound. There is no income limit to eligibility for State grants, but the local authority grants may be subject to a property valuation or income limit. There are also special types of reconstruction grant, e.g. for essential work done on houses for which reconstruction grants have already been paid, and for essential repairs to houses in rural areas.

3.7 Private Letting Sector

100. An important division can be made between those dwellings whose rents are uncontrolled and those whose rents are controlled. In recent years the privately rented sector as a whole has shrunk, but the decline has been concentrated in unfurnished lettings (which mainly comprise all of the dwellings whose rents are controlled). The number of *unfurnished* private tenancies declined by 35% between

[1]Two-thirds, with qualifications, for those who work in agriculture.
[2]Higher grants are available for group schemes.

1961 and 1971, while the number of *furnished* private tenancies increased by 101% over the same period. The total number of rent-controlled lettings is about 45,000, and could be as high as 50,000[1] out of a total of 65,000 unfurnished lettings.

101. While the rents of tenants in uncontrolled dwellings are determined by market forces, the *Rent Restrictions Acts* 1960 and 1967 apply to all dwellings whose rents are controlled. Broadly speaking, dwellings subject to rent control are those unfurnished lettings which were built prior to 1941, and whose rateable valuation does not exceed a certain limit (e.g. £30 valuation for flats in Dublin and Dun Laoghaire). For dwellings subject to rent control, the rent charged may not exceed the "lawful rent", defined as the sum of "basic rent" and "lawful additions".[2] The "basic rent" is the market rent relating to the dwelling at the time it became subject to rent control—in many cases that would have been in 1914. Although controlled rents may be very low, the service provided is frequently minimal. Landlords of controlled dwellings have an incentive to let their property deteriorate through lack of maintenance[3]—because the returns to expenditure on the property are negligible if not negative, and because that policy may hasten the gaining of vacant possession by encouraging the tenant to leave.[4] Thus, from a landlord's point of view, controlled dwellings are an unattractive investment. The yield on uncontrolled property, while possibly lower than on some forms of non-housing investment, is highly attractive compared with that on controlled lettings.

[1]*Source;* DLG.
[2]Lawful additions take account of expenditure on repairs, improvements and structural alterations and of increases in rates
[3]It can be an offence under *Housing Act*, 1969 for a landlord to let a property deteriorate in this fashion, but this Act has hardly been vigorously enforced.
[4]Consider a house for which the market price with vacant possession is £5,000, and suppose the representative rate of return available to lenders is 10%. If the house is let at a controlled net rent of £500 per annum, then its market value as an asset yielding £500 per annum is £5,000. If the controlled rent yields a net rent below £500 per annum, then the market price with sitting tenants is less than £5,000 and the landlord will have an incentive to seek vacant possession. This assumes that the house's life is infinite. If the assumption is dropped, the figures change, but the substance of the argument remains valid.

102. 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. Thus, compared with investors in other forms of earning assets, investors in property for renting are disadvantaged under the income tax system.

103. There is no direct public subsidisation of the private rented sector. In the controlled sector there is re-distribution of income away from landlords towards tenants, and to the extent that landlords' incomes are thus lower than if rents were uncontrolled, the State foregoes tax revenue. Where it happens that owners or purchasers of uncontrolled property receive subsidies, tenants of such properties may benefit to some extent—this will depend partly on the degree of competition among suppliers of property.

Chapter 4

AGGREGATE HOUSING SUBSIDIES, 1971–72 to 1975

4.1 Introduction

104. In this Chapter, estimates are presented of the aggregate value of housing subsidies to each tenure group. These estimates indicate the cost of subsidisation to the State. In turn, the aggregate subsidies flowing to the local authority sector, to the owner-occupied sector, to local authority tenants who purchase dwellings and to the private letting sector are estimated for each year from 1971–72 to 1975. As Chapter 3 indicated, State subsidies to the uncontrolled private letting sector are of an indirect nature, and they are not estimated here.

105. It is important to note the different approaches in estimating subsidies to the local authority sector and to the owner-occupied sector. Because of the difficulties in estimating market rents for local authority dwellings (see 2.2), the former subsidies are assessed essentially on the basis of "production cost", rather than by comparing receipts from rents with receipts which would arise if "market" rents were charged. By contrast, in most cases the subsidies to owner-occupiers are estimated by reference to market values.

4.2 Local authority rent subsidies

106. Table 7 sets out the rent subsidies flowing to local authority tenants from the public authorities. These subsidies are measured by the difference between the total *economic rent* of the stock of local authority dwellings, and total rent receipts. They amount to £26 million in 1975. This measure accepts the local authorities' definition of economic rent, which is based on *historic costs.* The difference between total economic rent and rent receipts is financed partly by central Government, and the remainder from local authority rates. The contribution of the latter will be nil from 1977 onwards. The central and local authorities are treated

here as one body and referred to as the "public authorities". One qualification: if the estimated "market" rents of local authority dwellings were used as a basis for the calculation, then the estimated subsidies would be greater. Another qualification: these data are not broken down between tenants of houses and tenants of flats. It would not be possible to give such a break-down without further work, because of the "pooling" of maximum rents which occurs between local authority houses and flats.

107. Table 8 shows that, between 1971–72 and 1975, the proportion of annual receipts for local authority dwellings which is covered by rents has declined from 32% to 21%. In the same period the proportion of their receipts which is received in subsidies has risen from 57% to 70%. While the number of dwellings which are let increased by 04·% between 1971–72 and 1975, the aggregate rent receipts increased by 28%, and rent subsidies increased by 134% over the same period. These figures must be interpreted with caution, since they will be influenced by the pattern of sales of local authority houses. The sale of these houses may result in the "loss" of tenants who are paying maximum rents, and the outcome may be a higher proportion of lower-income tenants, with a consequent reduction in revenue.

108. The above measure of subsidy essentially uses as a bench-mark the "economic rent" of local authority dwellings, calculated by reference

TABLE 7

Aggregate local authority subsidies and rents, 1971–72 to 1975 (£ million)

	1971–72	1972–73	1973–74	April-Dec. 1974	1975
Rent subsidies *(a)*	11·167	12·496	16·109	20·000	26·15 *(b)*
Rent receipts	6·267	7·893	7·523	5·470	8·05 *(b)*

Note: *(a)* Subsidies from State, together with subsidies from rates.
(b) Preliminary estimates.
Source: QBHS, qtr. ended 31 March 1976, Table 26; DLG.

TABLE 8

Subsidies and rents as percentage of total current receipts by Public Authorities for local authority dwellings, 1971–72 to 1975

	1971–72	1972–73	1973–74	April-Dec. 1974	1975
	%	%	%	%	%
Rent subsidies	56·6	56·3	61·9	72·6	69·7*(a)*
Rent receipts	31·8	35·5	28·9	19·9	21·4*(a)*

Note: *(a)* Preliminary estimates.
Source: QBHS qtr. ended 31 March 1976, Table 26; DLG.

to the historic interest rates which prevailed when each set of dwellings was built. Yet some measures of subsidy for the owner-occupied sector are based on current interest rates. This leads to the question: how sensitive is the above estimate of subsidy in the local authority sector to the definition of economic rent used, and would it be markedly different if an "economic rent" based on *current* interest rates was used? An approximate and tentative essay at an answer to this is given. Briefly, it entails calculating the "economic rent" of the stock of local authority dwellings by applying current interest rates to the outstanding debt on these dwellings (Appendix C). Since interest rates have been steadily rising in recent years, this yields a higher figure for the aggregate economic rent of local authority dwellings and thus a larger "subsidy". The extent to which "economic rent" calculated at current interest rates is greater than that calculated at historic interest rates is shown in the following tabulation[1] (rounded to the nearest million).

(£ million)

1971–72	1972–73	1973–74	April-Dec. 1974	1975
6	5	5	4	8

[1]The calculations are sensitive to the significant rise in the interest rate from 9·6% in April-December 1974 to 10·5% in 1975. A figure of 10% is used in the calculations for 1975. If an interest rate of 10·5% is used for 1975, the figure in the tabulation becomes £9 million.

But it is not possible to ascribe *all* of this difference to the stock of local authority rented dwellings. Some "old" dwellings are purchased by their tenants. Thus the above tabulation is likely to over-estimate the extent of the difference between the two different concepts of "economic rent". Given present data, it is not possible to pursue this question further.

