

## **Chapter 23**

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

**Leasing of Social Housing**



## Leasing of Social Housing

23.1 The Department of Environment, Heritage and Local Government (the Department) is responsible for the formulation and implementation of policy and for the preparation of legislation in relation to housing, including the State's affordable and social housing.

23.2 The overall objective of its housing policy 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. A variety of schemes are in operation in order to fulfil this objective. 88 housing authorities operating under the aegis of 34 local authorities administer most of the schemes.

23.3 The State currently provides in the region of 152,000 social housing units. These are made up of 120,000 units provided by local authorities, 20,000 by the voluntary and co-operative housing sector and 12,000 units provided through the Rental Accommodation Scheme.

23.4 In addition, rent supplementation has been used to assist persons on low incomes in need of accommodation. The total cost of rent supplement in 2009 was €510 million for 93,030 recipients.

23.5 A target to deliver 27,000 new social housing units in the period 2006-2015 was set in the ten year Social Partnership Agreement '*Towards 2016*'. Historically, social housing was provided through the construction or procurement of housing by local authorities and voluntary and co-operative housing bodies. More recently, social housing is also provided through the rental and leasing of properties.

## The Leasing Scheme

23.6 As part of its provision of social housing the Department introduced a new procurement approach in early 2009. It involved leasing property from the private sector to meet social housing need<sup>173</sup>.

23.7 This scheme represented a further shift, away from the traditional approach to social housing delivery based on 100% capital funding by the State, to one of long-term leasing. The Rental Accommodation Scheme, introduced in 2004, had introduced new arrangements for the provision of social housing to persons who had been in receipt of rent supplement for 18 months or more and had a long term housing need through the sourcing by local authorities of accommodation from the private rented market. By contrast, the new leasing approach involves local authorities and approved housing bodies entering into lease arrangements with property owners. The leases are normally for periods of between ten and twenty years. The scheme has developed in two stages

- Initially, it provided for the leasing of properties from the private sector to accommodate households from local authority waiting lists.
- These arrangements were later extended to include approved housing bodies<sup>174</sup>.

23.8 The intention is that leases will be funded as part of the Social Housing Investment Programme and will be the 'first call' for funding under that programme in future years. In 2009, €20 million was set aside for this purpose and €25 million has been provided in 2010.

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<sup>173</sup> The statutory basis for the provision of social housing through leasing rests in the Housing Act, 1996 and has been updated in the Housing (Miscellaneous Provisions) Act, 2000.

<sup>174</sup> Such bodies include Cluid, Helm and Respond.

23.9 While the aim of the leasing initiative, in its early stages, was to procure bundles or multiples in larger units, this was later extended to allow for the procurement of single units.

### **Chapter Focus**

When the new approach was introduced in 2009, it was envisaged that the use of leasing would allow for more efficient and effective use of available public resources in meeting housing output targets.

This chapter examines the arrangements to lease social housing units from private owners. It does not examine the use, by local authorities, of unsold affordable homes for social housing or the procurement of units by approved housing bodies using private finance remunerated on the basis of lease payments, both of which the Department also classifies as part of its wider Social Housing Leasing Initiative. The chapter reviews

- the procedures underpinning the operation of the scheme by local authorities and approved housing bodies
- the uptake of the scheme since its inception and the average cost of units procured
- the rationale underpinning the decision to adopt a leasing-based approach to the delivery of social housing
- the controls in place in the Department over the use of the scheme by local authorities and approved housing bodies.

### **Social Housing Provision**

23.10 Prior to the inception of the leasing initiative local authorities provided housing through two main mechanisms under the Social Housing Investment Programme

- They purchased or constructed housing using capital funding from the Department.
- They provided housing through a Rental Accommodation Scheme initiated in 2004.

23.11 The new leasing initiative is similar to the Rental Accommodation Scheme in that it uses private rented dwellings to meet housing need but differs in that, in general

- it uses a longer-term lease arrangement rather than a short to medium term availability agreement used in the Rental Accommodation Scheme
- the local authority or approved housing body takes over landlord responsibility under the leasing initiative and generally assumes responsibility for insurance, non-structural maintenance and general repair of the property.

The scheme is open to all persons eligible for social housing support, not just those who are 18 months or more in receipt of rent supplement.

