

From: Tom Heffernan [mailto:Tom.Heffernan@per.gov.ie]
Sent: 04 August 2016 17:35
To: Martin Hehir; Eamonn Waters
Cc: Lisa Clifford; Brendan Ellison; 'jim.baneham@housing.ie'; Daragh McCarthy; rosalind.carroll@rtb.ie; Patrick McCarthy
Subject: FW: Pilot Affordable Rental Scheme - Draft Business Case, for observations

Martin/Eamonn

As requested of members of the Technical Group, below are issues in relation to the current draft business plan that in our view require further consideration before the business plan can be finalised.

- The process outlined at P.6 of the draft business plan for determining the final Pilot Affordable Rental Scheme is not consistent with the existing Government Decision of last February.
- The consultation with the CSO and NDFA should be concluded A.S.A.P and included in a final business plan to form the basis for policy engagement at Ministerial level so that a final pilot Affordable Rental Scheme can be developed and submitted for Government approval.
- It would be unwise to form policy views on draft final proposals, without having the full views on the implications of them from the CSO and NDFA, as would making a further public announcement of pilot scheme (already announced in the 2015 Budget, the Social Housing Strategy and the recent Action Plan for Housing). To do so could involve risks that there might be insurmountable obstacles identified in relation to the investment under the scheme being off-balance after it has been announced or that private market interests would seek to dictate the final terms of the pilot scheme without regard to broader policy considerations that are appropriate for decision by Government.
- The presentation of different options for assessing provider viability and for tenant affordability in the draft without drawing definitive overall evidence based conclusions on them and their impact is confusing. Some of the conclusions are not based on the evidence presented in the draft. (See following bullet points)
- Having regard to the facts that the models testing the concept provide for a 15% profit margin for a developer (no compromise on their accepted profit margin or efficiencies expected of them) and on top of that a 7% yield on investment for investors (which compares very favourably to other investment opportunities as indicated by proposers to the SH Strategy Clearing House Group) and the costs used in the draft plan are "at the higher and conservative end" (p.30), what is the evidence for concluding at P. 9 and 23-24 that "the attractiveness of the Scheme from the investor point of view is marginal"?
- Has the fact that providers would be retaining ownership of an appreciating asset after the period of the investment as well as having a guaranteed revenue income with a generous return and with practically little or no risk been factored into this assessment?
- Where is the justification in the business plan for the consideration of the additional viability options at P.10 and 31-34 of the draft, notwithstanding the fact that some of them, such as basing the subsidy on higher than market rent are not recommended? (and rightly so). See also preceding comments.
- Even if evidence could be found to justify it on viability grounds, the proposed 5% administration fee for private landlords would have to be considered not just in the context of its cost to the Exchequer and implications for other schemes of housing assistance but also from the perspective that the administration of eligibility

under the scheme by private landlords could bring their investment onto the government balance. The CSOs views should be included on this point.