4.3 Tenants in rent-controlled dwellings

109. It is assumed that there were 45,000 rent-controlled dwellings throughout the period examined. It is assumed that a market rent in 1971–72 would, on average be £4·50 per week,[1] and that the average rent paid in the rent-controlled dwellings was £2 per week. The estimate of subsidies to these tenants is a very approximate one, since data on their rents are sparse. However, there is one basis for the above assumptions: in 1971, the average rent in unfurnished dwellings was £2·13 a week, compared with £4·34 in furnished dwellings (Table 19). The resulting estimate of aggregate subsidy to these tenants and of the tax foregone on landlords' incomes are as follows:[2]

(£ million)

	1971–72	1972–73	1973–74	April-Dec. 1974	1975
Subsidy	5·9	7·0	7·6	6·4	10·0
Tax foregone	2·1	2·5	2·7	2·2	3·5

4.4 Subsidies to owner-occupiers

4.4.1 Tax treatment of imputed rent

110. Ideally the measure of subsidy to the owner-occupier should be the value of the tax which is not paid on the imputed rent from owner-occupation, that is, foregone tax on the "net rent". (See 3.3). It would be quite in accord with tax practice to allow loan interest as a deduction from the gross imputed income. Alternative sets of estimates of the aggregate imputed rent of the owner-occupied dwelling stock are

[1]That is the estimated market rent in the absence of rent control.
[2]See Appendix C.

presented in Table 9. The first approach is based on national income data; the second, which is based on house-price data,[1] yields estimates which exceed those of the first approach by a factor of about six. The first set of estimates is unreasonably low, implying an average rent of £60 per dwelling in 1973–74. The corresponding figure for the second approach is £470. As explained in paragraph 76, rather than rely on an estimate of the tax foregone on imputed income, this Report uses the value of tax relief on loan interest as an estimate of the subsidy to owner-occupiers. This results in an under-estimation of the subsidy, since those owner-occupiers who own dwellings outright are excluded. In 1973, 67% of all owner-occupiers owned their dwellings outright, as did 46% of owner-occupiers in urban areas.[1]

TABLE 9

Imputed rent from owner-occupied dwellings and tax foregone on this rent, 1971–72 to 1975

(£ million)

	1971–72	1972–73	1973–74	April–Dec. 1974	1975
Imputed net rent of owner-occupiers					
National Income data (*a*)	24·0	26·2	30·0	33·2	n.a.
Imputed net rent, based on house price data					
Total gross market rents	204·8	223·2	278·3	239·3	391·4
Maintenance and other expenses	38·3	42·3	44·8	31·9	53·5
Total net rents	166·5	180·9	233·5	207·4	337·9
Tax foregone on imputed net rent on owner-occupied dwellings					
Based on National Income data	4·2	4·6	5·3	5·8	n.a.
Based on house price data	29·1	31·7	40·9	36·3	59·1

Note: n.a.: not available.
(*a*): Data are for calendar years, allocated to appropriate financial year. This is imputed rent of owner-occupied dwellings, *less* depreciation, rates, repairs and maintenance.
Source: CSO (for national income data); see Appendix C.

[1]*Source:* HBS 73 I. In the Household Budget Survey, rural areas cover towns with less than 1,000 inhabitants and rural districts.

4.4.2 Explicit subsidies

111. Explicit subsidies arise where there is a related cash transfer. First, Table 10 shows the State and supplementary grants for new houses. The new house grants shown here include grants under the local authority purchase schemes, excluding the sale to established tenants (described in 3.5.2). It is assumed here that the total amount of grants for new houses represents a subsidy to the purchasers of housing. This is not wholly realistic. It is only under special circumstances that *all* of the subsidy will be shifted to the buyer in the form of a reduction in price.[1]

TABLE 10

Grants for new houses, 1971–72 to 1975

(£ million)

Source	1971–72	1972–73	1973–74	April-Dec. 1974	1975
State (*a*)	3·574	5·304	6·315	4·174	5·479
Local Authority	1·54	1·98	2·62	2·60	3·17
Total	5·11	7·28	8·94	6·77	8·65

Note: (*a*) Part of this total represents grants for *new* local authority dwellings being purchased. These were significant only in 1973–74 when 1,730 were purchased (QBHS. qtr. ended 31 December 1975, Table 1, Note 2). Assuming an average grant of £300, this implies total grants for these dwellings of £519,000 in that year.

Source: QBHS, DLG.

112. Second, the grants for reconstruction and repairs are shown in Table 11. The third explicit subsidy is that given to building societies

[1]This depends on the conditions of demand, and on the extent to which there are monopoly elements in the supply of housing. The less competitive the supply is, the less likely it is that all of the subsidy will be shifted to consumers. Until the end of 1975, when all houses of a certain size were eligible, not all of the subsidy is likely to have been shifted to the buyer. However, from January 1976, suppliers cannot know what proportion of houses in a scheme will be taken up by those eligible for grants, thus the grants are now more likely to be shifted to the purchasers. To the extent that suppliers attempt to predict the proportion of purchasers who will qualify for grants, some of this subsidy will be shifted to other purchasers in the form of lower prices.

between 1973–74 and 1975, which resulted in a reduction in interest charges on the loans of borrowers. This reduction in borrowers' interest payments is estimated at £1·7 million in 1973–74, £1·5 million in April-December 1974 and £2·1 million in 1975.

TABLE 11

Grants for reconstruction and repairs, 1971–72 to 1975

(£ million)

Source	1971–72	1972–73	1973–74	April-Dec. 1974	1975
State (*a*)	0·918	1·195	1·500	1·172	2·009
Local Authority(*b*)	0·83	1·50	1·26	1·09	1·96
Total	1·75	2·70	2·76	2·26	3·97

Note (*a*) A small proportion is accounted for by disabled persons' grants and by grants under the "essential repairs "scheme. In addition, a portion of the total is accounted for by special grants provided for the reconstruction of dwellings for elderly persons. The figures in this Table *exclude* grants for the installation of water and sewerage facilities: in 1975 these grants amounted to £11·6 million by DLG and £0·4 million by other bodies.
(*b*) A small proportion is accounted for by "essential repairs" grants.

Source: QBHS, DLG.

4.4.3 Implicit Subsidies

113. Implicit subsidies arise where there is no explicit cash transfer. First, the cost to the Exchequer of exemption from stamp duty on the purchase price of grant-aided houses was an estimated £4·3 million in 1975. Second, there is an estimated subsidy to local authority borrowers, due to the giving of loans at fixed interest rates, rather than at the relevant rate of interest on building society loans.[1] The reduction in interest payments due to this is estimated at £4·3 million in 1975. There is a similar subsidy to those who finance house-purchase through

[1]This loan rate is used here for convenience, but is not necessarily an ideal bench-mark since—as Chapter 3 has indicated—it tends to be lower than a "market" rate.

life assurance loans, although in this case there is no loss to the Exchequer.[1] The values of the first two implicit subsidies are given in Table 12.

TABLE 12

Certain implicit subsidies, 1971–72 to 1975
(£ million)

	1971–72	1972–73	1973–74	April-Dec. 1974	1975
Stamp duty exemption	0·7	1·3	2·2	2·2	4·3
Fixed interest charges on local authority loans	1·5	1·5	2·8	2·8	4·3

114. Third, Table 13 shows the value of tax relief on loan interest on local authority and on building society loans, and the tax relief on life assurance loans. The aggregate value of tax relief on life assurance loans is higher than that on local authority loans. Tax relief on life assurance loans reflects the high average value of the loans, the constant interest charge, and the tax relief which is obtained on part of the premium.

TABLE 13

Value of tax relief on loans related to house purchase, 1971–72 to 1975
(£ million)

	1971–72	1972–73	1973–74	April-December 1974	1975
Interest payments on building society loans	2·3	3·1	4·7	4·4	7·9
Interest payments on local authority loans	0·7	0·8	0·9	0·8	1·5
Life assurance loans	2·4	2·6	2·7	2·2	3·5
Total	5·4	6·5	8·3	7·4	12·9

Source: See Appendix C.

[1]The aggregate value of this subsidy, in each year from 1972–73 to 1975 is: £1·8 million, £2·3 million, £2·2 million, and £3·3 million. The bench-mark used in these calculations is the current rate of interest on life assurance loans.

Fourth, another implicit subsidy is the value of rates remission on new and reconstructed houses. It is estimated that the aggregate value of this remission on new and reconstructed houses was as follows:

(£ million)

1971–72	1972–73	1973–74	April-Dec. 1974	1975
5·3	5·3	5·3	5·1	6·0

4.4.4 Implicit subsidies—capital taxation

115. The existing set of capital taxes is taken as a datum.[1] Wealth tax is not payable in respect of a dwelling-house which is occupied by an individual as his only or principal residence (*Wealth Tax Act* 1975, Section 7). In any event, a sum of £100,000 (in the case of a married couple with no minor children) is deducted from the net market value of the property constituting the taxable wealth of an individual (Section 13 of the Act). Thus, because of this high general exemption limit, any possible lack of neutrality between housing and other assets does not in most cases apply in the case of the wealth tax.