## Leasing of Social Housing

23.12 As currently structured leasing arrangements may be entered into with private house owners either by local authorities or by approved housing bodies<sup>175</sup>. The term of the lease agreements negotiated may range from ten to twenty years. The local authority or approved housing body is responsible for the insurance, non-structural maintenance and general repair of the properties.

### Approved Housing Bodies

Approved housing bodies are non-profit organisations established by a voluntary management board and are usually created to deal with a specific housing need<sup>176</sup>. In December 2008, there were over 700 housing bodies approved by the Department.

Heretofore, approved housing bodies received capital under two funding mechanisms

- A Capital Assistance Scheme, set up in 1984, is a funding stream that approved housing bodies can avail of to provide special needs housing such as housing for the elderly, people with disabilities or homeless persons. 95% of the funding costs of projects, subject to certain maximum limits is provided. The scheme is administered by local authorities who submit an application for funding to the Department on behalf of the approved housing body undertaking the project. As work is carried out on the project, the Department makes payments to the approved housing body through the local authority.
- A Capital Loan and Subsidy Scheme (CLSS), introduced in 1991, is predominantly used to provide for general needs or family type housing. 100% of the costs of the project are provided by way of a mortgage loan from the local authority who accesses finance from the Housing Finance Agency. An annual management and maintenance allowance is paid to the relevant housing body. The Department has stated that there has been a decline in CLSS funding due to the current economic climate and it does not expect to provide additional funding for new works under this mechanism in the future.

23.13 The rent payable under the lease is guaranteed to the private house owner (the lessor) for the whole lease period, is subject to rent reviews and may be revised upward or downward depending on market conditions. When introducing the new arrangements, the Department set out its expectation that the rent should reflect the strength of the rental income guarantee, the lease duration, the transfer of maintenance and management responsibilities and special terms and conditions of the lease. The Department indicated that a discount of 20% on prevailing market rents would be expected based on a discount for voids<sup>177</sup> of 8% and a 12% discount in relation to management and maintenance.

23.14 Under the arrangements the owner generally retains responsibility for the management company fee and structural repairs. At the end of the term, properties have to be returned to the landlord in the same general condition having regard to fair wear and tear.

<sup>175</sup> Approved housing bodies can also undertake to purchase/construct units using private finance. They are remunerated based on lease payments calculated by reference to prevailing market rates, discounted generally by 20%, together with an additional amount of 12% of lease payments to cover cyclical maintenance.

<sup>176</sup> The statutory basis for approved housing bodies is Section 6 of the Housing (Miscellaneous Provisions) Act, 1992.

<sup>177</sup> Voids are periods in which there is no tenant. The lessor is paid regardless of whether the property has a tenant or not and a discount on the rent agreed is sought in exchange for this guaranteed income stream.

23.15 The approved housing bodies are required to liaise with the relevant housing authority in relation to the allocation of leased units. The Department enters into a payment and availability agreement with the approved housing bodies to make these properties available for social housing purposes.

23.16 The local authority then allocates the house to an individual on the social housing list and rent is collected as appropriate. Rents are retained by the local authority or the approved housing body to cover ongoing maintenance costs.

## Housing Units Provided to Date

23.17 By end June 2010, the Department had approved funding for the leasing of 175 social housing units. Of these, 47 are operational and a further 128 units have received full funding approval and are at the point where legal agreements and negotiations are being finalised. A further 468 units are at 'approval in principle' stage. Progress to June 2010 is summarised in Figure 120.

**Figure 120 Leased Housing Units, June 2010**

Type Leasing	Operational	Funding Approved	Provisional Approved	Total
Local Authorities	17	93	137	<b>247</b>
Approved Housing Bodies	30	35	331	<b>396</b>
<b>Total</b>	<b>47</b>	<b>128</b>	<b>468</b>	<b>643</b>

Source: Department of Environment, Heritage and Local Government

23.18 Despite the large number of properties available on the market, the new leasing scheme has had a slow uptake. A number of examinations have been conducted to estimate the level of properties available for sale.

- A report completed by Affordable Homes Partnership in June 2009, estimated that there were approximately 11,400 newly built housing units available for sale in the greater Dublin area<sup>178</sup>.
- A report produced in July 2010<sup>179</sup> estimated the potential over-supply on a national basis at between 103,300 and 171,200 housing units.