- It is accepted that the lack of suitable sites in Dublin (P.10 of the draft) has been identified by some potential providers as an obstacle to the speedy delivery of new affordable rental units. This issue has been identified and considered by LAs, the Housing Agency and your Department for some time now and, therefore, it should be determined in the final business plan rather than kicked to touch again as is being proposed in the current draft.
- As the evidence in the plan basically points to a workable affordable rental scheme based on a 70% tenant contribution to the market rent for tenants within certain income bands and a 30% subsidy, any use of public lands should not be as an additional subsidy but should be built into the scheme in a transparent way that it counts towards the States 30% subsidy of the market rent, provided that the CSO does not view it as posing a serious risk that the investment would be deemed as on-balance.
- All of the model costings in the draft are done by reference to the price/cost position in the Dublin housing market and in Cork and for income/affordability on the Dublin Income Eligibility Thresholds for Social Housing (P. 10 -14 of the draft) . The evidence in the report points to there not being an affordability problem in Cork or other locations outside Dublin at the Dublin income levels being considered in the plan and to the need to tailor incomes to particular geographical locations other than Dublin rather than, as the draft puts it, the scheme *"in Cork as being marginal at best and most likely inoperable"* (P.12) and to *"rather than limiting the scheme to particular geographical locations or household sizes , it is proposed to allow the market determine the response based on VFM and eligibility requirements, particular in regard to affordability based on income"* (P 13 and 63) . If the scheme were applied outside Dublin without tailoring it to more specific geographical pricing and income considerations, it would distort the market and lead to huge deadweight.
- The evidence from the 5 variations in the models the setting income eligibility (P.16 and P. 50-56) indicate that there would be no significant pre-subsidy affordability issue under Variations 3 and 4, apart, possibly, from a 3 bed apart in Dublin under them both and a 2 bed under Variation 4, and that these net income levels are not, therefore, justified on affordability grounds. They would lead to considerable deadweight
- The impact on affordability to the tenant in Dublin (not Cork, my comments above refers) post 30% subsidy level in Variations 1 , 2 and 5 are reasonable and warrant further consideration for the purposes of determining net household income eligibility levels for tenants under the scheme.
- The evidence in regard to affordability post 30% subsidy points to eligible incomes in Dublin being set at a net income range from €35,000 for a 1 bed apart (Variation 5) at the lower end to €45,000 for a 3 bed apt at the higher end. (Variation 2). This view of the higher income threshold is also supported by the analysis and conclusions at P.57-58 of the draft. Incomes outside of this range would be wide of the 30% income affordability criterion and carry considerable deadweight risks.
- These foregoing conclusions should be clearly stated in the draft business plan.
- The proposed qualifying thresholds for initial eligibility in Table 3 P.14 are not justified on the basis of the evidence in the draft business plan.
- While the modelling in the plan points to it being more attractive to *"multi-person households"* and to certain type of dwellings in Dublin (P.13), it should not be targeted so as to exclude single person households in employment who can meet their 70% contribution to a suitable one/two bedroom unit.
- All of the eligibility requirements must be determined in the final draft scheme and should not be left to the loose application of discretion in a second phase process in respect of each individual development. (P.13 -14).

- What precisely is the role envisaged for the Housing Agency (or for that matter LAs) in administering the scheme (P.16, 78-79) - will it be paying the subsidy to the private landlord, running the website for registering interest in the scheme, entering into the proposed contract on behalf of the State etc.? All of the governance responsibilities and arrangements around these functions should be stated clearly in the business plan and also explicitly considered from a general government balance perspective?
- Similarly, other than its advisory role in developing a draft scheme, what is the precise role of the NDFA in operating the scheme(P.16)?
- What role is envisaged for AHBs? Would they be free to participate as a provider/private landlord in their own right or jointly with a private partner?
- Should there "be expressions of interest... through the NDFA" for the final scheme when it is determined or should it be open to all-comers who meet the pre-determined eligibility requirements and contractual arrangements to apply within the pre-defined budget for the subsidy for the pilot scheme when it is announced publicly? Which option would be more likely to ensure off-balance status for the investment?
- The CSO views should be sought and included in the final business plan on the implications of different operational/management options as well as funding options and not just the one operational model proposed in the current draft.
- Apart from the issue of whether the additional cost involved could be justified, how would the arrangement whereby the provider as private landlord would determine eligibility work (P. 18 and 71)? There would be significant risk that the arrangement would be viewed as contracting out a social and affordable housing service to a private provider that would bring the investment on-balance and there would also considerable potential for abuse in such a system.
- All that a private landlord would normally be concerned with as regards the tenant is receipt of rent and that the tenant meets his tenancy obligations under his tenancy agreement. Would a landlord be really concerned whether a tenant fully meets eligibility requirements or that the tenant's annual obligations in regard to eligibility are being met, as long as he is receiving his rent and the affordable rent subsidy?
- How, for instance, could it be ensured that a tenant does not claim HAP or Rent Supplement on top of the 30% Affordable Rental Subsidy payable to the landlord or continue on an LA waiting list for social housing when his long term housing need would have been met under the scheme?
- There should be no non-defined discretion to be applied to rents (P.18 and 73). The terms of the scheme as it applies to rents should be predetermined on the basis of the basic principles of a 70/30 split and affordability based on pre-determined income thresholds, transparent and understandable to potential providers and tenants alike.
- What is the justification for a regular 4 year realignment of rent with the market rent on top of the application of CPI (P.18)? On top of the generous built in margins for developers/investors and the proposed continuity of revenue provisions there would be little or no risk to the private provider. It should be one or the other or priced into a less generous return for investors on their investment.
- The NDFA market testing should predate any final decisions by Ministers and Government (P.18). Its role is purely advisory and it should not be responsible for any final policy or operational decisions on the business plan or the draft pilot Affordable Rent Scheme. (My first 3 bullet points above are also relevant in this regard).
- Was the option of a reduced subsidy considered in relation to a tenant's Income increasing above the limits(P.75)?
- Have the risks involved in paying Rent Supplement for the same unit where income falls below the threshold been considered (P.75)?