116. The capital gains tax is a tax on *realised* gains at a flat rate of 26% on net gains (i.e. gains less losses). The tax is chargeable for the tax year 1974–75 and for subsequent years, and the gain or loss attributable to the period from April 1974 is taken into account. The first £500 of net gains to an individual in a year of assessment are free of capital gains tax. The gain accruing to an individual on the sale of a principal private residence, standing on grounds of up to one acre, is exempt from this tax (*Capital Gains Tax Act* 1975, Section 25).

117. Two features of the capital gains tax are of particular importance: it is levied on realised, rather than on accrued gains, and it is levied on

[1]The question of capital taxation has already been discussed in: NESC, *Comments on Capital Taxation Proposals*, Report No. 2, Dublin: Stationery Office, 1974. For a discussion of capital taxation on housing, see: *Royal Commission on the Taxation of Profits and Income: Final Report, Cmnd 9474, Memorandum of Dissent* by G. Woodcock, H. L. Bullock and N. Kaldor, London: HMSO, 1955.

nominal gains. It may, however, be noted that a classic definition of personal income is the "sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and end of the period in question".[1] The exemption of dwellings from capital gains tax is a subsidy as defined earlier, because it results in a change in relative prices. The tax treatment of capital gains made on housing and those made on other assets (where there is a low exemption limit) is distinctly non-neutral. Furthermore, owner-occupiers and tenants are treated unequally, since capital taxes levied on private landlords are presumably reflected in the rents (although it is an open question to what extent these taxes are shifted on to tenants). The wealth tax excludes most owner-occupiers, but affects an unknown number of private landlords and thus may be a tax on uncontrolled tenants.

118. It is estimated that realised capital gains on dwellings were £0·1 million in April-December 1974, and were £11·5 million in 1975 (Appendix C). Capital gains tax on these, at 26%, would have been £0·03 million in April-December 1974, and £3·0 million in 1975.[2]

4.5 Local authority tenant purchase

119. An estimate is presented in Table 14 of explicit subsidies, at the point of sale, when local authority houses are sold to existing tenants (see 3.5.2). The number of dwellings sold under this scheme has increased from 5,200 in 1971–72 to 10,000 in 1975.

120. There are two components to this subsidy. First, an estimate is made of the aggregate discount given for each year of continuous occupancy—this increased from £5·5 million in 1971–72 to £12·0 million in 1975. Second, the allowance of £900 per house (for State and local authority grants and for the capitalised value of rates remission),

[1]Henry C. Simons, *Personal Income Taxation*, University of Chicago Press, 1938, p. 50.

[2]This subsidy should result in a greater demand for owner-occupied housing than would occur in its absence, and thus the price of houses is higher. The subsidy should ideally be calculated by reference to the lower price.

introduced in July 1973, is summed over all dwellings. These aggregate allowances increased from £1·9 million in 1973–74 to £9·0 million in 1975. Thus, the total value of subsidies at the point of sale in 1975 was £21·0 million.

TABLE 14

Subsidies at point of sale of local authority dwellings to tenants, 1971–72 to 1975

	1971–72	1972–73	1973–74	April-December 1974	1975
Number of dwellings sold or leased (*a*)	5,195	6,446	2,371	6,108	10,000 (*c*)
Allowances given for grants plus rates remission (*b*) (£ million)	0	0	1·9	5·5	9·0 (*d*)
Discount of 3% of purchase price for each year of tenancy (£ million)	5·5	6·8	2·5	6·4	12·0 (*d*)
Total subsidies at point of sale (£ million)	5·5	6·8	4·4	11·9	21·0 (*d*)

Notes:

(*a*) Total number of dwellings sold, leased or vested, *less* the number of *new* local authority dwellings purchased.

(*b*) The allowance given for State and local authority grants plus the capitalised value of rates remission is £900 per dwelling. This was not available before July 1973. It is assumed that 90% of the dwellings which were sold in 1973–74 received this allowance.

(*c*) Estimate.

(*d*) Based on estimated number of dwellings sold.

Source: QBHS, Qtr. ended 31 December 1975, note 2 to Table 1; QBHS, Qtr ended 31 March 1976, Table 24.

E

Chapter 5

HOUSEHOLD INCOME, AND EXPENDITURE ON HOUSING

121. This Chapter presents data on household income and on expenditure on housing by tenure group in 1973[1] and on rents in 1971. First, it is possible to make a broad comparison between expenditure on housing in 1965–66 and in 1973.[2] For those who owned with a mortgage, the proportion of all expenditure which is spent on housing declined from 11·3% in 1965–66 to 10·5% in 1973, while for those who owned outright the proportion declined from 6·1% in 1965–66 to 4·2% in 1973. For local authority tenants the proportion was 6·7% in 1965–66 and 6·9% in 1973. Comparative figures for those who rent from private owners were 9·0% in 1965–66 and 11·1% in 1973. For *all* households the proportion was 8·1% in 1965–66, and 7·2% in 1973, compared with 8·4% in Northern Ireland and 15·2% in the UK in 1973. However, such international comparisons are hazardous, since tastes and family size vary between countries.

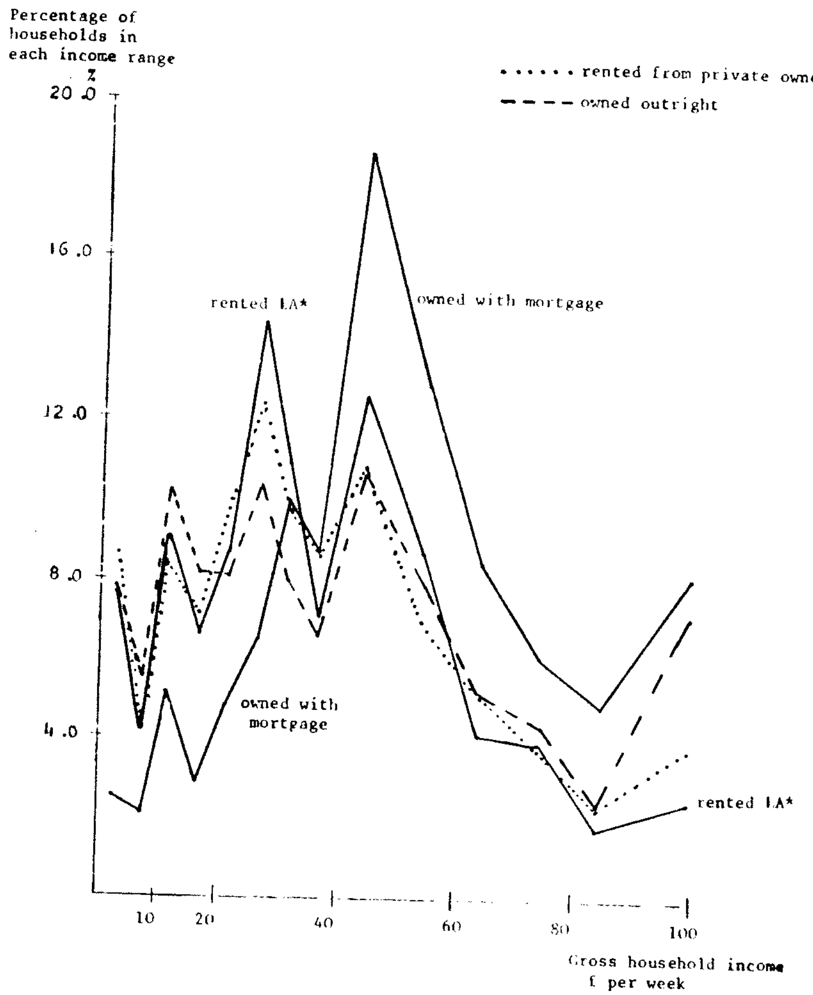
122. Second, the data indicate to what extent there has been re-distribution of income between households with different incomes as a result of housing subsidies—i.e. do those with lower incomes pay lower rents? The remainder of this Chapter will explore this. Figure 3 sets out the distribution of income by tenure group in 1973. This shows a relatively high proportion of low-income tenants in both the private letting sector and the local authority sector, while there is a greater proportion of higher-income households among those who own with a mortgage than in any other sector. Table 15 shows the estimates of average *disposable* income in 1973.

[1]In the published report on the 1965–66 Household Budget Survey, there are no expenditure data classified by household income and tenure. Hence, it is not possible to draw a comparison between these data in 1965–66 and in 1973.

[2]*Source: Household Budget Inquiry 1965–66*, Dublin: Stationery Office, 1969, and D. C. Murphy, "1973 Household Budget Survey: Special Features and Results" read before Statistical and Social Inquiry Society of Ireland, 20 May 1976.