23.19 The Department believes the slow uptake is due to uncertainty in the property market and the inclusion of a large number of property owners in the NAMA process. It expects that by the end of 2010 an increased supply of suitable properties will become available for leasing through NAMA. It also suggested that

- many local authorities have concentrated on dealing with their unsold affordable stock as priority
- there is natural lead-in time for any new initiative, which involves putting in place a range of regulatory, contractual and policy processes and procedures
- while there is a recognised over-supply of property in the market not all units are suitable for social housing purposes

<sup>178</sup> Report made to the Affordable Homes Partnership Board in June 2009 of unsold market stock in the Greater Dublin area during the period March – May 2009

<sup>179</sup> National Institute for Regional and Spatial Analysis, NUI Maynooth, Working Paper 59, July 2010.

- there have been uncertainties in the financial markets leading to reluctance of lending bodies to agree to longer-term contracts.

### **Cost of Units**

23.20 The cost of units approved under the leasing arrangements was examined in the course of audit. The breakdown by unit type is set out in Figure 121.

**Figure 121 Cost of Privately Owned Housing Units either Operational or Approved for Funding under Leasing Arrangements, June 2010**

Type of Unit	Local Authorities		Approved housing bodies	
	Number of units	Average cost per month	Number of units	Average cost per month
1 bedroom	18	€390	-	-
2 bedroom	35	€470	46	€670
3 bedroom	57	€494	19	€610
<b>Total</b>	<b>110</b>	<b>€470</b>	<b>65</b>	<b>€652</b>

23.21 Of the actual 175 units operational or at funding approved stage, 34 units are leased for a period of twenty years with the remaining units leased for ten years or less.

### **Rationale and Cost Effectiveness**

23.22 In relation to the rationale underpinning the decision to acquire social housing units by way of leasing, the Department stated that no formal cost-benefit analysis was carried out. It stated however that the findings of an appraisal<sup>180</sup>, which compared the cost of leasing with the cost of direct provision in the voluntary and co-operative housing sector, supported the adoption of leasing as a procurement mechanism. However, this review was completed in September 2009 and post-dated the introduction of the scheme. Its focus was limited to housing provision through approved housing bodies. The appraisal concluded that a lease option resulted in lower costs over a 30-year time scale.

<sup>180</sup> Strategic Review of the Capital Funding Schemes for Voluntary and Cooperative Housing, September 2009.

## Appraisal of Options

The Centre for Housing Research<sup>a</sup> commissioned a strategic review of the capital funding schemes for voluntary and co-operative housing, seeking recommendations for future funding arrangements and the role of the voluntary and co-operative sector in the provision, maintenance and operation of social rented accommodation in Ireland.

In carrying out the appraisal the following assumptions were made in relation to the options considered

### **Construction of Housing Units**

- The purchase or construction cost would be €250,000 with a residual value, after 30 years of €33,626. This equated to a real rate of increase in property value of 33% over the 30-year period or 1% per annum.
- Annual maintenance expenditure was estimated at €2,800 based on the most recent data available from local authorities. In developing the estimate, it was assumed that buildings provided would comply with current building standards.
- It was estimated that an amount of €30,000 would be required over the 30-year period to cover occasional more significant expenditure.
- A provision of €60,000 was made to cover extensive refurbishment of the dwelling at the end of the 30-year period.
- Annual rent receivable from the tenant was estimated at €2,400 based on an average rent paid by tenants in 2007 of €2,363. It acknowledged that actual rental income varied across local authorities.

### **Leasing of Units**

- The costs included were limited to the lease payments on the basis that it assumed that the State would be responsible for day-to-day maintenance and the owner would take responsibility for the periodic maintenance and refurbishment.
- Lease costs were estimated at €7,700 per annum. This was based on the owner seeking a real rate of return of 4% and taking a 30-year 100% mortgage for the cost of the dwelling (estimated at €250,000).

Source: Strategic Review of the Capital Funding Schemes for Voluntary and Co-Operative Housing.

Note:

- a The aim of the Centre for Housing Research is to improve the management of the social and affordable housing sectors through research, training and policy advice. The Department of the Environment, Heritage and Local Government and local authorities fund its work.

