



Comptroller and Auditor General

Special Report

## **Department of the Environment, Heritage and Local Government**

Water Services  
Affordable Housing Delivery

May 2009

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This report was prepared on the basis of information, documentation and explanations obtained from the public bodies referred to in the report. The draft report was sent to the Department of the Environment, Heritage and Local Government. Where appropriate, the comments received were incorporated in the final version of the report.

# **Report of the Comptroller and Auditor General**

## **Department of the Environment, Heritage and Local Government**

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out examinations of

- the mechanisms in place to evaluate the safety of water services, and
- the arrangements for the delivery of affordable housing.

I hereby submit my report on the above examinations for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Buckley', with a stylized flourish at the end.

**John Buckley**  
**Comptroller and Auditor General**

11 May 2009



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## **Chapter 1**

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### **Water Services**





## **Summary of Findings – Water Services**

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## Summary of Findings

Expenditure on the provision of drinking water by the Department of the Environment, Heritage and Local Government over the years 2002-2007 amounted to €869 million. This money was paid out under rolling programmes that aimed to meet increased national supply demands and to comply with EU drinking water standards.

Responsibility for delivery of water supply infrastructure is shared between the Department and the 34 local authorities. The completed water treatment and delivery systems are operated and maintained by each local authority.

The EPA publishes annual reports on drinking water quality that include the results of testing required by the relevant EU Directive in order to establish whether drinking water supplies meet the minimum standards of fitness for human consumption as set out in national and EU legislation.

Notwithstanding the level of investment, the EPA results show little significant improvement over the period 2004-2007 with public water supplies static at 98% of the minimum standard, and private water scheme compliance improving by 2% to 95%. The reports also detail ongoing particular problems in areas such as *E. coli* contamination, cryptosporidium and some risk indicator parameter levels including aluminium and turbidity.

There was considerable legislative strengthening of the EPA mandate from March 2007, and the Agency became the supervisory authority for water quality with enforcement powers.

This change has resulted in an increased emphasis on monitoring and control procedures at local authority level and the compilation of a national Remedial Action List of 339 public water supplies requiring immediate action to resolve quality problems. Following the completion of a joint review of those supplies by the Department, EPA, HSE and local authorities, remedial works commenced in mid-2008 with over half scheduled for completion by end 2009.

It is reasonable to expect that the impact of this remedial programme will be reflected in a significant improvement in the measured compliance standards for public supplies. In addition, the EPA intention to require local authorities to use enforcement options where required in respect of private water schemes should help bring about the necessary improvement in that area.

The full achievement of a programme's objectives becomes a greater challenge where the work is carried out over an extended period, is on a national scale and when responsibility is shared among many partners.

On review, it is clear that a key requirement from the commencement of the drinking water supply investment programme was for an adequately empowered independent entity or separate departmental arm to exercise supervision and enforcement and thereby to ensure that the benefits in water quality expected from the Exchequer investment were not negated by any subsequent failure in either scheme prioritisation or in the maintenance of the infrastructure at local authority level.



## **Report on Examination of Water Services**

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## Introduction

**1.1** Overall responsibility for water services in the State i.e. the availability of drinking water and the collection and treatment of wastewater, lies with the Department of the Environment, Heritage and Local Government (The Department). That remit includes the development of policy, the prioritisation of schemes for investment, the provision and allocation of funding to local authorities, and the administration and monitoring of progress in the implementation of policy and programmes. The direct provision and maintenance of public water services is the responsibility of the 34 city and county councils.

## Provision of Drinking Water

**1.2** Funding for the provision of drinking water supply infrastructure is provided by the Department under two programmes. Major water supply schemes are included in the rolling three-year Water Services Investment Programme (WSIP). These schemes focus on the larger concentrations of population in urban areas. The annual Rural Water Programme (RWP) provides the bulk of funding for the construction of group water schemes and small public schemes in rural areas.

**1.3** Figure 1.1 provides an annual breakdown of the Department expenditure of €869 million on major supply schemes, group water schemes and small public schemes in the period 2002-2007.

**Figure 1.1 Water Supply Expenditure under WSIP AND RWP 2002-2007**

Major Supply Schemes (WSIP)				
	Total Scheme Expenditure	Number of Schemes Completed by Year <sup>a</sup>	Group Schemes	Small Public Schemes
	€m		€m	€m
2002	49	3	38	14
2003	50	11	48	20
2004	42	7	56	25
2005	43	8	94	20
2006	59	7	100	26
2007	68	17	92	25
<b>Total</b>	<b>311</b>		<b>428</b>	<b>130</b>

Note:

a Schemes completed in any year may have been funded over a number of earlier years.

**1.4** The operation and maintenance of all completed public water supply schemes are the responsibility of each local authority. This includes management of risks and difficulties relating to water sources, treatment plants and the distribution system. Each authority is required to recover the full cost of services provided to the non-domestic sector which includes all industrial, commercial, agricultural and institutional users of water and waste water services. The domestic share of local authorities operational costs is part-funded by the Department through the Local Government Fund.

### ***Water Services Investment Programme***

**1.5** The Department has stated that compliance with drinking water standards is a primary goal for both the Department and the local authorities. While continuing to exercise its responsibility for oversight of expenditure of voted monies, the operation of checks and balances to ensure value for money, and for compliance with public procurement standards, the Department has, to the greatest extent possible, devolved responsibility to local authorities for the advancement of individual schemes. That approach is consistent with the devolution policy that applies to all elements of the Department's relationship with local authorities.

**1.6** Schemes under the WSIP are generally driven by a periodic formal assessment of needs prioritised by the members of each local authority. The assessments are prepared at the Department's request and must take account of statutory national and EU requirements and all relevant strategies, guidance, studies and reports. The Department prepares a recommendation for ministerial approval for the inclusion of schemes in each WSIP based on a number of factors including a weighted scoring system reflecting health, EU compliance, development and demand criteria. Compliance with drinking water standards is considered to be a primary goal by the Department and the local authorities, and associated infrastructure requirements are regarded as a priority call on resources in the approval of individual schemes and in the framing of the overall WSIP.

**1.7** The procurement of individual schemes included in the WSIP is a matter for local authorities who are also responsible for obtaining statutory approvals, engaging consultants, preparing tender documents and appointing and supervising contractors.

**1.8** Department approval is required at key stages of each major scheme including preliminary report, contract documents and tender acceptance. These procedures are modified for small devolved schemes.

### ***Rural Water Programme***

**1.9** Outside of the mainline public water supplies, there are a variety of smaller 'private' schemes managed by voluntary committees which, in all, serve up to 18% of the population. Some distribute water obtained from public supplies. Group water schemes are funded through the Rural Water Programme (RWP). The Department has indicated that the main focus of the RWP in recent years has been on solving water quality problems experienced by group water schemes that depend on sources such as rivers, lakes and boreholes and where there is inadequate treatment and disinfection. 728 such schemes, serving over 88,000 domestic connections, have been identified as falling within the Drinking Water Regulations as they serve over 50 persons. The categories of water supply, together with the percentage of the population served, are set out in Figure 1.2 below.



**Figure 1.2 Categories of Water Supply in Ireland and Percentage of Population Served**

Category	% Served	Description
Public Water Supplies	82	Local authority operated schemes
Public Group Water Scheme	3	Local authority provides water but distribution is by the Group Scheme
Private Group Water Scheme	6	Group Scheme source and distribute the water
Small Private Supplies	9	Variety of schemes from industrial supplies to boreholes serving individual houses and largely exempted from the regulations

**1.10** The day-to-day operation of the various measures under the RWP has been devolved to local authorities since 1997. Funding is provided by the Department by way of annual block grants that reflect the level of activity locally, and is based on submissions by local authorities. Responsibility for the selection and approval of schemes, as well as the payment of grants, rests with the councils. Payments by the Department are on the basis of certified recoupment claims received from local authorities in respect of grant payments made to group water schemes for completed works.

## Scope of Examination

**1.11** The very significant investment of €69 million in water supply infrastructure over the period 2002-2007 addressed the dual objectives of providing quality improvements in existing supply as well as expanding the overall supply capacity to meet the demands of new consumers at a time of unprecedented population and economic growth. While these elements cannot be disaggregated either on an expenditure or a priority basis, and noting that many projects have significant lead-in times due to the scale and complexity of planning and procurement requirements, this report considers the extent to which the investment funded by the Department over the period has resulted in the quality of drinking water in Ireland meeting the minimum standards of fitness for human consumption as set out in national and EU legislation.