FIGURE 3

Distribution of Household Income by tenure, 1973



*Rented from local authority

Source: Table D4

TABLE 15

Household income, 1965–66 and 1973; household size and dwelling size, 1973: by tenure (a)

Tenure category	Average weekly direct income (*b*) 1965–66	Average weekly disposable income (*c*) 1973	Average household size 1973	Average number of rooms 1973
	£	£		
Owned outright	20·40	33·1	3·72	5·1
Owned with mortgage	24·92	46·8	4·56	5·4
Rented from local authority	15·18	33·9	4·89	4·4
Rented from private owner	16·58	32·1	3·02	3·8
All households	18·94	36·2	4·01	4·9

Notes:

(*a*) Excludes "rent free" category.

(*b*) Earned income, retirement pensions, income from property and investments etc.

(*c*) Provisional estimate, based on expenditure data.

Source: HBS 73 I; CSO based on HBS 1973; *Household Budget Inquiry, 1965–66.*

123. Tables 16 and 17 detail the expenditure on housing in 1973. Table 16 shows that, within the local authority sector, there is not a great variation in average expenditure *on housing* for the household income ranges £20–40, £40–70 and £70 and over per week.[1] Indeed, average expenditure by local authority tenants *on rents* remains virtually constant for these income groups (Table 18). This reflects the upper bound to expenditure on rents which is set by maximum rents. Consequently, average expenditure on rents[2] as a *proportion* of all expenditure, falls from 7·4% for local authority tenants with weekly income of £20–40, to 3·4% for those with weekly income of £70 and over.

124. In each income group, private sector tenants spend significantly more on housing than do local authority tenants (Table 17), even though the private letting sector includes tenants in rent-controlled dwellings.

[1]As mentioned in para. 56, a significant change in the differential rents scheme occurred in July 1973, which resulted in lower rents. About 58% of the sample of households for the HBS of 1973 took place prior to July 1973.

[2]Including rates.

It is noteworthy that 28% of private-sector tenants in 1973 had a weekly household income of under £20. The expenditure of these lower-income households on rent was, on average, 14% of all their household expenditure, compared with a proportion of 11% for all tenants in private lettings. Finally, some comparative data for rents in the private sector, compared with the local authority sector, are available from the 1971 Census; these are shown in Table 19.

TABLE 16

Average weekly household expenditure on housing, classified by gross income and by tenure group, 1973 (a)

Gross weekly household income (*b*)	Owned outright	Owned with mortgage	Rented from local authority	Rented from private owner
	£	£	£	£
Under £20	0·77	1·64	1·24	2·02
£20 and under £40	1·44	4·27	2·98	4·18
£40 and under £70	2·04	6·14	3·23	5·11
£70 and over	3·11	9·16	3·70	6·91

Note: (*a*) Excludes the "rent free" category. For rented dwellings: expenditure on rent, rates and water charges; for owner-occupied dwellings: expenditure on rates and water charges, ground rent mortgage repayments (interest only in the case of insurance companies), insurance, repairs and decorations.

(*b*) Gross weekly household income is total income (including earned income, retirement pensions, income from investments) plus transfer payments.

Source: CSO, based on HBS 1973.

TABLE 17

Weekly household expenditure on housing as a proportion of total household expenditure, classified by gross income and by tenure group, 1973 (a)

Gross weekly household income	Owned outright	Owned with mortgage	Rented from local authority	Rented from private owner
	%	%	%	%
Under £20	4·5	8·7	7·8	13·8
£20 and under £40	4·1	11·0	8·5	12·3
£40 and under £70	4·1	10·4	5·9	9·9
£70 and over	4·3	10·5	4·5	9·2

Note: (*a*) Excludes the "rent free" category.

Source: As for Table 16.

TABLE 18

Household expenditure on rents etc., size of household and of dwelling, classified by gross income and by tenure group, 1973

Gross weekly household income	Average weekly expenditure on rents, rates and water charges		Average size of household		Average number of rooms per dwelling	
	Rented from local authority	Rented from private owner	Rented from local authority	Rented from private owner	Rented from local authority	Rented from private owner
	£	£				
Under £20	1·17	1·98	2·5	1·8	4·0	3·4
£20 and under £40	2·69	3·80	5·2	3·2	4·5	3·5
£40 and under £70	2·76	4·60	6·0	3·8	4·7	4·2
£70 and over	2·76	6·73	7·8	4·3	4·8	4·8

Source: As for Table 16.

TABLE 19

Distribution of rents paid by households within each tenure group, 1971

Rent per week (*a*)	Rented from local authority	Rented unfurnished other than from local authority	Rented furnished
	%	%	%
Under £0·23	4·9	4·7	0·8
£0·23 and under 0·46	5·1	7·6	1·1
£0·46 and under 0·69	7·0	9·7	1·8
£0·69 and under 0·92	7·8	7·9	1·1
£0·92 and under 1·15	7·1	10·4	2·8
£1·15 and under 1·73	19·1	14·6	4·2
£1·73 and under 2·31	12·7	10·8	7·2
£2·31 and under 3·46	22·8	13·4	16·0
£3·46 and under 4·62	7·2	8·1	19·9
£4·62 and under 6·92	3·1	5·7	21·5
£6·92 and over	0·2	4·2	17·8
Rent not known	3·1	2·9	5·9
Total	100·0%	100·0%	100·0%
Estimated average rent (*b*)	£/week £1·89	£/week £2·13	£/week £4·34

Note (*a*) Inclusive of rates and ground rent.
(*b*) It is assumed that the mid-point of the interval "£6·92 and over" is a rent of £8 for those who rented from local authority, and £9 for those who "rented unfurnished."

Source: CSO, based on CP 1971; CP 1971, Vol. VI, Table 15A.

Chapter 6

SUBSIDIES AT HOUSEHOLD LEVEL

6.1 Introduction

125. This Chapter deals with the impact of subsidies on persons in some selected income categories at the individual level. Furthermore, the present value of certain subsidies, at 1976, is presented.

6.2 Rent of local authority dwelling

126. The first illustration, in Table 20, relates to the median[1] adult male worker in manufacturing industry in 1965–66, who rents a four-roomed dwelling from Dublin Corporation. The rent paid, and the maximum rent which is set by Dublin Corporation, will depend on the date of letting.[2] The Table gives the rent paid for each of these alternative rent schedules. Under Scheme A of the Corporation, this tenant will be on maximum rent from the outset, while under Scheme B the tenant will reach the maximum rent in 1971–72. There is a further, though rather unlikely, possibility—that the tenant would have moved and thus have come under "Scheme 1970", which sets a distinctly higher maximum rent. The pattern of rent payments in this case is also shown in Table 20. The earnings of a general worker in building and construction are similar to those of this median worker in manufacturing throughout the period from 1965–66 to 1975, and thus the rent payments are similar.[3]

[1]Half of the workers earn less than the median worker, while half of the workers have earnings which exceed those of the median.

[2]That is, whether it was before or after 28 February 1966.

[3]In 1965–66 the earnings before tax of the general worker in building and construction were £14·3 per week, and his rent £1·45 (Scheme A) or £1·97 (Scheme B) per week. In 1975 his earnings were £44·7 per week, and his rent £1·45 (Scheme A) or £3·61 (Scheme B) per week.

TABLE 20

Median adult male worker in manufacturing industry: rent 1965–66 to 1975–76

Assumption: 3 children, no other earning member of family, four-roomed dwelling, Dublin Corporation

Year	Earnings per week		Rent per week		
	Before tax	After tax	On Scheme A (maximum rent £1·45) *(a)*	On Scheme B (maximum rent: £3·61) *(b)*	On Scheme 1970 *(c)* (maximum rent: £6·75)
	£	£	£	£	£
1965–66	13·3	13·3	1·45	1·80	
1966–67	14·6	14·6	1·45	2·02	
1967–68	15·4	15·4	1·45	2·14	
1968–69	16·9	16·9	1·45	2·41	
1969–70	19·8	19·8	1·45	2·88	
1970–71	22·9	22·5	1·45	3·40	3·28
1971–72	26·3	25·1	1·45	3·61	3·65
1972–73	30·1	28·9	1·45	3·61	4·27
1973–74	35·6	32·9	1·45	3·23	3·23
1974–75 *(d)*	41·8	38·2	1·45	3·61	3·93
1975–76 *(e)*	54·2	48·3	1·45	3·61	5·00

Note: *(a)* Scheme A applies to dwellings let after 28 February 1966. Maximum rent on these dwellings: £2·09 minus rates, or £1·45, assuming rateable valuation of £13, and rates of £0·049 per £1 of valuation per week.

(b) Scheme B applies to the letting of new dwellings in the period 25 February 1966 to 1 November 1970. Maximum rent on these dwellings is £4·25 minus rates, or £3·61 (making the same assumptions regarding rates as in note *(a)*).