## Results of Appraisal

23.23 The appraisal commissioned by the Department compared the cost of providing social housing through capital expenditure, provision of a house by way of a 30-year mortgage and the option of leasing dwellings. The cash flows over a 30-year period under each option were discounted using a 4% real discount rate. The cost when calculated on a net present value basis estimated the cost of providing a housing unit using up-front capital provision at €180,315 and the cost of leasing was put at €139,681. On this basis, the review concluded that the analysis supported the policy of the Department to promote leasing of dwellings. The results of the appraisal are set out in Figure 122.

**Figure 122 Comparison of Provision Options, September 2009**

Funding Mechanism	Net Present Value
	€
Capital Expenditure to purchase/construct property	180,315
Housing unit supplied by way of mortgage	146,996
Lease Option	139,681

Source: Strategic Review of the Capital Funding Schemes for Voluntary and Cooperative Housing, September 2009.

### ***Review of Department Appraisal***

23.24 As a basis for the appraisal of options, the appraisal was limited in a number of respects

- The lease costs were based on an expected rate of return for the owner. No account was taken of prevailing rates in the rental market, which had fallen by approximately 18% in the period July 2008 to July 2009<sup>181</sup>. It also did not take account of the requirement for lease payments agreed to be discounted at a rate of 20% to take account of the certainty of the rent.
- The cost of the leasing option did not take account of maintenance costs as it assumed that the owner would take responsibility for the periodic maintenance and refurbishment. This is not in accord with the proposed arrangements, which specify that the local authority or approved housing body is responsible for the insurance, non-structural maintenance and general repair of the properties while the owner retains responsibility for the management company fee and structural repairs. At the end of the term, properties have to be returned to the landlord in the same general condition having regard to fair wear and tear.
- The comparison was done over a 30-year time frame, whereas the leasing arrangements provide for lease terms of between ten and twenty years.
- The residual value of the property (in the case of up-front capital expenditure) has a significant impact on the cost of the leasing option. No substantiation was available in respect of this value, which assumes a 33% real increase in the value of the property over the 30-year time horizon.
- The report is based on leasing by an approved housing body whose focus can differ from that of a local authority.
- Sensitivity analysis was not conducted to examine the extent to which the results were dependent on key cost elements, in particular, the residual value of the purchased property.

23.25 For the purpose of this examination, after adjustment for the cost of the leasing option the relative costs were re-calculated using the same assumptions in relation to the cost of maintenance as those used in relation to the option where the property is purchased or constructed. The cost of the leasing option is increased when account is taken of the difference between annual maintenance costs and rent received estimated at €400 per annum, periodic maintenance of €30,000 and refurbishment at the end of the period of €60,000. The cost of the leasing option in net present value terms taking account of maintenance costs is approximately €178,000 as compared with €180,000 where the property is constructed or purchased — the difference in cost is marginal. Reworking based on ten, fifteen and twenty year horizons also suggested that using

<sup>181</sup> Source: The Daft.ie Rental Report Q2, 2009.

similar assumptions the differences were marginal with the purchase option being less expensive in all cases. Figure 123 outlines the results.

**Figure 123 Cost of Lease and Purchase Options over Three Time Periods**

Lease Term	Leasing Option	Purchase Option <sup>a</sup>	Excess of Lease Cost over Purchase Cost
	€	€	
Ten-year	90,700	83,700	8%
Fifteen-year	122,300	117,300	4%
Twenty-year	143,800	141,600	2%

Note:

- a Leasing option based on rent of €7,700. Purchase Option based on initial cost of €250,000 and residual value of €273,421 after 10 years, €287,369 after 15 years and €302,027 after 20 years. Assumptions in relation to annual periodic and end of term maintenance were the same as those used in Figure 122, adjusted to take account of the reduced timescale.

### **Comparison Based on Current Market Conditions**

23.26 For the purpose of this review, the cost of the leasing and the purchase option were recalculated based on the latest available information in relation to house prices and rent costs. The result of this review has to be subject to the caveat that current conditions in the property market are not stable. In a normal property market the relationship between rent and property prices would be expected to remain stable. The price an investor is prepared to pay for a house would reflect expected rents and capital gains and the cost of borrowing. Given current economic conditions, rent prices may settle at a rate somewhat lower than this, due to the availability of large numbers of properties and a stagnant market.