### **Examination Focus**

In particular, the report reviews

- the arrangements for monitoring the quality of water services
- how the results are reported
- the results of that monitoring
- the actions taken or in hand to address shortcomings
- how local authority performance is monitored.

## Arrangements for Drinking Water Monitoring

**1.12** A comprehensive set of quality standards for drinking water are set down in EU and national legislation, together with procedures for supervision, measurement, reporting, and the initiation of enforcement procedures where required.

### **Quality Standards**

**1.13** Drinking water quality requirements with effect from 2004 are set out in the EU Drinking Water Directive 98/83/EC most of which was transposed into national legislation by the European Communities (Drinking Water) Regulations 2000. These regulations set revised quality parameters together with requirements on sampling frequency, methods of analysis, and the provision of information to consumers and related matters. Group schemes serving 50 persons or more were brought within the remit of the Directive.

**1.14** Following the initiation of legal action by the EU Commission, which was concerned at the lack of enforcement provisions in relation to quality standards of local authority water supplies, and an inadequate level of penalties, the outstanding aspects of the EU Drinking Water Directive were implemented by two statutory instruments in 2007<sup>1</sup>. These provided for supervision by the Environment Protection Agency (EPA) of local authority water supplies, of monitoring and record keeping by the local authorities, and for the introduction of indictable offences under the drinking water regulations.

**1.15** In addition, local authorities were required to immediately investigate and establish the cause of any water quality failure, to consult with the HSE on any health risk and, in the case of public supplies, to inform the EPA.

### **Measurement and Monitoring**

**1.16** The measurement of drinking water quality is based on an annual programme of testing of 48 parameters carried out by or for each local authority. Test requirements and frequency are set out in the regulations. A total of approximately 220,000 individual tests were carried out nationally in 2006.

#### **Compliance Measurement**

Compliance with drinking water requirements is determined by comparing the test results to the standards specified for each of the 48 parameters. The number of samples complying (i.e. within the permitted level of contamination) for each parameter is expressed as a percentage of the total number of samples analysed for that parameter. The measurement of overall compliance for each class of drinking water supply, or for each local authority as a whole, is obtained by the same process of comparing the total number of compliant results with the total number of tests completed.

**1.17** The parameters analysed comprise microbiological standards (e.g. *E. coli* and cryptosporidium), chemical standards (e.g. nitrates, pesticides and THMs), and indicator parametric values (i.e. that may not be a cause of concern of themselves but rather by what their presence may imply). However, incidences of microbiological contamination pose a threat to public health, and the detection of *E. coli* and cryptosporidium will result in immediate action by the public health authorities.

### **Reporting the Results**

**1.18** Comprehensive information on drinking water quality is provided in annual drinking water reports produced by the EPA, which also became the supervisory authority for water quality from

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<sup>1</sup> European Communities (Drinking Water) Regulations, 2007 and European Communities (Drinking Water) (No. 2) Regulations, 2007.

March 2007. Local authorities are required to submit the results of monitoring carried out in accordance with the relevant drinking water legislation to the EPA in a specified report format by the end of February each year. The EPA verifies the information received by carrying out audits at selected local authorities, analysing and collating the data, and publishing an annual report dealing on a national basis with

- issues arising in the provision of safe and secure drinking water
- compliance with microbiological and chemical standards and
- compliance with indicator parametric values.

**1.19** The report lists the findings and recommendations of the Agency, and also includes summary reports in respect of each local authority.

**1.20** The EPA Report data is used in turn by the Local Government Management Services Board (LGMSB) to prepare service indicators of local authority performance in regard to drinking water for inclusion in its annual report to the Minister for Environment Heritage and Local Government on 'Service Indicators in Local Authorities'.

## Results of Monitoring

**1.21** A review of the EPA reports on drinking water quality for the years 2002 to 2007 provided a comprehensive picture of the problems arising, the issues identified, and the progress made both in terms of the development of regulation and improved practice and compliance by local authorities over that period. Key points of concern were extracted from the most recent report (for period 2006-2007 published in January 2008) and are summarised below as an indication of the ongoing difficulties in achieving acceptable quality.

**Concerns in 2006-2007 EPA Report**

The main concerns identified in the report were

- E. coli, an indicator of whether human or animal waste has entered the water supply, was detected at least once during 2006 in 77 out of 944 public water supplies (8%) and in 246 of 688 private group schemes (36%).
- There was inadequate monitoring of 123 public group water schemes collectively serving a population of over 18,000 persons, with local authorities not monitoring these schemes after the water leaves the parent water supply. Overall in 2006, there was no monitoring of 1.3% of public water supplies, 15.8% of public group water schemes, and 1.8% of private group water schemes.
- While there was satisfactory compliance with chemical parameters, compliance with the 21 indicator parameters that are generally indicative of performance at the treatment plant was not satisfactory. 40% of treatment plants monitored did not meet the turbidity<sup>a</sup> standard, and 16% of public water supplies reported aluminium exceedences. Plants with high levels of turbidity are at increased risk of contamination with cryptosporidium should the parasite be present in the source water, while excessive aluminium usually indicates that a plant is either operating above design capacity or is poorly managed, or that there is inadequate maintenance (e.g. flushing) of the distribution network.
- The EPA considered that a situation where 21 water supplies serving a total of 113,000 persons had either a 'boil water' notice or 'restriction of use' placed on them over a six-month period during 2007 was unacceptable.

Note:

- a Cloudiness of the water due to fine particles such as sediment or organic matter entering the water system. Increased turbidity may also interfere with disinfection.

**1.22** This report was the first by the EPA under the new 2007 regulations and, in addition to presenting the results of monitoring completed by local authorities, it presents enforcement actions taken by the EPA using new powers together with issues identified by the EPA during compliance checking on the safety and security of water supplies.

### ***Cryptosporidium Issue in EPA Report***

Cryptosporidium is a protozoal parasite that is relatively resistant to chlorination and causes a diarrhoeal illness known as cryptosporidiosis. The consumption of contaminated water is an important transmission route for infection<sup>a</sup>. There were 558 reported cases in 2005, 361 cases in 2006 and 532 cases in the first eight months of 2007. A recent study<sup>b</sup> indicated that, at 13.7 per 100,000 persons, Ireland had the highest rate of incidence of the disease of the 16 EU member states where the disease is notifiable.

The 2007 increase was primarily due to the outbreak of cryptosporidiosis in Galway in March 2007<sup>c</sup>. The subsequent increased monitoring for cryptosporidium in the city indicated that the treatment process at two plants did not remove the parasite from the water supply. The plants were closed and an additional barrier in the form of UV treatment is operated in remaining plants together with turbidity meters linked to monitors and alarms<sup>d</sup>.

The EPA reported that the Galway City supply had been sampled over 500 times in 2006 with an above-average overall compliance rate of 99.1%. However action had not been taken in response to the elevated levels of turbidity, which are an indication of an ineffective barrier to cryptosporidium. In response to a general Agency request in March 2007, a total of 64 supplies serving 135,000 people were identified as having inadequate treatment in that reliance was placed solely on chlorination.

#### **Notes:**

- a The consumption of contaminated water is regarded as being an important transmission route for cryptosporidiosis, but infection has also been associated with swimming pools, farm animal contact, food and person-to-person contact.
- b Semenza and Nicholls, 2007.
- c In addition to Galway, the EPA notes that elevated levels of turbidity in public water supplies have been shown to be associated with outbreaks of cryptosporidium including Carlow in 2006.
- d The Department has stated that the upgrade of the treatment plant at Luimnagh was fast-tracked and capacity increased to provide supply to Galway city. In addition, advance works in relation to a further upgrade of the New Terryland plant are underway.

**1.23** Many treatment plants are having difficulty in complying with the current parametric standard for turbidity of 1.0 NTU<sup>2</sup>; notwithstanding limited monitoring, 39% of treatment plants monitored reported levels in excess of the standard in 2006 indicating that a great many supplies throughout the country are operating under conditions of high risk. Notwithstanding these current difficulties, it is considered by EPA that ‘turbidity levels need to be much lower and should not exceed 0.2 NTU and preferably be below 0.1 NTU to be protective against cryptosporidium breakthrough in the treatment plant’.

**1.24** The Agency considers that point sampling of drinking water only provides a snapshot on the day of sampling and cannot be relied on as the sole indicator of a safe and secure water supply. All risks associated with the supply must be identified and managed to ensure standards are met at every sampling, together with a management system to control the reduction measures required to meet the identified risks.