(a), *(b)* The methods of calculating actual rents under Schemes A and B were superseded by the 1973 scheme, which had effect from 2 July 1973. However, the maximum rents from 1973 onwards are unchanged. Thus, for example, for someone on Scheme A, the maximum rent remains at £1·45 throughout.

(c) This scheme applies to dwellings first let after 1 November 1970. The method of calculating actual rents was superseded by the 1973 scheme which had effect from 2 July 1973, but maximum rents were unchanged.

(d) This is for the tax year April 1974 to March 1975.

(e) This is for the tax year 1975–76, assuming earnings in first quarter of 1976 equal those in last quarter of 1975.

Source: See Appendix C.

127. Under Scheme A, the rent of the median worker in manufacturing remains at £1·45 throughout the period, while under Scheme B his rent increases from £1·80 in 1965–66 to £3·61 in 1975–76. If he had moved on to the 1970 scheme, then his rent in 1975–76 would have been £5·00. Thus the rent paid is extremely sensitive to the date of letting of the dwelling. It is possible to compute the annual subsidy that is implied—taking as a measure of subsidy the difference between rent payments and the maximum rent. For these calculations the increase in maintenance costs is added to the maximum rent, even though in practice this has not been done by Dublin Corporation. Consider the worker on Scheme B. In 1965–66 the difference between rent paid and maximum rent is £1·81 per week. In 1975–76 the subsidy is the following: maximum rent of £3·61 plus another £2·53 to take account of increased costs of maintenance and management, less rent paid of £3·61, that is £2·53 per week. For the worker who moves on to "Scheme 1970", the subsidy in 1970–71 is £3·47 per week, and in 1975 is £3·08 per week.[2] Any such calculations of subsidy to local authority tenants will be very sensitive to the date of occupancy and the date of construction. This is shown by taking a 1975 house whose economic rent is £20 a week and whose maximum rent could be this amount; a typical figure for a 1976 dwelling would be around £23 a week. It would be hazardous to attempt an estimate of present value of subsidies over 35 years (i.e. the period over which dwellings are amortised), since this would depend not only on projected trends in nominal incomes and in maintenance costs, but also on the frequency with which maximum rents are revised.

128. There is one further variation—it is possible that the tenant may wish to purchase the dwelling. The maximum discount on the sale price would be obtainable after ten years' occupancy, i.e. by 1975.[1] The construction cost in 1965 is assumed to be £2,600 for a four-roomed house (i.e. with three bedrooms).[3] Assume that the house is sold in April 1975—then the original cost is inflated by the CPI of November 1974, giving a gross price of £5,613. The discount on this gross price

[1]If the house was sold in March 1975 then the CPI of May 1973 would be used.

[2]Maximum rent is £6·75, to which is added a further £1·33 (for increased costs of maintenance and management) to calculate the subsidy.

[3]This includes land acquisition costs, and is a typical figure for some schemes in Dublin. *Source:* Dublin Corporation.

is £1,680. The total subsidy at the point of sale is equal to the discount of £1,680, plus another £900 which is an allowance for grants and remission of rates. Thus, the total subsidy is £2,580. A loan for the balance of £3,030, over 35 years at 10·5%, implies annual payments of £328.

6.3 House-purchase

129. Four examples are now taken to illustrate how subsidies can vary, depending on the circumstances of the different households.

130. In the first example the assumption is made that, instead of renting a local authority dwelling, a general worker in building and construction purchased a house in 1965–66. It is recognised that for many people, such an option may not be available, since there are "barriers to entry" into owner-occupation—for example, with regard to the down-payment which is required on a loan. Nevertheless, since the interest here lies in comparing the subsidies which arise in different tenure groups, the comparison of renting with owner-occupation is a valid one. It is assumed that in 1965–66 this worker obtains a loan from a local authority of 2½ times his income, that is a loan of £1,860.[1] The deposit is assumed to be £500, thus the net price is £2,360, and the gross price[2] is £2,910, assuming that the maximum State grant and a local authority supplementary grant apply. The annual payments on the loan at 6·75% over 35 years are £140. The tax relief on mortgage interest is relatively low in this case, since this worker would have paid no tax until 1971–72. This illustrates the point that those on low incomes (or with large families) may benefit little, or not at all, from this arrangement.

131. It is quite possible that by 1975 this house would be sold. If building society loans can be cited as an indication of this, the average life of mortgage loans in 1972 was 12 years[3]. If the house was sold in

[1]At that time the maximum size of loan was £3,000.

[2]These would have been somewhat lower than the average deposit, and average price respectively, in 1965–66. The average gross price of new houses purchased with the aid of local authority loans was £3,680 in 1968–69 (the first year for which data are available); if this is linked back using the CPI then the average price in 1965–66 would be £3,271. The average deposit on these houses was £768 in 1968–69. *Source:* QBHS.

[3]E. J. Cleary. *Building Societies in Ireland*, National Prices Commission, Occasional Paper No. 14. Dublin: Stationery Office, 1974.

1975 then (using the CPI as an indication of movements in house prices) the price of the house would be £6,975 which implies a nominal capital gain of £4,065.

132. In the second example, a skilled worker in building and construction purchases a house in 1965–66, using a loan from a local authority. Once again, the loan is assumed to be $2\frac{1}{2}$ times income, or a loan of £2,300. The deposit is assumed to be £700, thus the gross price (including the State grant) is £3,275—these are representative figures for this period. The annual payment on the loan is £173. As in the former example, the extent of tax relief is limited, since this worker would not pay tax until 1969–70. This worker's earnings have increased from £921 in 1965–66 to £2,699 in 1975 (£2,389 after tax).

133. In the third example, a typical worker in white-collar employment purchases a house in 1965–66. The loan is assumed to be $2\frac{1}{2}$ times his income—i.e. a loan of £2,540—and the deposit is assumed to be £800. If the loan is from a local authority, it is over 35 years at 6·75%, the annual payments are £191. The earnings of this worker have increased from £1,015 in 1965–66 to £4,042 in 1975. In this instance the value of tax relief on loan interest is worth much more than in the first two examples, since this worker would have taxable income in every year apart from 1965–66.

134. Alternatively, this worker might have obtained a loan from a building society, say over 25 years, which would have been a typical term at that time. Over time the building society loan rate has increased —from 7·5% in 1965–66 to 11·25% in 1975. It is assumed that each time the interest rate changed the mortgage repayments are adjusted in order that the loan can be paid off within the original term. The annual payment on the loan in 1965–66 is £228, and by 1975 is £286.

135. Assume that this worker, with the building society loan, sells the house after ten years, in 1975. Its price is estimated to be £8,665, compared with £3,615 in 1965 (again using CPI as an indication of movements in house prices). The amount outstanding on the loan at that date is £2,000 leaving an equity in the house of £6,600 which can be used as a deposit for a house. Assume that this worker buys another

house with a mortgage loan of £10,000 in 1975, the house price is £16,600 (loan plus deposit), and the loan as a proportion of the value of the house is now 60%. This example could be extended to cases where there is a nominal but not a "real" capital gain, but where this is used as a down-payment on a house of higher value.

136. The first three examples show that, to some extent, grants can be a substitute for tax relief—those households who benefit from one of these measures may not benefit from the other.

6.4 Present value of subsidies

137. Finally, the present value of certain subsidies (at the level of the individual dwelling) are examined. Table 21 shows the present value[1] of tax relief on mortgage interest payments for various sizes of loan. It should be emphasised that this exercise assumes that the mortgage rate stays constant at a nominal rate of 12%. If the mortgage rate were to decline, the present value would accordingly decrease. Taking a repayment period of 20 years and a discount rate of 10%, the present value of the tax relief varies from £1,477 on a loan of £5,000 to £4,431 on a loan of £15,000. Table 22 shows the present value of rates remission,[2] for various rateable valuations and various rate poundages. For a discount rate of 10%, and a poundage of £8, this varies from £363 on a rateable valuation of £14 to £778 on a rateable valuation of £30. The differences in poundage in Table 22 do not necessarily imply that there are differences in levels of services. Throughout the country there are considerable differences in poundages, and in rateable valuations for similar dwellings. To some extent (leaving aside the special case of County Dublin) relatively low poundages "compensate" for relatively high valuations. In 1976 the average poundage[3] over 31 major local authorities was £8·16, and poundages varied from £11·50 in Mayo to £5·56 in Meath; County Dublin had a poundage of £9·95, Dublin City one of £6·90.

[1] In deriving present values, future money flows are discounted, using an interest rate (since the money equivalent now of £1 in a year's time will depend on the rate of interest).

[2] It can be shown that if P is the local rate poundage, R is the rateable valuation, and r is the discount rate, then the present value of rates remission over 9 years is:

$$(0{\cdot}10\,PR/r^2)\,(9r-1+(1/(1+r)^9))$$

[3] The unweighted arithmetic mean.