- The cost of purchasing a property was assumed at €226,500 based on data published by the Department for prices at the end of 2009.
- Lease costs were estimated at €6,280 based on the prices agreed in relation to the 76 three bedroom units where approval had been granted, to local authorities or approved housing bodies, to enter into lease agreements.

The results are set out in Figure 124.

**Figure 124 Cost of Lease and Purchase Options (Net Present Value)**

Lease Term	Leasing Option <sup>a</sup>	Purchase Option <sup>b</sup>
	€	€
Ten-year	78,700	78,200
Fifteen-year	105,800	109,400
Twenty-year	123,700	131,500

Source: Analysis by Office of the Comptroller and Auditor General

Notes:

- a Assumes lease payments of €6,280 per annum.  
 b Assumes purchase price of €226,500.

23.27 The results would suggest that, using up-to-date information in relation to house prices and the rental rates agreed in relation to the properties progressed under the leasing arrangements, the cost of the leasing and purchase options are broadly equivalent with slightly better value being provided by the leasing option over longer time horizons.

23.28 However, the result is very sensitive to a number of factors

- For example, if the rate of increase in the value of properties is estimated at 0.5% per annum as opposed to the 1% used in the review, the cost of the purchase option increases to €85,800 over the ten-year time frame and €143,200 over the twenty-year period.
- The cost of the leasing option is heavily dependent on rental levels. If rent was €7,000 per annum as opposed to the €6,280, the cost of the leasing option increases to €84,800 over ten years and €143,300 over twenty years.
- The cost of the leasing option is not as sensitive to reinstatement costs. For example, if the costs of reinstating lease properties was 33% more expensive than similar refurbishment of owned properties, the cost of the leasing option increases to €83,400 over ten years and €129,900 over twenty years.

### ***Observations of the Department – Rationale and Cost Effectiveness***

23.29 The Accounting Officer stated that, the key objectives of housing policy are to broaden the range of programmes, diversify delivery methods and deliver a graduated system of flexible supports that are capable of being tailored to take specific account of the particular needs of households at whatever point they are in the life-cycle. The life-cycle concept allows the degree of support provided to be adapted according to the changing needs of a particular household over time, with the greatest degree of support provided in times of greatest need, and lesser supports as circumstances improve.

### ***Evaluation of Leasing as a Procurement Mechanism***

23.30 In relation to cost-benefit analysis, the Department outlined a number of calculation difficulties

- it noted that developing financial models underpinning a range of social housing delivery mechanisms is difficult, especially in a period where market conditions are in a state of flux.
- the Department also stated that, as the terms and conditions of the different funding models under the leasing initiative were being developed and negotiated over a period of time, it was not possible to provide a single economic study.

23.31 The Department stated that it has commenced a formal study (as part of the Government's Value for Money and Policy Review Initiative) on the broader issues of government policy on capital investment in social housing with expected completion in early 2011. This study will examine the use of alternative delivery mechanisms including leasing and will consider the role and cost of rent supplement and the wider social consequences of allowing for any deferral in meeting housing need.

23.32 It maintains that preliminary work carried out would suggest that leasing provides a cost-effective delivery mechanism for providing social housing support.

23.33 The Department provided the following comments in relation to maintenance costs.

- It is currently undertaking a review of maintenance, cyclical repair and reinstatement costs in social housing. Previous studies have indicated that significantly different amounts are spent on these costs across the local authorities due to the different types, age and size of units. Notwithstanding these difficulties, it estimates that reinstatement costs of the order of €30,000 at the end of a 20-year period would be a reasonable cost to assume for social housing.
- In relation to an appropriate provision for leased properties, the Department noted that it has no practical examples or experiences to provide an estimate of potential reinstatement costs. It noted however, that a cost of less than €30,000 must be considered appropriate for reinstatement of a lease unit since the State is not liable for structural repairs and the unit needs only to be reinstated to its condition at the commencement of the lease less fair wear and tear.

### ***Wider Effectiveness Issues***

23.34 The Department provided data showing the increased number of housing units that can be provided using leasing as opposed to up-front capital investment. This showed that, in any year with an investment of €25 million, the Department could procure approximately 100 housing units as compared with approximately 3,500 using leasing.

23.35 The Department noted that there is a wider rationale for the scheme than the purely economic (lowest cost). It stated that the move to leasing reflects the evolution of housing policy over a period of time towards the development of a more flexible and graduated system of housing supports.