**1.25** Actions required to reduce the risk of future outbreaks of cryptosporidiosis are set out in the 2006-2007 Report. These include

- risk screening and assessment of risk of contamination of all water supplies
- review of the operation of water treatment plants

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<sup>2</sup> Nephelometric Turbidity Units are a measure of the light refractiveness of water.

- upgrading, replacement or closure of inadequate plants
- protection of the sources of water supplies.

## **Actions Taken to Address Shortcomings**

**1.26** The 2006-2007 Report detailed a number of actions that have been taken or will require to be taken in order to secure the quality of drinking water. These include

- the strengthening of drinking water regulations
- compilation of a Remedial Action List, and
- improved monitoring and control procedures.

**1.27** Under the European Communities (Drinking Water) Regulations (No.2), 2007, which came into force in March 2007, the EPA is now the supervisory authority over public water supplies and has new powers of enforcement over local authorities to ensure that action is taken where there is a quality deficiency in a public water supply. The local authority is the supervisory authority over private water supplies including group schemes, and can issue directions to suppliers to prepare and implement action programmes to achieve compliance with quality standards. The EPA considers it essential that these enforcement options are used.

**1.28** The EPA identified a Remedial Action List of 339 public water supplies (36% of public supplies) that required action to ensure full compliance with the requirement to provide clean and wholesome drinking water. Reasons for the inclusion of particular supplies on the list included a failure to meet the E. coli standard at some point over the previous two years, inadequate treatment of water, lack of operational control at the treatment plant, and a HSE requirement for improvements.

**1.29** In the area of monitoring and control, the EPA concluded that

- all water supplies should be sampled to at least the frequency specified in the regulations
- monitoring results should be submitted to EPA in accordance with the regulations by 28 February of the following year (14 of 34 breached the deadline for 2006 results)
- continuous turbidity monitors should be installed on each filter and, together with continuous chlorine monitors, on the final treated water at each water treatment plant.
- the monitors should be alarmed and linked to a recording device to ensure immediate detection of problems.

**1.30** The EPA also recommended that local authorities should adopt the World Health Organisation water safety plan approach to the management of drinking water supplies, and that group water schemes should obtain certification under the Hazard Analysis Critical Control Points system adopted by the National Federation of Group Water Schemes.

**1.31** Finally, the Agency stated that compliance with the 48 parameters specified in the 2007 Drinking Water Regulations had to be taken as the minimum requirement, and not seen as a requirement to be achieved over a number of years.

## Local Authority Performance

**1.32** The overall performance of local authorities is reported in an annual service indicators report of the LGMSB to the Minister for the Environment, Heritage and Local Government<sup>3</sup>.

### *Service Indicators for Water Quality*

**1.33** The service indicators for drinking water quality are defined as ‘the percentage of drinking water analysis results that comply with statutory requirements with regard to (a) public schemes, and (b) private schemes’. The LGMSB compiles a schedule of the percentage of each local authority’s tests that were in compliance over the year in each category. The Board also calculates the overall median average, and the top and bottom quartiles of the percentages achieved<sup>4</sup>. This data allows the performance of any local authority to be quickly compared to the average and to the highest and lowest performing groups.

### *Public Schemes*

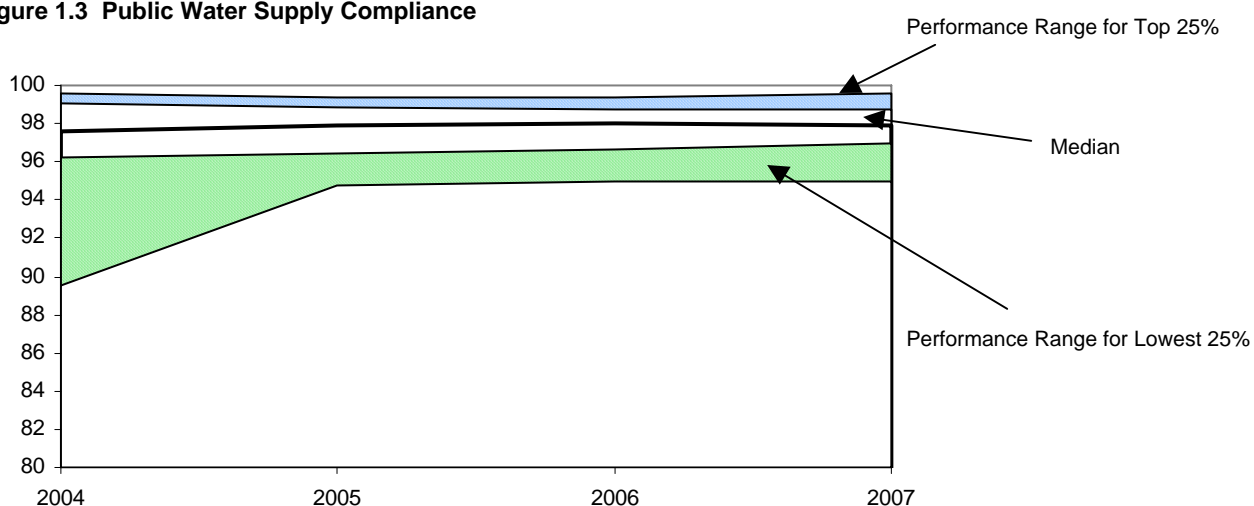
**1.34** The LGMSB Service Indicators report for 2007 (published June 2008) notes that for public schemes, there has been only a slight change in the percentage of drinking water analysis results in compliance with statutory requirements (from 98% in 2006) to 97.94% in 2007.

**1.35** Figure 1.3 shows that there has been little change in the median over four years from 97.60% in 2004 to 97.94% in 2007. Similarly, both the top 25% and the lowest 25% have remained quite static.

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<sup>3</sup> A total of 42 agreed service indicators are measured across a range of local authority services, including water quality.

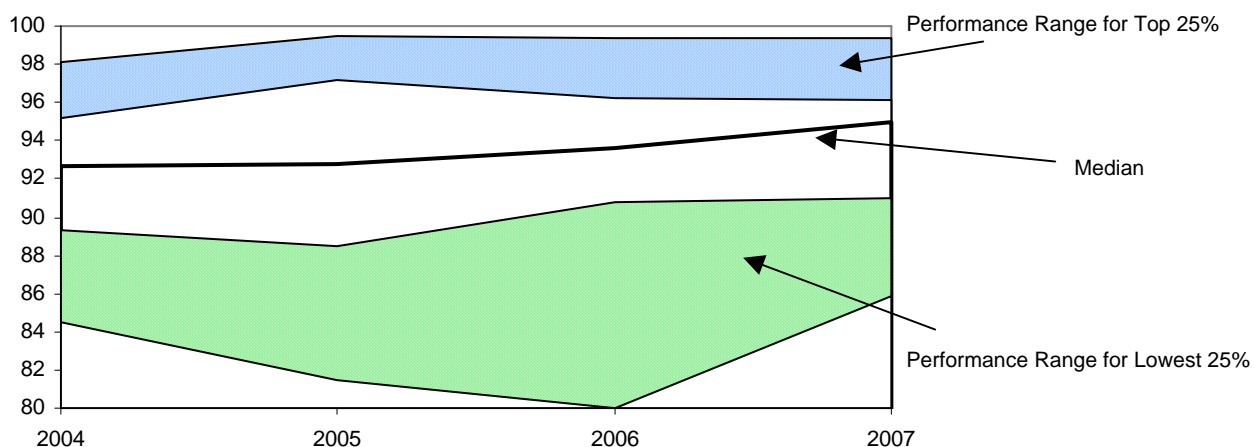
<sup>4</sup> The median is the ‘middle result’ that lies halfway between the top and bottom result and will not be skewed by one or two unusual results in a sequence. Similarly, quartiles indicate the values above which, and below which, 25% of the results fall i.e. the strongest and the weakest groupings.

**Figure 1.3 Public Water Supply Compliance**

### Private Schemes

**1.36** In respect of private schemes, the 2007 Service Indicators Report states that there had been an improvement to 95% for 2007 (from 93.59% for 2006). On average, private water scheme compliance had increased by 2.3% between 2004 and 2007.

**1.37** Figure 1.4 shows that, while the median has increased gradually to 95%, the performance of the top 25% has made little progress. However, by reversing a slide over the earlier years, the lowest 25% has shown a significant improvement for 2007.