TABLE 21

Present value (at 1976) of tax relief on mortgage interest payments over 20 and 25 years

Marginal tax rate used: 35%
Mortgage rate used: 12%

Repayment period	Size of loan £5,000	£10,000	£15,000
	£	£	£
		Discount rate: 8%	
20	1,650	3,300	4,951
25	1,895	3,789	5,684
		Discount rate: 10%	
20	1,477	2,954	4,431
25	1,659	3,317	4,976
		Discount rate: 12%	
20	1,317	2,633	3,950
25	1,457	2,914	4,371

TABLE 22

Present value (at 1976) of rates remission over 9 years

(£)

Rateable Valuation (£)	Rate poundage £8 Discount rate 8%	10%	12%	£10 Discount rate 8%	10%	12%
14	385	363	343	516	486	459
18	496	466	441	619	583	551
22	606	570	538	757	713	673
26	715	674	637	895	843	796
30	826	778	735	1,032	972	918

138. Table 23 shows the combined effects of the tax relief on mortgage interest payments, rates remission, exemption from stamp duty, and housing grants. The latter two subsidies are received in the year of purchase. Once again, the implicit assumption is that the housing grants are shifted to the buyer; this may not be tenable. The house prices used in Table 23 are the averages in 1975, the value of the building society loan is the average of loans approved in 1975, and the local authority loan used is the maximum. Using a discount rate of 10%, the present value of these measures is £2,990 in the building society example, and £2,827 in the example of the local authority loan (in the case where State and local authority grants are given).

TABLE 23

Total of present value (at 1976) of tax relief on mortgage interest payments and of rates remission, exemption from stamp duty, and housing grants

Marginal tax rate used: 35%

Discount rate	A. Building society loan of £7,300 over 20 years at 12%, house price £11,150. Rateable valuation £22, poundage £7. Not eligible for State grant	B. Local authority loan of £4,500 over 30 years at 12%, house price £7,750. Rateable valuation £18, poundage £7. Eligible for State and local authority grants *(a)*	B. Not eligible for grants
%	£	£	£
8	3,274	3,117	2,467
10	2,990	2,827	2,177
12	2,728	2,591	1,941

Note: (a) The maximum grant of £325 is used.

139. The present values in Table 24 show that, regardless of the marginal tax rate, the tax subsidy is greater for the life assurance loan than for the building society loan at any discount rate. This is to be

expected, since the interest payment on the building society loan gradually declines over the twenty years.[1]

TABLE 24

Present value (at 1976) of tax relief on building society loan, compared with life assurance loan

Loan: £10,000 over 20 years
Interest rate on loan: 12%
Marginal tax rate: 35%

Discount rate	Building society loan	Life assurance company loan
%	£	£
8	3,300	4,943
10	2,954	4,286
12	2,633	3,760

Note (*a*) Annual premium is taken to be £357·50.

[1]However, from the point of view of the net outgoings of the borrower, the comparison will depend on the marginal tax rate. For instance, if the discount rate is 12%, then at a marginal tax rate of 50%, the present value of the net outgoings of the borrower is the same for each loan. At lower marginal tax rates the building society loan offers lower discounted outgoings; at higher marginal tax rates, the present value of net outgoings will be lower in the case of life assurance finance.

APPENDIX A

The Estimation of Subsidies[1]

Since this Report is concerned mainly with the effects of housing subsidies on the distribution of real income, the value of subsidised goods and services ought to be defined in terms of their value to the recipients. In principle, the value of a good to its recipient should be measured by the maximum sum he would be prepared to pay in order not to forego it. In the case of a good or service provided at less than market price, this maximum may be equal to or less than the market price. If the consumer does not increase his consumption as a result of the subsidy, then the market price measures the private value of the good to him. In this case the (private) value of the subsidy is market price less actual price. If subsidisation leads him to consume more of the good than he would have done on receipt of a cash transfer, then private value will in general be less than market price, so that the consumer would be "better-off" if given an unrestricted cash transfer of equivalent cost to the State. In particular cases, this will not hold. For instance, for an individual on the margin between purchasing a house and not purchasing, it may be essential that he obtain a grant in order to enable him to raise the deposit. Although the grant leads him to consume more housing services than he otherwise would, its private value is certainly no less than its monetary value.[2]

The argument so far has assumed that subsidisation changes relative prices only to the extent that the price paid by the subsidised consumer

[1]There is a discussion of these issues in Henry J. Aaron, *Shelter and Subsidies*, Washington, D.C.: The Brookings Institution, 1972, Chapter Three.

[2]This arises because there is a minimum size of house available to purchasers (in general)—both for practical reasons and as a result of the State's housing policy. Without the grant, the smaller quantity of housing services consumed would be in the form of rented accommodation.

is reduced by exactly the amount of subsidy (per unit of housing). In general this is not the case. First, consider a subsidy per unit of housing, paid to consumers; this would increase demand, increase the quantity traded on the market, and in general the price facing the subsidised consumers would fall by less than the subsidy per unit. (The price facing unsubsidised consumers will rise, with distributional effects; no attempt is made to measure the size of these here.) Similarly, with subsidies which affect the supply of housing: supply will increase, quantity traded will increase, and the price will fall—though, in general, not by the amount of the subsidy. Second, subsidisation of one good will tend to alter the prices of other goods: for example, a subsidy to housing construction can have an impact on the price of housing materials.

Therefore it must be accepted that, since housing is subsidised on a significant scale, it is not possible to observe the market price of "unsubsidised" housing in the absence of further work on the housing sector (and possibly not even then). For example, for one household, the private value of a cash transfer (to be spent on housing) may equal its monetary value. Summing over all households gives the budgetary cost. This figure would somewhat exceed the total value of the benefit to all households, since withdrawal of the cash transfer would in general cause the total rents to rise by less than the face value of the cash transfers.

APPENDIX B

Finance of private housing

The principal sources of loans for house purchase are building societies, local authorities and life assurance companies. The building societies accounted for over 50% of the value of all loans paid in 1975 (Table B1).

TABLE B1

House purchase loans, 1975 (a)

	Building societies	Local authorities	Assurance companies
New houses	%	%	%
Percentage of all loans paid, by value	43	50	7
Percentage of total number of loans paid	35	60	5
Other houses			
Percentage of all loans paid, by value	77	13	9
Percentage of total number of loans paid	69	23	7
All houses			
Percentage of all loans paid, by value	56	36	8
Percentage of total number of loans paid	47	47	6

Note: (a) Associated Banks accounted for 1% of the value of loans paid on "other houses".
Source: QBHS, quarter ended 31 December 1975.

Local authorities grant loans, subject to an income limit set on the borrower, which is determined by the Department of Local Government and is currently £2,350 per annum. The rate of interest is normally ½% above the LLF rate, and is fixed for the term of the loan. Virtually all these loans are made at the maximum term, and in July 1975 the maximum term was reduced from 35 years to 30 years. The maximum loan is £4,500 or 95% of the price of the house, net of grants, whichever is less.

Building society mortgages are normally granted for a period not exceeding twenty years (up to about five years ago, the typical term was twenty-five years). At present the maximum loan is usually 75%–80% of the value of the house,[1] although in some cases loans of up to 90% can be obtained—conditional on an indemnity bond. Building society borrowing and lending rates tend to change infrequently—even in times of rapid inflation. Thus, in inflationary periods, mortgagors benefit at the expense of depositors and shareholders.[2]

Apart from loans to their own employees, housing loans by life assurance companies go principally to purchasers of more expensive property.[3] These loans are made in conjunction with the sale of a life assurance policy to the borrower. The borrower pays interest on the full amount of the loan throughout its term, usually at a fixed rate; he also pays the premium on the policy. When the policy matures, the proceeds pay off the loan.

The Associated Banks entered the housing loan market in July 1975. Because their entry to the housing market is so recent, their activities are not dealt with here.

[1]Until recent years, loans of up to 90% of value were more common.
[2]See NESC, *op. cit.*, 1976.
[3]In 1975 the average gross price of new houses, for which loans were approved by Assurance Companies, was £12,400 compared with £10,400 for all agencies (QBHS).

APPENDIX C

Details of Calculations

Table 7

The difference between the total economic rent of the local authority dwelling stock and rent receipts is estimated as follows. In QBHS (qtr. ended 31 March 1976, Table 26) there are entries on the receipts side for subsidies from State, and from Rates, which are aggregated. These receipts include 50% of the proceeds of sales of local authority dwellings, i.e. the income from purchase annuities (the remainder go to capital account). In the absence of any better rule, it is assumed that this 50% of proceeds of sales of local authority dwellings (which is on the receipts side of Table 26 in the above issue of QBHS), and the loan charges for these dwellings (which are a component of "loan charges" on the expenditure side of the Table) cancel one another out.