## **Oversight by the Department**

23.36 Eight projects comprising 125 units were examined to establish

- whether the contractual arrangements complied with the scheme requirements
- whether the Department had sufficient evidence that expected discounts on the rent payments had been secured
- the clarity of the arrangements in relation to relative responsibilities of the lessor and the local authority or approved housing body at the end of the lease term.

### ***Types of Contractual Arrangements***

23.37 The initial schemes provided for the housing authority to enter into a lease arrangement with a property owner for periods of between ten and twenty years for unfurnished and vacant properties. This entailed concluding a full 'repair and insure' lease with the housing authority responsible for insurance, maintenance and upkeep, except where there is a management company in place that has responsibility for insuring certain aspects of the properties.

23.38 The arrangements in place in six projects involved leases between property owners and local authorities or approved housing bodies.

23.39 The audit noted that one local authority project classified under this leasing arrangement comprised, in fact, two Rental Accommodation Scheme arrangements consisting of one unit each. The agreements were tenancy agreements. The Department and the local authority do not classify these as part of the Rental Accommodation Scheme since it does not have authorisation to enter into rental arrangements for tenants other than for those in receipt of rent supplement. Where

rental arrangements are put in place for tenants, other than those in receipt of rent supplement, these are included under the Social Housing Leasing Initiative.

23.40 A further project, comprising a retirement village, sanctioned in relation to an approved housing body was unusual in that the property was in receipt of tax incentives, arising out of a previous lease arrangement. The ensuing arrangement was a tenancy agreement between the developer and the tenant.

23.41 This project involved payment and availability agreements, management agreements and Rental Accommodation Scheme type agreements designed to allow the continuation of the tax incentives for the property owner.

23.42 Due to tax designation restrictions the tenants must sign their tenancy agreement with the landlord and all tenants must be qualifying occupants as defined in the Taxes Consolidation Act 1997, which requires certification by a General Practitioner.

23.43 The Department noted that the inclusion of Rental Accommodation Scheme type arrangements as part of the leasing initiative are designed to allow local authorities more flexibility in their negotiations and approach to leasing. It stated that in terms of statistics produced on the leasing initiative, in general, it is satisfied that the different categories of housing and funding are correctly identified. However, the Department intends to review the way in which those statistics are presented.

### ***Lease Payments***

23.44 The Department stated that in approving projects for funding it seeks evidence that the appropriate discount on rent payments has been secured by way of formal valuations by appropriately accredited individuals.

23.45 The evidence on file in relation to prevailing market rents for the eight projects examined was as follows

- Auctioneers reports were on file in seven cases. In these cases, the agreed lease payment had been reduced by the appropriate amount by reference to the valuation reports on file.
- The file in relation to the remaining project did not contain an independent valuation supporting the agreed rent payments. However, this agreement was not a lease but a Rental Accommodation Scheme type agreement and involved less than five units and in such cases the Department has delegated authority to the local authority to enter into the lease agreement without specific sanction.

### **Termination Arrangements**

23.46 The Department will reimburse the local authority or the approved housing body in respect of up to 50% of the reinstatement costs at the end of the term. The Department has not developed estimates of the likely level of reinstatement costs.

23.47 The lease template issued by the Department provides that the local authority or approved housing body will keep the unit in good repair, order and condition except for fair wear and tear. The Department sought advice from the Housing and Sustainable Communities Agency<sup>182</sup> on what constitutes fair wear and tear. The advice stated that when determining fair wear and tear, consideration should be taken of the number of tenants that reside in the property, the term of the tenancy and the age of the fixtures and fittings. It went on to state that in order to mitigate future risks, a detailed condition survey should be agreed between the lessor and the lessee at the start of the term.

23.48 Three of the eight files examined showed evidence of such surveys. The Department does not seek evidence that a survey has been conducted and is of the view that this as a matter for individual authorities and approved housing bodies.

### **Conclusion**

The mechanisms used to provide social housing have changed in recent years. The traditional approach based largely on acquisition and construction has been expanded to include rental, leasing and rent supplementation.