**Figure 1.4 Private Water Supply Compliance**

**1.38** Overall, there has been little variation in the performance of public schemes over the period. There has been an overall improvement in the quality of private water supply. However, the lowest 25% of schemes continue to perform poorly with compliance rates for individual authorities as low as 95% for public schemes and 86% for private schemes in 2007.

**1.39** Appendix A outlines the drinking water compliance data for 2004-2007.



## Examination Conclusions

The systems procedures and practices employed to monitor the effectiveness of water services in terms of its safety have been greatly improved since the introduction of revised procedures in 2007. However, EPA reviews found inadequate monitoring at 123 group water schemes supplied from the public supply. There was no monitoring in the case of 1.3% of public supplies, 15.8% of public group schemes, and 1.8% of private group schemes.

Particular concerns noted by the monitoring include

- E. coli was detected at least once during 2006 in 8% of public water supplies and 36% of private water schemes
- 40% of treatment plants monitored did not meet the turbidity standard, and 16% of public water supplies were reported as exceeding permitted aluminium levels which respectively are indicative of increased risk and operational and management difficulties
- 21 water supplies serving a total of 113,000 people had either a 'boil water' or 'restriction of use' notice during a six-month period in 2007.

A much strengthened EPA following the conferral of powers of supervision and enforcement over local authorities in respect of public water supplies made an immediate impact through its January 2008 Remedial Action List of 339 public water supplies (36% of total supplies) requiring urgent attention. The Agency also signalled its intention to ensure that local authorities made full use of the enforcement options now available to them in respect of non-compliant private schemes.

The Department has confirmed that a multi-agency examination of the Remedial Action List had identified the deficiencies and agreed on the appropriate solutions. A dedicated monitoring mechanism was being established to track progress on remedial works, and the EPA would also monitor implementation.

This initial round of monitoring provides a baseline snapshot of the state of safety of Irish water supplies. Remedial actions can now be planned and prioritised based on that information.

## Accounting Officer Observations

**1.40** The Accounting Officer informed me that under the 2000-2006 National Development Plan (NDP) Exchequer funding of €2.6 billion was expended on the WSIP, which provided for

- the completion of 357 water and wastewater schemes
- an increase in drinking water capacity of the equivalent of the needs of a population of 768,000
- a national programme of renewal and rehabilitation of local authority water supply distribution systems.

**1.41** In 2007, under the current NDP, 44 water and sewerage schemes were completed and a further 124 were under construction.

**1.42** She stated that, during the 2002-2007 period under review, expenditure of €311 million on major supply schemes had generated additional treatment capacity equivalent to a population of 400,000, additional pumping capacity equivalent to a population of 659,000 and additional storage capacity equivalent to a population of 998,000. In addition, the Department had implemented the following developments which were reflected in the continuing improvement in water quality results

- an important reorganisation and strengthening of local authority water services structures
- provision for a more strategic statutory approach by local authorities to infrastructure provision and implementation
- more intensive monitoring and supervision of water supplies, and
- greater enforcement powers for the EPA.

**1.43** Successive EPA drinking water reports demonstrated a very high level of compliance by public water supplies with mandatory standards. Compliance with microbiological parameters improved steadily for public water supplies from 97.7% in 2003 to 99.3% in the report for 2006-2007 published in January 2008. The Accounting Officer also stated that the position at the end of 2007 was that 85% of group water scheme households were in compliance with national drinking water standards and that this had risen to 95% by the end of 2008.

**1.44** A multi-agency examination of the EPA Remedial Action List by the Department, EPA, HSE and local authorities had agreed on solutions to the deficiencies identified in the 339 schemes listed. 131 of the schemes were scheduled for major upgrading and had been approved for Exchequer funding under the WSIP. Three new schemes were added to the published list.

**1.45** In the remaining 205 schemes, required remedial actions did not include the provision of infrastructure under the WSIP, and issues relating to the safety and security of supply were being immediately addressed through

- abandoning existing sub-standard sources
- better operational procedures, and
- relatively small scale improvements to the treatment process.

**1.46** Funding of €16 million had been approved by the Department in July 2008 to meet the costs of appropriate works to resolve security and safety issues. Works had been completed on 98 of these schemes by the end of February 2009, 9 had been previously resolved and the timetable for completion of works on further schemes was as follows

- 33 by the end of June 2009
- 50 by the end of December 2009
- 15 by the end of March 2010.

**1.47** A dedicated monitoring mechanism was being established to track progress on all categories of works above, and the EPA would oversee implementation of all remedial actions as part of its enhanced supervisory function. The focused and concerted action programme based on an appropriate risk assessment methodology reflected the concerns of all involved in the sector to deal with water quality problems speedily and as efficiently as possible.

**1.48** A number of independent studies had looked at the efficiency and effectiveness of the delivery of the WSIP. These included

- An evaluation by Indecon in 2003 as part of a mid-term evaluation of the Economic and Social Infrastructure Operational Programme (ESIOP) of the NDP which concluded that the programme was meeting its objectives, and that management of the measures through three year rolling programmes had been a positive aspect of project delivery that could be usefully adopted in other areas of the ESIOP.
- An examination by Fitzpatrick's Associates and Halcrow of NDP Water Infrastructure Projects commissioned by the Department of Finance in 2005 which concluded that the way that projects had been approved for investment, and the way that investments had been managed at project level from conception to completion had been broadly satisfactory.

In addition, a Value for Money Study in relation to the efficiency and effectiveness of the WSIP Programme delivery will be commenced as part of the Government's Value for Money Reviews for 2009-2011.

**1.49** No fines had been imposed on Ireland in relation to drinking water, and intensive efforts were being made by the Department and local authorities to ensure that the requirements of relevant judgments of the European Court of Justice arising from applications to the Court by the EU Commission in respect of Ireland's implementation of the EU Drinking Water Directive were acted on as quickly as possible.

**1.50** The Institute of Public Administration recently prepared a report for Galway City Council on the outbreak of cryptosporidiosis in Galway. Amongst the recommendations were that the Council should have in place a risk management process and an action plan for the management of drinking water incidences. The Water Services National Training Group is an initiative jointly developed by the Department, the water service authorities and other stakeholders and is charged with the training of personnel who are involved in providing water services, from operational level up to senior management. In 2007 and 2008, the Group has trained over 1,450 water service authority staff on drinking water treatment and related courses designed to better enable water services authorities to put in place the type of risk management processes and action plans required for drinking water incident management.

**1.51** Further progress towards the achievement of drinking water standards will be assisted through strengthened source/catchment protection measures which will form an integral part of River Basin Management Plans being prepared to meet the requirements of the Water Framework Directive<sup>5</sup>.

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<sup>5</sup> Directive 2000/60/EC.

## 2007-2008 EPA Report

**1.52** The latest EPA Drinking Water Report was issued on 23 April 2009. It reported an increased level of testing, some improvement in the level of E. coli contamination and detailed the operation of the Agency's enforcement powers. However, there was continuing concern relating to the levels of E. coli contamination, poor compliance with several indicator parameters including aluminium and turbidity, and the report also recorded that 'boil notices' were issued in respect of 53 supplies serving 118,000 persons in 2008. 83 public water supplies were removed from the Remedial Action List due to upgrading, replacement or the improvement of operation. However, a further 62 were added due to quality problems, and there were 320 supplies on the Remedial Action List at the end of March 2009.

**1.53** The Accounting Officer noted the relevance of the EPA Report to the issues raised in the audit examination and referred in particular to the following

- an 8.1% increase in the overall number of tests conducted in 2007, with increases of 26% and 75% respectively for public group water supplies and small private group water supplies
- further improvements in compliance levels, with a reduction from 2006 in the number of public (down from 77 to 52) and group (down from 246 to 184) water supplies where E. coli was detected at least once in 2007
- details of the EPA enforcement activities including the issue of legally-binding directions to 15 Local Authorities and a prosecution in one case where an authority did not comply with a direction
- the EPA recommendation in August 2008 that all public water supplies be equipped with chlorine monitors and alarms to ensure continuous protection against E. coli contamination.

She stated that the Department had been working intensively in recent months with local authorities to ensure that the monitors and alarms were fitted, and expected that work would be completed in the coming months. The Department acknowledged that further improvements were required to ensure that the highest drinking water standards were achieved, but was satisfied that the enhanced monitoring and enforcement arrangements under the 2007 Regulations were working well as evidenced by the latest EPA Report.