Calculation of aggregate economic rents using current interest rates (para. 108)

In this measure the interest charges on local authority dwellings are calculated by applying the *current* interest rate to the debt outstanding on local authority dwellings. (This is in contrast to the historic interest rates applied to each "vintage" of dwellings, which underlie the aggregate economic rents used in the central calculations in the report). This measure, using current interest rates, does not take account of the complication which is due to the sale of part of the local authority dwelling stock in each year. Neither does this method embody a calculation of the revised payment of interest and principal, each time the interest rates change. The method used is the same as in the calculation of the effects of fixed rates of interest on local authority loans for private housing (4.4.3.), described below. The basic data comprise the capital expenditure on housing by County Councils, County Borough Corporations and Urban District Councils (Source: *Returns of Local Taxation* 1972–73 and earlier years; DLG). The data cover loans granted, back to 1936–37. Account is taken of the different amortisation periods, i.e. 50 years between 1948–49 and 1971–72, and 35 years at other times. At beginning of 1975, the estimated debt outstanding is £312 million, and the estimated interest charges (using historic interest rates) in 1975 are £23 million.

Rent-controlled dwellings (4.3)

Estimates of "market rent" for years subsequent to 1971–72 are derived by applying the proportionate increase in CPI for Housing to the 1971–72 figure. It is assumed that the average rent in rent-controlled accommodation remains at £2. The tax revenue foregone by the State on landlords' incomes is estimated using a tax rate of 35%.

Table 9

First, this requires an estimate of market value of owner-occupied dwellings, if the imputed rents were taxed. Thus, house price data are discounted to allow for possible over-estimation of the above market value. The figure of 500,000 owner-occupiers (the total in 1971) is used throughout the period. In order to estimate the average market value of owner-occupied dwellings, an arbitrary 75% of the average gross price of new houses, for which loans were granted by all agencies, is used for each year. Second, the imputed rent, as a proportion of market value, is assumed to be 9% in 1971–72 and in 1972–73, and 10% in each succeeding year. These are close to the mortgage rate in each of these years. (For a discussion of the calculation of taxation on imputed income, see: J. C. Odling-Smee, "The impact of the fiscal system on different tenure sectors", in: *Housing Finance,* London: Institute for Fiscal Studies, 1975). The formulation used here is equivalent to that in Odling-Smee, if a long life is assumed for the dwelling, or if borrowing and lending rates are the same. Third, the table embodies an estimate of maintenance and other expenses. In 1973, average weekly housing expenditure of owner-occupiers, other than capital and interest payments, was £1·70 (HBS 1973). This is inflated or deflated, as appropriate, for other years using the CPI for housing, and provides the basis for the aggregate figures.

Finally, it is assumed that 50% of owner-occupiers would not be subject to income tax, principally because they are engaged in agriculture. One

indication of this is that 61.2% of all owner-occupiers in 1971 were in rural areas (CP 1971). A tax rate of 35% is used throughout the period.

Government subsidy to building societies (4.4.2)

The rate of subsidy was 1% per annum over the period May 1973 to June 1975 and 0·75% per annum over the period July 1975 to December 1975. This is applied to the average (over the financial year) of the volume of the quarterly totals of shares plus deposits. Source: Central Bank, *Annual Reports*, 1973–74, 1975 and 1976.

Cost of stamp duty exemption (4.4.3)

This is based on numbers of dwellings completed with grants from DLG, and on average gross prices of new houses, for which loans were approved by all agencies. An average is taken, over financial years, of the quarterly figures. (Source: QBHS). Stamp duty applies to the purchase of houses, and hence does not apply to houses built with direct labour. It is assumed that stamp duty applies to 90% of all dwelling completions.

Effects of fixed rate of interest on local authority loans(4.4.3)

This is estimated by the difference between the actual interest charges on local authority loans, and interest charges which would have arisen had these loans been given at the relevant rate of interest on building society loans. The figures are based on the assumption that there has been no accelerated repayment of any local authority loans granted within 35 years of each financial year. Especially in the past few years, there has been accelerated repayment of some local authority loans, but the precise incidence of this is not known: given the total value of loans outstanding, this accelerated repayment should not unduly affect the calculations. The method is illustrated by reference to 1971–72. Based on the value of loans granted in 1949–50, and the interest rate on these loans at that time (that is LLF rate plus ½%), the interest payments in 1971–72 on these loans of 1949–50 "vintage", together with the value of loans outstanding (at the beginning of 1971–72) from the 1949–50 "vintage", are obtained. These data are used to derive, in turn, the interest payments and loans outstanding for the 1949–50 "vintage", in each of the years 1972–73 to 1975. These calculations are repeated for each vintage from 1950–51 to the current year. Thus, the aggregate interest payment in each year from 1971–72 to 1975 and the aggregate loan outstanding at the start of each year, can be computed. As mentioned in the illustration, this calculation is truncated at 1949–50; this should not make much difference since the outstanding debts dating from prior to this time are relatively small. Source: *Returns of Local Taxation* 1971–72 and earlier years; QBHS. At beginning of 1975, the estimated value of loans outstanding is £142 million, and the estimated interest payments in 1975 are £12 million.

Table 13

The value of tax relief on building society loans is based on an average of the quarterly figures for the value of mortgages outstanding for all building societies, e.g. for 1971–72 the average of data from June 1971 to March 1972. Mortgage rates used are as follows, for 1971–72 and successive years: 9·0, 9·0, 10·2, 11·25, 11·25. An average marginal rate of taxation of 30% up to 1974, and of 33% for 1975, is used. Source: Central Bank of Ireland, *Quarterly Bulletin.*

Tax relief on annual interest payments on local authority loans: this is based on an estimated 48% of interest payments, on average, from borrowers in urban areas (since those engaged in agriculture are not subject to income tax). Tax relief on these loans is estimated using an average "marginal rate" of 25% throughout the period, in order to allow for the fact that some borrowers will not be eligible to pay tax, e.g. because their incomes are not sufficiently high. Source: *Returns of Local Taxation.*

The value of tax relief on life assurance loans is estimated by assuming that 3½% of the value of the loan is the average annual premium (Source: information from a life insurance company) and that 60% of the value of the premiums is deductible for tax purposes. An average length of loan of 15 years is assumed. Data are not available on the total value of loans prior to 1964–65, a value of £4·5 million new loans per annum is assumed for these earlier years. An average "marginal tax rate" of 35% is assumed up to 1974, and of 38·5% for 1975. Source for data on life assurance loans: QBHS.

Remission of rates (4.4.3)

Source is DLG for 1972–73 onwards: these are very approximate

estimates for the period 1972–73 to 1974; the figure for 1975 is more firmly based. It is assumed that the aggregate subsidy for 1971–72 is the same as in 1972–73.

Estimate of tax foregone on capital gains on dwellings (4.4.4)

In the 9-month financial year 1974, loans of £16.0 million were paid by all agencies on 3,221 second-hand houses (QBHS). Assuming that a typical loan for one of these houses would cover 60% of the value of the house, the turnover was £26·7 million. This leaves out of account those dwellings which may have been sold, but where no loan was given. The corresponding figures for 1975 were loans of £43.7 million on 7,309 houses, with the implied turnover of £72.8 million. It is assumed that second-hand house prices move in line with the CPI (Figures 1 and 2 suggest that this is a minimum estimate of the increases in price in recent years). It is assumed that the exemption of the first £500 from net gains applied to each transaction.

The tax foregone for financial year 1974 is estimated by taking the relevant increase in aggregate value, of those houses which were sold, and then deducting £500 per transaction. The relevant increase in aggregate value is estimated by taking the *average increase* in CPI in April-December 1974, using April 1974 as a base. The tax foregone for 1975 is estimated in a similar manner: the *average* increase in CPI in 1975 is used, with April 1974 as a base.

Table 14

The subsidy due to the discount of the purchase price is obtained as follows. No data are available on the distribution of dwellings sold, by length of occupancy. However, since the maximum discount is obtained when a tenant sells after 10 years (after 15 years in rural areas), it is assumed that the average period of continuous occupancy is at least 10 years—an arbitrary 10 years is assumed. The assumption regarding sale price is that average market value (for the 1971–72 and 1972–73 sales) is £3,500. It is assumed that the historic cost, inflated by CPI, for the sales in 1973–74 and in subsequent years is £3,500 for 1973–74 and 1974, and £4,000 for 1975. One complication which is not taken account of is that a small proportion of the sales in this table are vested dwellings under *Labourers Act,* 1936. Purchasers in these cases are treated differently: their payments are a proportion of their former rent (generally a half) and generally the dwellings had been on fixed rents.

Table 15

Estimate of disposable income 1973: this is based on expenditure data, as follows. For all households, on average the weekly household expenditure exceeded the stated disposable weekly household income by 13·5% (D. C. Murphy, *op. cit.*, 1976). Thus an adjustment of 13·5% is applied to the data on household expenditure by tenure group. These estimates will be superseded by the data in the income volume of the HBS 1973, when they are published in the near future.