I note that in February the Government agreed some broad principles to underpin the Affordable Rental Scheme and that there would be engagement between the Ministers for ECLG, PER and FIN to develop the measures prior to their being approved by Government with a view to final proposals being offered to the market. The decision also envisaged that scheme would be subject to market testing undertaken by the NDFA.

It would be necessary to see the final business plan and DHP&LG draft scheme before we would be in a position to engage with, and, advise our Minister on them for the purposes of a memo to government seeking approval to a final scheme.

Tom

From: Martin Hehir [<mailto:Martin.Hehir@housing.gov.ie>]

Sent: 03 August 2016 16:26

To: Eamonn Waters; 'jim.baneham@housing.ie'; Lisa Clifford; Tom Heffernan; 'scremen@hfa.ie'; Neil Maher - (DECLG); Eoin Corrigan; Paul O'Neill; Grainne Kenny; Louise Mulcahy; Brendan Ellison; Daragh McCarthy (daragh.mccarthy@housing.ie); rosalind.carroll@rtb.ie; Patrick McCarthy (patrick.mccarthy@housing.ie); Padraig McGoldrick

Subject: RE: Pilot Affordable Rental Scheme - Draft Business Case, for observations

Good afternoon,

Just a reminder in relation to observations on the attached – if you have not already commented and have observations to make, please send them on by close of business tomorrow.

Thank you,

Martin

Martin Hehir

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From: Eamonn Waters

Sent: 26 July 2016 16:42

To: 'jim.baneham@housing.ie'; Lisa Clifford; Tom Heffernan; 'scremen@hfa.ie'; Neil Maher - (DECLG); Eoin Corrigan; Martin Hehir; Paul O'Neill; Grainne Kenny; Louise Mulcahy; 'Brendan Ellison' (Brendan.Ellison@per.gov.ie); Daragh McCarthy (daragh.mccarthy@housing.ie); rosalind.carroll@rtb.ie; Patrick McCarthy (patrick.mccarthy@housing.ie); Padraig McGoldrick

Subject: Pilot Affordable Rental Scheme - Draft Business Case, for observations

To members of the Technical Working Group,

Please find attached the draft Business Case for the Pilot Affordable Rental Scheme. It is circulated for observations with a request that these be received by close of business on Thursday week, 4 August (whilst acknowledging that this coincides with leave arrangements for some). Parts of the material in the document will be familiar to you already through papers prepared for the Technical Working Group. Section 1 of the draft business case sets out a summary of the main proposed features of the scheme, including proposed income thresholds and provider eligibility

provisions. Indicative timelines for progressing to the next stages in the development of the pilot scheme are set out on page 6. In responding with any observations, I would be grateful if they could also be copied to Martin Hehir and Lisa Clifford.

Regards,
Eamonn.

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