## **Appendix A – Water Services**

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## Appendix A    Drinking Water Compliance Data 2004-2007

The data presented graphically in Figures 1.3 and 1.4 of this report is contained in the following tables. It was extracted from the LGMSB Service Indicators reports for those years.

**Table A.1    Public Water Supply Compliance 2004-2007**

		2004	2005	2006	2007
Median Average		97.60	97.88	98.00	97.94
Top 25% Range	From	99.60	99.35	99.40	99.56
	To	99.03	98.84	98.78	98.79
Lowest 25% Range	From	96.20	96.40	96.63	96.95
	To	89.50	94.80	95.00	95.02

**Table A.2    Private Water Supply Compliance 2004-2007**

		2004	2005	2006	2007
Median Average		92.70	92.75	93.59	95.00
Top 25% Range	From	98.10	99.47	99.38	99.32
	To	95.20	97.14	96.21	96.11
Lowest 25% Range	From	89.30	88.46	90.81	91.04
	To	84.50	81.46	80.00	85.87





## **Chapter 2**

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### **Affordable Housing Delivery**



## **Summary of Findings – Affordable Housing Delivery**

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## Summary of Findings

The Department of the Environment, Heritage and Local Government is responsible for all aspects of housing policy including setting the regulatory framework and providing funds to local authorities.

Affordable homes are homes subsidised by the State for eligible first time buyers who do not have the resources to buy on the open market. The home is bought at a discount to the market price and it is a condition that the purchaser must occupy it. If it is sold within 20 years, the vendor has to pay back a percentage of the sale price (called clawback) to the local authority. This clawback reduces over time.

The social partnership agreement Sustaining Progress 2003–2005 included a measure called the Affordable Housing Initiative (AHI). As part of this measure, the government established the Affordable Homes Partnership (AHP) in 2005 to coordinate the delivery of affordable homes in the Greater Dublin Area. The current social partnership agreement Towards 2016 sets a goal of 17,000 affordable homes to be delivered over the period 2007-2009.

The examination reviewed overall target achievement and the contribution of the AHP to the affordable homes drive.

During the period 2005-2008, 85% of the affordable homes target was achieved. The output increased by around 4,000 housing units in the period 2006-2008 by comparison with the previous three years. The Department attributes 1,091 of this increase to the direct activities of the AHP.

The main features of the AHP's contribution have been

- an advisory and coordination remit initially for the greater Dublin area and since 2007, countrywide
- it achieved discounts of 2% during 2006 and 2007 while securing fixed prices when the market was rising
- it delivered 304 affordable homes under two land swap deals
- it delivered 787 affordable homes through direct procurement.

A "Call for Lands" initiative to identify affordable home sites on land not zoned for building was not a success and revised arrangements for the coordination of infrastructural development proposed by the Department have effectively eliminated the role originally envisaged for AHP in this area.

Due to the current market conditions there has been a build-up in the stock of unsold affordable housing units held by local authorities from 2,200 at the end of 2007 to 3,700 in early 2009. The Department has issued a circular to local authorities setting out guidance in relation to these units and advising on the range of options that might be pursued including using affordable units for other housing purposes.

The Housing (Miscellaneous Provisions) Bill, 2008 proposes changes that would replace the current clawback provisions with an arrangement under which the State would take an equity share in the property. It is envisaged that this share would equate to the percentage discount on market value which the affordable home purchaser received. If the homeowner buys out the government's share, it is intended that the proceeds will be used to buy equity shares in new affordable housing units resulting in the subsidy being 'recycled'.

Overall, the examination concluded that the AHP has been a flexible instrument that helped the Department adjust affordable housing policy in line with market conditions since 2005. In the light of the changed housing market conditions and the proposed legislative adjustments it now appears necessary to review its rationale and potential future contribution once again.

## **Report on Examination of Affordable Housing Delivery**

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# Introduction

**2.1** The overall objective of the housing policy of the Department of Environment, Heritage and Local Government (the Department) is to 'enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and as far as possible at the tenure of its choice'. The general principle underpinning the housing objective is that those who can afford to provide for their housing needs should do so either through home ownership or private rented accommodation and that targeted supports should be available to others having regard to the nature of their need.

**2.2** The social partnership agreement Sustaining Progress 2003–2005 included a measure called the Affordable Housing Initiative (AHI) to provide an additional 10,000 affordable homes. These homes were to be provided on State and local authority lands and various sites were identified nationally. The original target was increased in the current social partnership agreement, Towards 2016, to the provision of 17,000 affordable homes for the three-year period 2007-2009<sup>1</sup>.

**2.3** In 2005, the Government decided to establish the Affordable Homes Partnership (AHP). Its role was to coordinate the delivery by local authorities of affordable housing in the Greater Dublin Area (GDA). In 2007, the AHP's remit was extended nationally. Its national remit includes communications and securing consistency across local authorities on affordable housing.

**2.4** The AHP which operates under the aegis of the Department was allocated €56.3 million in the period 2005-2007. This included €49.75 million in respect of capital grants for direct procurement schemes. Under these schemes, houses were made available to eligible purchasers at discounted prices with the discount being funded by the State. Clawback arrangements applied in the event of sale. Its role is facilitative and ultimately all housing units are allocated by local authorities to purchasers who meet the criteria for affordable housing.

**2.5** The seven local authorities in the GDA are

- Dublin City Council
- Dun Laoghaire/Rathdown County Council
- Fingal County Council
- South Dublin County Council
- Kildare County Council
- Meath County Council
- Wicklow County Council.

**2.6** Overall, affordable housing is provided by the local authorities using the following affordable housing delivery measures

- Affordable Housing Scheme 1999 - this comprises developments built on local authority land and in some cases purchased turnkey developments.
- Part V of the Planning and Development Act 2000 - under which developers transfer up to 20% (depending on local housing strategy) of land, units, sites, an equivalent financial contribution or other land or units off-site to the local authority for use to provide social

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<sup>1</sup> However, the Department has pointed out that the altered market that currently exists may impact on the timescale for delivery of this target.

and affordable housing. In 2007, Part V accounted for almost 60% of affordable housing delivery.

- The Shared Ownership Scheme - introduced under the Housing (Miscellaneous Provisions) Act 1992. The scheme facilitates access to full home ownership in two or more stages by those who cannot afford full ownership immediately. The minimum share that an applicant purchases is 40%.
- Affordable Housing Initiative (AHI) - an initiative introduced under the Sustaining Progress social partnership agreement, involving development on State and local authority owned lands.
- Direct Procurement - the AHP itself procured a number of affordable homes directly in the years 2006 – 2008.

**2.7** One specific function of the AHP was to take responsibility for a number of the sites identified under the AHI. The AHP then delivered affordable housing through land exchanges. Two land exchanges have taken place to date through the AHP following a public procurement process. Both sites were exchanged for discounted homes as follows

- Broc House - site exchanged for 89 discounted homes in Fingal County Council
- Harcourt Terrace - site exchanged for 215 discounted homes in South Dublin County Council.

**2.8** The AHP also provided affordable housing using two additional measures

- The first measure in 2006 involved the purchase of housing on the market by entering into a contract and paying a deposit with the balance of funds being paid by qualifying affordable purchasers on closing. House prices were rising at that time and the approach was to ‘lock-in’ at prevailing prices to protect against further price increases.
- The second approach in 2008 was tailored to take account of the, by then, falling property market. The AHP entered into agreements with a number of developers who were willing to provide discounts on the asking price for new homes. The agreement provided that, if a qualifying affordable purchaser chose to purchase one of the homes covered by the agreement, the AHP would provide a subsidy on closing. This approach was designed to ensure that any further reductions in market prices would be reflected in the final price charged to affordable purchasers.

**2.9** The AHP are currently managing a procurement process for the provision of rental properties for use by the local authorities in the GDA under the Rental Accommodation Scheme. The purpose of the procurement is to provide units suitable for long-term (up to 20 years) rental accommodation with quality maintenance and management services.

**2.10** The AHP promote affordable housing nationally through training and marketing support for local authorities, the provision and maintenance of a national affordable homes website and the provision of advice on Part V of the Planning and Development Act 2000.

**2.11** The AHP was also required to work closely with those government departments responsible for key infrastructure including transport, schools and water to ensure a rapid ‘whole of government’ approach to housing supply.