This chapter looked at a new scheme to lease property from private owners for social housing provision. To date, uptake under the new leasing arrangements has been slow. By June 2010, the leasing of 175 units had been approved by the Department of which, only 47 were fully operational. The Department has attributed the slow uptake to a concentration by the local authorities on the sale of their existing stock of affordable homes, the lead-in time for any new initiative and the fact that not all available units are suitable as social housing. The Department has also stated that the depressed financial markets together with the inclusion of a large number of property developments in the NAMA process has militated against uptake of the leasing arrangements.

The economic justification of leasing by comparison with up-front capital investment is based on analysis conducted in September 2009, at the request of the Department. This compared the cost of up-front capital investment with leasing using a 30-year time horizon and concluded that the cost of a single housing unit funded using up-front capital investment was €180,000 as compared with leasing of a property, which cost €138,000. In practice, lease terms in respect of leases concluded fell into two categories – one fifth of leases were for terms of 20 years and the balance were for terms of 10 years or less.

The appraisal conducted by the Department when reworked to ensure like-for-like treatment of costs would have suggested that the cost of the two main options were broadly equivalent, with leasing, in current market conditions, providing slightly better value over the longer term.

<sup>182</sup>

The Agency was established in May 2010 by the Department of the Environment, Heritage and Local Government. It is replacing a number of existing housing related agencies, namely the Affordable Homes Partnership, the Centre for Housing Research, the Homeless Agency and the National Building Agency. The Agency works with and assists local authorities, approved housing bodies and the Department in the delivery of housing, planning and related services.

From an appraisal viewpoint, in order to inform government policy and provide an evidence base for its decision-making, ongoing evaluation of options conducted in a two-stage process would be useful.

- The cost comparison between lease and buy options should be made taking account of all the cost components associated with each option. Testing should make comparisons based on units of different sizes and different lease terms as well as the differences in lease conditions concluded by local authorities and approved housing bodies.
- Thereafter, the decision should weigh wider effectiveness criteria and any cost premium arising out of the selection of a dearer option should be justified in terms of the wider effectiveness payoffs including the need to eliminate redundant housing units and minimise borrowing costs.

Given the volatility in the property market this analysis should be conducted on a frequent basis using the most up-to-date information available in relation to the cost of houses and rent prices.

From an administration perspective, since reinstatement costs will fall to be borne by the State, the Department needs to position itself to validate future claims by ensuring local authorities and approved housing bodies confirm the completion of condition surveys.

In regard to the effectiveness of procurement arrangements the Department is preparing a Value for Money and Policy Review. As part of this study it is examining the long-term cost of providing social housing through a range of different delivery mechanisms, including long-term leasing. The Department recognises that this type of evaluation will need to be revisited regularly as market conditions change.

Overall, the Department needs to better classify social housing outputs and, in particular, cease the practice of including Rental Accommodation Scheme type arrangements within leasing statistics and report on the numbers of units leased under each type of arrangement separately. It should also consider separating or clearly distinguishing instances where it is providing assistance for the leasing of property from the private sector and those under which existing State-subsidised property is being leased onwards.

## General Observations of Accounting Officer

23.49 The Accounting Officer stated that the Department's objective at all times is to ensure that the housing investment programme provides value for money while at the same time meeting the Department's social housing objectives.

23.50 The introduction of the leasing initiative, in addition to the earlier Rental Accommodation Scheme, represents an important change in the direction of housing policy and is key to addressing the challenge of ensuring an adequate supply of social housing over the next number of years. Leasing has an important role to play in furthering the goal of providing social housing accommodation to meet the needs of individual households within a life-cycle model.

23.51 The Department stated that in reviewing information from a number of sources, it had concluded that using standard discounting methods, reasonable assumptions about future trends and the best available information on costs and prices that leasing, in its different forms, represents a cost-effective and socially progressive approach to meeting housing need in current and likely future market conditions.

23.52 It stated that preliminary work completed on a Value For Money and Policy Review currently underway has strengthened the earlier conclusion that leasing of private dwellings

provides a cost-effective way of meeting housing need. This review will examine a number of different scenarios but the Department expects that as a variety of economic and social risks are considered, the study findings will strengthen the economic case for leasing over most other forms of housing support.

23.53 It also stated that in advancing leasing as one element within the social housing investment programme, it has to be cognisant of the constraints on available capital funding and of the opportunity costs associated with using capital monies for the acquisition of social housing rather than leasing. It added that any reduction in the number of households being provided with social housing support in a given year as a result of using capital investment rather than leasing is not without its social and economic costs.