Table 20

Median earnings are estimated as follows. For the years up to 1968–69 inclusive, only earnings in October in each year are available, and are used to represent the respective financial year. The data up to 1968 refer to the average earnings of male wage-earners of 18 years and over in a pay week in October each year, but since 1969 they refer to men who are on adult rates of pay in a week in September. Since the data for the period from 1969 exclude some workers who would have come within the scope of the pre-1969 series, the average will shift up. However, this effect should not be serious when all manufacturing industry is taken. Median earnings are estimates, based on *mean* earnings, assuming that the broad relation between median and mean which existed over 1965–68 continues to hold. Source: *Statistics of Wages, Earnings and Hours of Work; Irish Statistical Bulletin;* CSO.

The differential rents scheme from 1973 excludes overtime earnings when calculating the rent payable. In order to estimate "basic income" (i.e. excluding overtime) for the above median worker, the relation between basic rates and earnings per week for general workers in building and construction is used—i.e. earnings about 20% higher than basic wage.

APPENDIX D

TABLES

TABLE D1

Years to maturity and interest rates on Irish Government securities, and LLF interest rates, 1927–28 to 1975 (a)

Financial year	Government securities: Number of years to maturity	Government securities: Interest rate (coupon)	Local Loans Fund (LLF) interest rate
		%	%
1927–28	22–24	5·0	
1930–31	20–40	4·5	
1932–33	—	—	5·75
1933–34	16–36	3·25	5·75
1934–35	—	—	5·25
1935–36	15–35	4·0	4·75
1936–37	—	—	4·75
1937–38	—	—	4·75
1938–39	15–20	3·75	4·75
1939–40	10–20	4·0	5·22
1940–41	—	—	5·17
1941–42	15–20	3·25	4·75
1942–43	—	—	4·25
1943–44	—	—	4·25
1944–45	—	—	4·25
1945–46	—	—	4·25
1946–47	—	—	2·94
1947–48	17–22	3·0	2·50
1948–49	—	—	3·18
1949–50	—	—	3·25
1950–51	15–20	3·5	3·25
1951–52	—	—	3·25
1952–53	10–20	5·0	4·22
1953–54	20–25	4·25	5·13
1954–55	20–25	4·25	4·67
1955–56	15–25	5·0	4·55
1956–57	10	5·5	5·44
1957–58	10	6·0	5·96
1958–59	13–16	5·5	6·08

Table D1 continued overleaf

TABLE D1—*continued*

Financial year	Government securities: Number of years to maturity	Government securities: Interest rate (coupon)	Local Loans Fund (LLF) interest rate
		%	%
1959–60	20–25	5·25	5·67
1960–61	20–25	6·0	5·75
1961–62	—	—	6·25
1962–63	20–25	5·75	6·19
1963–64	20–25	5·75	6·00
1964–65	20–25	6·0	6·06
1965–66	15	7·0	6·53
	20–25	6·75	
1966–67	15–17	7·5	7·25
	15–20	7·5	
1967–68	20–25	7·0	7·12
	33–38	6·5	
1968–69	7	7·0	7·53
1969–70	15	7·25	8·50
	20–25	9·25	
	15	9·0	
1970–71	15	8·5	8·54
	13–18	9·75	
	18	8·25	
1971–72	14–16	8·5	
	20–25	9·75	9·33
	20–25	9·25	
1972–73	8–10	9·0	
	6–15	7	9·00
	9	7·125	
	20–25	9·75	
1973–74	8	6·5	9·00
	20–25	11	
1974 (April-December)	10	9·75	9·61
	10	9·5	
	10	9	
1975	10–15	14	10·50
1976			12·00

Note: (a) Only those securities with at least eight years to maturity from the date of issue are tabulated, Excluded are Land Bonds, National Bonds. For recent years the data on Government borrowing are representative rather than exhaustive, and exclude certain foreign borrowing, e.g. that announced in June 1975.

Source: Stock Exchange Yearbook; Central Bank of Ireland, *Quarterly Bulletin;* Information from Department of Local Government.

TABLE D2

Distribution of local authority dwellings built in 1974 by size

Number of rooms (a)	Average size (square metres)	Number
1	31·6	727
2	37·2	353
3	45·8	74
4	65·8	1,424
5	77·6	4,834
6	86·5	52
All dwellings	65·7	7,464

Note: (a) Includes kitchens, excludes bathrooms.
Source: Department of Local Government.

TABLE D3

Rates of interest on building society loans and on local authority loans: 1964–65 to 1976 (a)

Financial Year	Rate of interest on mortgage loans—building societies (*b*)	Rate of interest on local authority loans (*c*)
	(1)	(2)
	%	%
1964–65	7·0	6·6
1965–66	7·5	7·0
1966–67	7·8	7·7
1967–68	8·0	7·7
1968–69	8·0	8·0
1969–70	9·0	9·0
1970–71	9·0	9·0
1971–72	9·0	9·8
1972–73	9·1	9·5
1973–74	10·6	9·5
April–Dec 1974	11·3	10·1
1975	11·4	11·0
1976	12·5–11·9 (*d*)	12·5

Notes:

(*a*) The interest rates on local authority loans are fixed for the duration of the loan, but the changes in building society rates affect existing borrowers.

(*b*) Figures for 1964–65 to 1967–68 are representative rates. Interest rates are weighted averages of monthly figures, except for 1976. In cases where the interest rate changed and there was a temporary divergence between the rate for existing and for new borrowers, the latter is used.

(*c*) Weighted averages of monthly figures.

(*d*) In May 1976 the rate went from 12·5% to 11·85%.

Source:
Col (1): Central Bank of Ireland, *Quarterly Bulletin;* Information from Central Bank.
Col. (2): DLG.

Table D4: Income distribution by tenure group 1973 (*a*)

Household Tenure	Proportion of households in each tenure group with a gross weekly household income of:													
	Less than £7	£7 end less than £10	£10 end less than £15	£15 end less than £20	£20 and less than £25	£25 and less than £30	£30 and less than £35	£35 and less than £40	£40 and less than £50	£50 and less than £60	£60 and less than £70	£70 and less than £80	£80 and less than £90	£90 and over	All in-comes
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Owned Outright	7·6	5·4	10·0	8·0	7·9	10·1	7·8	6·4	10·4	7·7	5·1	4·2	2·4	7·0	100·0
Owned with mortgage	2·5	1·9	4·9	2·8	4·6	6·3	9·9	8·9	18·6	12·7	8·3	5·9	4·7	8·0	100·0
Rented from local authority	7·4	4·0	8·9	6·4	8·5	14·2	10·7	6·9	12·4	8·6	4·0	4·0	1·6	2·5	100·0
Rented from private owner	8·4	4·2	8·1	6·9	9·5	12·2	9·8	8·6	10·6	6·8	5·1	3·8	2·4	3·7	100·0

Note: (*a*) Based on adjusted number of households in sample after reweighting. Excludes the category of "Rent free".

Source: CSO, based on HBS

Wt.—. 117180. 2,000. 10/76. Cahill. (6894). G.16.

NATIONAL ECONOMIC AND SOCIAL COUNCIL PUBLICATIONS

	Title	*Date*
1.	Report on the Economy in 1973 and the Prospects for 1974	April 1974
2.	Comments on Capital Taxation Proposals	July 1974
3.	The Economy in 1974 and Outlook for 1975	Nov. 1974
4.	Regional Policy in Ireland: A Review	Jan. 1975
5.	Population and Employment Projections: 1971–86	Feb. 1975
6.	Comments on the OECD Report on Manpower Policy in Ireland	July 1975
7.	Jobs and Living Standards: Projections and Implications	June 1975
8.	An Approach to Social Policy	June 1975
9.	Report on Inflation	June 1975
10	Causes and Effects of Inflation in Ireland	Oct. 1975
11.	Income Distribution: A Preliminary Report	Sept. 1975
12.	Educational Expenditure in Ireland	Jan. 1976
13.	Economy in 1975 and Prospects for 1976	Oct. 1975
14.	Population Projections 1971–86: The Implications for Social Planning—Dwelling Needs	Feb. 1976
15.	The Taxation of Farming Profits	Feb. 1976
16.	Some Aspects of Finance for Owner-Occupied Housing	June 1976
17	Statistics for Social Policy	Sept. 1976
18.	Population Projections 1971–86: The Implications for Education	July 1976
19.	Rural Areas: Social Planning Problems	July 1976
20.	The Future of Public Expenditure in Ireland	July 1976
21.	Report on Public Expenditure	July 1976
22.	Institutional Arrangements for Regional Economic Development	July 1976