**2.12** In April 2008, a report<sup>2</sup>, commissioned by the AHP, was published on increasing the affordable housing supply. The report made recommendations in respect of a number of areas

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<sup>2</sup> ‘Increasing Affordable Housing Supply’ ([www.ahp.ie](http://www.ahp.ie))

including strategic planning, improving delivery and the introduction of a new equity product to replace the existing clawback arrangements.

## **Affordable Homes**

**2.13** Affordable homes are homes provided for eligible first time buyers who do not have the resources to buy on the open market. The home is bought at a discount to the market price and it is a condition that the purchaser must occupy it. If it is sold within 20 years, the vendor will have to pay back a percentage of the sale price to the local authority.

**2.14** Eligibility takes account of both housing need and purchasing power. The focus of the various affordable housing schemes overseen by the Department is, therefore, confined to that group of potential homeowners in the low to middle income category who with some help can aspire to own their own home - in practice, those applicants in need of accommodation whose mortgage repayments on suitable accommodation would exceed 35% of their net income.

**2.15** Discounts vary from area to area. The possibility that prices in certain areas might be set too high for people to afford is a key reason why it is necessary to have variations in discounts between different areas. It is the responsibility of the housing authority to match the types of unit procured under the affordable housing schemes as closely as possible to demand. However, given the nature of the Part V provisions, the type of units provided is not entirely within the local authority's control.

## **Affordable Housing – Roles of Key Players**

### ***Department of the Environment, Heritage and Local Government***

The Department of the Environment, Heritage and Local Government is the department responsible for housing policy. The Department sets the policy and legislative framework in which the local authorities operate, within the overall parameters of Government policy, reflected in successive programmes for Government, national development plans and partnership agreements. It sets the regulatory framework and provides subsidy funding for the various affordable housing schemes.

### ***The Affordable Homes Partnership***

The Affordable Homes Partnership (AHP) is a State agency established under the Local Government Services (Corporate Bodies) Act 1971 in August 2005. Its main purpose is to promote and coordinate the delivery of affordable housing by local authorities in the GDA. The remit of the AHP was expanded in 2007 (under Amendment Order S.I. 293 of 2007) when it was given national functions, working with local authorities nationwide in the areas of communication and standardising the application system. However, the AHP do not have a procurement role outside the GDA. Under the 2007 Order, the remit of the AHP has been extended to 31 December 2010.

### ***Local Authorities***

Local authorities are responsible for identifying demand for housing in their strategies and for implementing various housing programmes through their action plans. In particular, they are responsible for the delivery of affordable homes across a range of measures such as the 1999 Affordable Housing Scheme, Part V, the Shared Ownership Scheme and new initiatives introduced under the Affordable Housing Initiative. Comprehensive assistance on relevant matters is provided to local authorities by the AHP.

### ***Voluntary Housing Associations***

Voluntary Housing Associations play a limited role in the provision of affordable housing. In general, they are involved as specialist providers of social housing for the most needy in society. However, some have acted as agents of local authorities in developing a limited amount of affordable housing as part of mixed tenure schemes and are engaged in the provision of some housing in the Part V process.

### ***Private Developers***

The private house building sector delivers the vast bulk of housing in Ireland. The sector provided approximately 94% of housing output in 2006.

### ***Funders***

The main funder of local authority purchased affordable housing is the Housing Finance Agency (HFA). In addition, four financial institutions currently provide mortgages for affordable housing purchased under Part V. These institutions are Bank of Ireland, EBS, Ulster Bank/First Active and Haven Mortgages.

## Proposed Changes

**2.16** It was announced in the context of the 2009 budget that a new equity product would be introduced as a single streamlined mechanism for the sale of affordable housing provided under the various schemes. Statutory provision is being made for this proposed change in the Housing (Miscellaneous Provisions) Bill, 2008. Under this proposal, the State would take an equity share in the property. The equity stake would be equivalent to the percentage below the market value at which the property is sold to the purchaser. Generally, affordable housing is purchased at 25-30% below the market value so the intention is that the State equity will be pitched around this level. If a homeowner wishes to buy out the government's share, the repayments will be used to fund the provision of further new affordable housing units. As a result, the subsidy will be 'recycled'. The existing schemes through which affordable housing is delivered will remain in place.

### **Overall Examination Focus**

Affordable housing is an important element of overall national housing policy. National output targets have been agreed through a partnership process. The examination reviewed overall target achievement, management information and the contribution of the AHP to the affordable homes drive.

## Programme Delivery

**2.17** During the period 2005 to 2008, the affordable homes achievement lagged somewhat behind the annual targets (85% of the target or 13,995 houses had been completed)<sup>3</sup>.

### **Achievement of Increased Output**

**2.18** Nationally 11,322 units were delivered in the three years from 2006-2008 (the first three years of the AHP's procurement operations) as outlined in Figure 2.1.

**Figure 2.1 Affordable Housing Delivery Nationwide after Establishment of AHP**

	2006	2007	2008	Total
Total – GDA	1,743	1,850	2,854	6,447
Total – Other	1,473	1,689	1,713	4,875
<b>Total – National</b>	<b>3,216</b>	<b>3,539</b>	<b>4,567</b>	<b>11,322</b>

**2.19** This compares with a total delivered for the three-year period immediately prior to the commencement of its operations (2003-2005) of 7,315 units (see Figure 2.2). The Department attributes 1,091 of this increase to the direct activities of the AHP.

**Figure 2.2 Affordable Housing Delivery Nationwide prior to the AHP**

	2003	2004	2005	Total
Total - GDA	1,429	1,074	1,636	4,139
Total – Other	1,181	958	1,037	3,176
<b>Total - National</b>	<b>2,610</b>	<b>2,032</b>	<b>2,673</b>	<b>7,315</b>

<sup>3</sup> The target for the period 2005-2008 was 16,500.

### ***Resale of Affordable Housing***

**2.20** The level of resales of affordable housing has been low to date. The Department informed me that in seven major authorities, 269 units had been resold to date.

## **Management Information**

**2.21** The Department collects a range of information from local authorities on a regular basis including

- data on affordable units completed, in progress and in planning under the 1999 scheme, Part V and AHI
- numbers of shared ownership transactions completed and in progress
- affordable housing sales finalised across all schemes and the source of finance for these sales.

**2.22** Monitoring of progress on the affordable housing programmes takes place through ongoing contact by both the Department and the AHP with local authorities and in particular, through twice yearly Housing Action Plan meetings held by the Department with individual local authorities at which targets, progress and relevant issues are addressed in detail.

**2.23** However, there is no central information on

- the amounts of discounts received by purchasers in different planning authorities
- the proceeds and application of clawbacks and variations from area to area.

**2.24** The Department do not believe that this type of information would contribute to its overall steering of the programme. Its policy focus, prior to recent changes in the housing market, has been on

- achieving adequate output of affordable housing towards meeting the targets set in, for example, the Social Partnership agreements
- discouraging profiteering through a clawback system.

### ***Examination Conclusion***

An increase of just over 4,000 affordable housing units was achieved in the period 2006-2008 by comparison with the immediately preceding three years. The level of turnover of affordable units is low. While output information is collected at national level, detailed monitoring is delegated to local authorities.

## **Administration by the AHP**

**2.25** The AHP facilitates a wide range of affordable housing initiatives both directly procuring accommodation and coordinating the initiatives of local authorities.

**Examination Focus – AHP**

In regard to the AHP's remit I sought assurance on

- how State purchasing power has been used in its transactions to date
- how price risk has been managed in the conduct of transactions
- the extent to which surplus public lands have been exploited
- the success of the 'Call for Lands' initiative
- how well the function of infrastructural coordination is operating
- how responses to market changes are being managed by the local authorities under the guidance of the Department and the AHP.

**State Purchasing Power**

**2.26** The State, through the AHP has procured 787 houses in the period up to 31 December 2008. The purchase of these units is completed by the affordable purchaser but are subsidised by the AHP. The AHP procured the first 502 of these units for a total price of €175.6 million after taking account of an estimated discount of €3.6 million. The remaining 285 units were purchased under the second House Purchase Scheme whereby the AHP did not actually purchase units but entered into agreements with developers to provide certain units at a discounted price to affordable purchasers. It was envisaged upon the establishment of the AHP, that it would be in a position to negotiate meaningful discounts on house purchases. The actual discount achieved on all directly procured houses is in the region of 2%. While this appears to be a rather small contribution given the extent of State purchasing power, the Department informed me it should be viewed in the context of the prevailing market conditions of sharply rising prices, which meant that by fixing a price, the actual real discount compared to market prices at the time of the subsequent closing of purchases would be significantly higher. Subsidies by the State amounted to approximately 28% of the market value of the houses.

**2.27** The Department considers that the overall 2% discount was a significant achievement. It stated that, during 2006 and early 2007, a time of record house price increases and considerable pressure to maximise the delivery of affordable housing units, the escalation in prices had put pressure on first-time buyers, particularly in areas of high demand in and around Dublin. In the case of new houses, the annual percentage increase in prices in Dublin by the end of the third quarter of 2006 was 21%. The rate of price escalation in the second hand market was even more dramatic recording an annual increase of almost 28% for the same quarter. In this environment, a priority was to "lock in" at the best prices available against a background of rising prices. In those conditions, discounts were difficult to negotiate. Any clause inserted in agreements to cater for changing prices, could have worked to the disadvantage of the AHP since prices were rising rapidly at that time.

**Management of Price Risk**

**2.28** Movement in market prices in the interim between the conclusion of a contract and the completion of schemes can give rise to risks. Contractual arrangements protected the State from price increases in the interim. However, where market prices were falling, the risk was that purchasers would not complete. This is illustrated in Case Study 1.

**Case Study 1 - Broc House Land Swap**

In November 2005, the AHP sought to exchange lands at Broc House, Nutley Lane, for affordable homes.

Initially a valuation of €7.2 million was obtained for the site and an invitation to tender was placed in the national newspapers on 16 November 2005 with a closing date of 17 January 2006. Only one tender was received. It proposed provision of 162 one, two and three-bed apartments in Dublin 12 with total discounts of approximately €9.23 million. Planning permission had been sought but not yet secured from Dublin City Council. The AHP decided there was insufficient basis for pursuing the proposal.

A revised valuation of €8 million was obtained for the site. On 19 April 2006, fresh tenders, allowing for part cash offers for the site were sought with a closing date of 17 May 2006. Three tenders were received.

- The first was a cash-only bid of €4.2 million subject to the Part V requirement being waived. This tender was rejected on the grounds that it was cash-only and requested a Part V waiver. The AHP also considered that the cash-only nature of the bid would involve the State in a further procurement process to translate the cash proceeds into affordable homes resulting in significant delays and additional costs.
- The second tender offered 60 units in Dublin 12. Discounts of approximately €8.26 million plus a cash payment of €1.5 million were offered.
- The third tender offered 89 affordable units in Ongar, Clonsilla with the total value of discounts estimated at €10.6 million. It was considered that this proposal offered the best value for money and it was accepted.

Difficulty in disposing of the units at the tender price led to a review of the market and the affordable price in May 2007. This resulted in a reduction in the price to be paid by an affordable purchaser in respect of 62 of the 89 properties and so effectively resulted in a further discount of €1.55 million being offered on these properties. The AHP agreed to pay this amount to the developer to ensure that the developer received the agreed contract sum of €26.23 million. Fingal County Council reimbursed the AHP in respect of the payment to the developer.

**2.29** Arising from reduction in market prices, the value of the arrangement with the developer was reduced by €1.55 million compared to the original estimate. Since early 2008, the AHP has sought to transfer risk to the developer.<sup>4</sup>

**2.30** Another example of the cost of holding properties relates to instances, under the first procurement scheme, where a small number of properties remained unsold to affordable purchasers and in 2008 the developers requested that these be contractually 'purchased in' by the local authority. The local authorities borrowed the capital funds from the HFA. This gave rise to interest charges from the time the loans were issued until they sold the houses. The local authorities were reimbursed the interest in these two instances by the AHP. The charges were €70,169 in respect of one development and €38,925 in respect of the other development.

<sup>4</sup> However, see Case Study 2 re developments in Dublin City Council.



### **Land Swaps – Surplus State Property**

**2.31** Some of the delivery of affordable housing under the AHI has been achieved by the use of land swaps. Under this process, State land is exchanged with a developer for discounted properties.

**2.32** To date, the AHP has concluded two land swap deals, both in 2006. The first swap was of Broc House under which an OPW owned site in Nutley Lane was swapped for units in Ongar, Clonsilla in a deal with a developer. The details of the arrangement have been outlined in Case Study 1.

**2.33** The second land swap involved a site owned by the OPW on Harcourt Terrace which was swapped in a deal with a developer in consideration for discounts on a total of 215 new homes in seven developments in South West Dublin. The market value of the Harcourt Terrace site as determined by an independent valuation in June 2006 was €17.7 million. The value of the discounts received on the homes this land was exchanged for was approximately €35.5 million.

**2.34** A land swap can have advantages over the development or sale of the site. If the swapped site is in a high value area or on high value land and is not capable of supporting many houses, housing development by the State is likely to be uneconomic and time-consuming and to yield a sub-optimal amount of housing units. Figures 2.3 and 2.4 show the number of properties (as estimated by the AHP at decision stage) that could be provided and the delivery time of these properties under the various alternative methods of delivery for both land swap deals.

**Figure 2.3 Broc House Land Swap**

Option	Estimated time to completion	No of units possible
Development of lands	37 months	24
Sale of lands	24 months	74
(assuming lands achieved €8 million)		
Land Swap	14 months <sup>a</sup>	89

Note:

a The actual delivery time under the land swap was 22 months.

**Figure 2.4 Harcourt Terrace Land Swap**

Option	Estimated time to completion	No of units possible
Development of lands	52 months	37
Sale of lands	24 months	166
(assuming lands achieved €17.7 million)		
Land Swap	10 months	215

### **Exploiting Public Lands**

**2.35** Five former State sites were assigned to the AHP for examination to determine how best to provide affordable homes. These include the two sites that were subject to the land swaps and another three sites which could potentially provide a total of 950 units between them. These sites are located at Magee Barracks in Kildare town, Backweston near Celbridge in Kildare and Gormanstown in Meath. The Magee Barracks site was the only site to be identified for possible development as a public private partnership project.

**2.36** The AHP has carried out feasibility studies on all five sites. Two sites have been used to deliver affordable housing through land exchanges. Two of the sites are not appropriate to develop at the present time due to the location or nature of the sites concerned and the AHP consider that better value may be obtained by retaining them in State ownership for development in the future. While most State sites identified for affordable housing are not under the control of the AHP, progress on the five sites that are under its control has been slow with only two providing additional delivery of affordable housing, two others not recommended for the provision of affordable housing at this point, with proposals regarding options for the development of the fifth site, Magee Barracks, being reviewed having regard to market conditions.

**2.37** 47 sites belonging to local authorities were identified as being potentially suitable for development for affordable housing with the potential to deliver in excess of 4,100 units. Final delivery to the affordable purchaser has already taken place on some of these sites with construction under way on others and some lands are still being assessed or are going through the planning process.

**2.38** As well as this, there are currently nine active projects involving State lands at various stages of completion outside the remit of the AHP. It is estimated that these projects could deliver in the region of 1,664 affordable homes nationwide. One other swap delivering 193 homes has already been completed by Dublin City Council in respect of a site at Harcourt Terrace, Dublin.<sup>5</sup>

### ***Calls for Lands Initiative***

**2.39** An objective of the AHP is *'to undertake a series of measures on behalf of local authorities in the Dublin Metropolitan Area to bring land forward for housing development including the invitation and consideration of proposals from builders and/or developers for the utilisation of lands not currently zoned for housing but which may be suitable for development'*.

**2.40** In this regard, a 'Call for Lands' initiative was commenced in November 2005 seeking proposals for sites within the GDA which could be developed mainly for affordable housing (minimum 70%). This involved a two-stage process. In the first instance, proposals for lands that could be developed for mainly affordable housing were sought. A preliminary assessment was carried out by the AHP on the suitability of all proposals received. Thereafter, a request for a detailed submission on the sites selected was sought.

**2.41** A total of 35 initial proposals were received. Twelve sites were found suitable. Detailed proposals were received in respect of seven sites. These proposals were examined in conjunction with the local authorities concerned and the Board of the AHP recommended that five sites be developed for affordable housing. Following further discussion and negotiation with the proposers of the sites, covenants were signed in respect of two sites in December 2006. One site was in Dun Laoghaire/Rathdown County Council and the other in South Dublin County Council. The two sites had the potential to provide 1,100 affordable units between them. After strong objections from local residents, the site in the Dun Laoghaire/Rathdown area was rejected by the Council, while the developer withdrew the site in South Dublin County Council.

**2.42** Overall, the 'Call for Lands Initiative' has not been a success to date due to factors outside the control of the AHP.

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<sup>5</sup> This is a different site to the site (also at Harcourt Terrace) involved in the 2006 land swap.

### ***Infrastructural Coordination***

**2.43** A further objective envisaged for the AHP was to coordinate infrastructural development necessary to support housing in the GDA. To this end, the AHP worked with the GDA Regional Planning Guidelines Office (RPGO) as it liaised with local authorities in the GDA and other bodies involved in infrastructural development. The AHP and RPGO also monitored the progress of infrastructural projects which helps to inform planning guidance to ensure that infrastructure is sufficient to support housing development in the GDA.

**2.44** Subsequent to the assignment of this function to the AHP, a Developing Areas Initiative was established under the Spatial Policy Section in the Department to support work at central and local government levels designed to secure better coordination and timely delivery of key infrastructure and services in fast developing areas in parallel with housing development. The Department is currently finalising recommendations in this regard. Consequently, the role of the AHP in relation to infrastructural development has in effect been superseded by these new arrangements.

### ***Market Risk Management***

**2.45** The Department reached agreement with the Irish Home Builders Association (IHBA) in 2006 under which affordable homes could be sold directly by developers to affordable home purchasers. The IHBA subsequently withdrew from the agreement. While a number of developers still operate direct sales arrangements, in the majority of cases affordable units are bought by the local authority and then sold to affordable purchasers. At a time of significantly increased delivery of affordable housing, the falling housing market has resulted in local authorities accumulating a backlog of unsold affordable homes delivered under Part V agreements. This has arisen because the reduction in the market price has narrowed the gap with the discounted price and because the downturn in the overall housing market, due to lower price expectations and a credit shortage, has impacted on the affordable sector. This, in turn, reduces the incentive for eligible purchasers to buy the affordable homes already acquired by local authorities at higher market prices.

**Case Study 2**

In January 2009 Dublin City Council had a stock of 630 affordable homes on offer to applicants. 300 of these were unsold houses that it had to purchase from developers which it estimated were costing upwards of €300,000 a month in bridging loans and fees. During 2008, the attractiveness of certain affordable units, although already discounted by up to 30%, diminished because the gap between the affordable price and the market price reduced to almost zero in certain areas due to the sharp fall in market price. By way of response to the change in the housing market and its impact on existing arrangements with developers for the provision of affordable homes, the Council intends to widen the options that it has been using to date to obtain the mix identified in its development plan for affordable and social housing needs. It has signalled an intention to change its policies on Part V contributions, favouring accepting money rather than housing stock under Part V. In regard to the existing stock, if it continues to have difficulties in selling the affordable homes, it has indicated that it will consider implementing the following options

- reduce the sale price to at least 20% below the current market price
- offer the units for sale to people who would qualify for affordable housing but who have not applied
- use the remainder as rental accommodation until the housing market recovers and then return them to the affordable housing stock
- seek the Department's agreement to increase maximum loan amounts and income limits applying to Local Authority Annuity loans for the purpose of the purchase of affordable housing.

Dublin City Council is currently revising its strategy for the sale and marketing of affordable housing and the Department considers that some 400 affordable units can be sold in the short term.

**2.46** While it would be expected that local authorities would ordinarily have a certain number of affordable homes on hands at any given time, principally comprising units either being prepared for or in the course of sale, the Department informed me that many local authorities have seen their stock of affordable housing increasing significantly. Reasons suggested for this include the prevailing negative sentiment in the housing market.

**2.47** In late 2008, the Department requested the AHP to undertake an analysis of the position in the highest delivery local authority areas, the result of which showed that, notwithstanding the achievement of significant levels of sales of affordable units over the course of 2008, it is estimated that the number of affordable units on hands nationally in early 2009 has risen to 3,700 units from approximately 2,200 at the end of 2007. The Department has indicated that over 1,000 (of the 3,700) are already in the process of sale and units continue to sell despite the current housing market difficulties.

## Overall Conclusion – AHP Administration

The role of the AHP has evolved substantially since its inception in 2005. Over that time, it has played a useful role in helping to adapt affordable housing policy to developments in the housing market and the economy.

- The AHP has delivered 1,091 affordable homes through various interventions.
- In its direct procurement during 2006 and 2007, it negotiated discounts of around 2% while achieving fixity of prices in a sharply rising market.
- Subsequently, one land swap arrangement in a falling market led to a need to compensate a developer to ensure the combination of income from purchasers and the state subsidy yielded the original contracted price. Thereafter, the AHP sought to manage the risk by setting prices based on market levels at completion.
- In the case of Part V arrangements, current market conditions have led to a situation where there has been a growth in the number of affordable units on hands in local authorities. The Department is engaging with local authorities as well as the County and City Managers Association and the AHP on this matter. One option being considered is to deploy available affordable units for other housing purposes where appropriate.
- The AHP has managed two land swaps of central Dublin sites for housing units at the outskirts. These tended to speed up delivery and achieve a higher number of units than would have been possible on the existing sites. However, progress has been slow on delivering units on other earmarked lands.
- The 'call for lands' initiative was not a success, due to factors outside the control of the AHP (principally local objections in the case of the identified sites).
- In the area of infrastructural coordination, revised arrangements are being established by the Department effectively eliminating the AHP role.

## Accounting Officer Observations

**2.48** The Accounting Officer considers the establishment of the AHP to have been worthwhile in developing a range of practical options for the supply and provision of affordable housing units at a time of extreme market volatility. The AHP should be viewed not only in the context of additional direct delivery of affordable housing but also in terms of the role it has played in supporting local authorities in areas of activity such as the implementation and promotion of a common approach to the Part V process. The AHP has provided other support services such as the production of handbooks, toolkits and a website<sup>6</sup>.

**2.49** As a result of a wide ranging review of various schemes commissioned by the AHP at the Department's request which was reported in 2008, a number of recommendations have already been put into effect and the key measure remaining, the replacement of the reducing clawback by a fully repayable equity stake, will be implemented following the passing of legislation currently before the Oireachtas. Overall policy objectives and approaches, including delivery targets and associated timescales, will be kept under review in light of the changing market conditions and proposals submitted to Government, as appropriate.

**2.50** The Department and local authorities appreciate that there is a need to match the demand and supply of affordable housing. Each local authority's Housing Strategy (under the Planning and Development Act 2000) is the key document for assessing the broad requirements in terms of housing needs. Housing strategies are required to be up to date and compliant with Government housing policy. It is open to local authorities to undertake a formal update of their strategies where circumstances have changed significantly. It would be appropriate that authorities should review their strategies in light of the significant changes that have occurred in the housing market over a relatively short period. A key objective of these reviews would be to optimise the match between supply and demand for housing both globally and with respect to particular house types and locations.

**2.51** Multi-annual housing action plans have been adopted by local authorities. These action plans have a strategic component focusing on the needs of the area and the context for delivery and a programme component directed at providing a coherent and integrated multi-annual plan for the delivery of the various housing supports to meet the identified need. In this context, targets for affordable housing are set by each local authority and Housing Action Plan meetings between the Department and each local authority are held twice yearly to review and revise these targets.

**2.52** The Department has indicated that it is actively managing the emerging situation in relation to unsold units and has discussed the matter in detail with local authorities at the Housing Action Plan meetings held in March 2009. The AHP also held a seminar on the matter for local authorities in February 2009. On 7 April 2009, the Department issued a comprehensive circular on the matter to local authorities (accompanied by an AHP Sales Strategy), which set out guidance in relation to the stock of affordable homes and advising on the range of options that might be pursued by authorities to address this issue, including the deployment of affordable units for other housing purposes where this is appropriate and is approved by the Department. Local authorities have been requested to evaluate urgently all the options for the most appropriate and effective approach to deal with unsold affordable housing. Their proposals will be considered by the Department in consultation with the AHP. In addition, the Department intends to undertake a review of the approach to affordable housing generally, having regard to the significant changes in the housing market and experience to date with the affordable housing schemes.

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<sup>6</sup> 'Your Affordable Home Handbook' aimed at affordable home purchasers; the 'Affordable Housing Toolkit' which is a best practice guide for local authority staff on affordable housing and the launching of the website [www.affordablehome.ie](http://www.affordablehome.ie) which is a single source of information for the public and provides a facility for each local authority to advertise their affordable home availability.