

## 7 The Housing Agency's Revolving Acquisitions Fund

- 7.1** In the last quarter of 2016, the Department of Housing, Local Government and Heritage (the Department) provided the Housing and Sustainable Communities Agency, more generally known as the Housing Agency (the Agency), with €6.7 million in capital funding for the purposes of acquiring vacant houses and apartments. Subsequently, in 2017, the Agency received a further €70 million capital funding to establish a revolving fund for housing acquisition.
- 7.2** The intention was that this funding would be used to engage with banks and private equity investment funds in areas with high levels of social housing demand to acquire vacant residential units for social housing.<sup>1</sup> The units acquired would then, if necessary, be refurbished to comply with the standards for rented accommodation and offered for sale to approved housing bodies (AHBs) and to local authorities.<sup>2</sup> The Agency would replenish the revolving fund with the proceeds from the onward sale of the units. The restored fund could then be recycled by the Agency to acquire further residential units for social housing use.
- 7.3** The Housing Agency Acquisitions Fund (the Fund) was formally established with effect from 1 January 2017. The Fund was designed to complement, not displace, ongoing targeted acquisition activity by local authorities and AHBs.
- 7.4** The Agency's management of the Fund is overseen by the Department. The Department's strategic goal in relation to the Fund (as set out in the *Rebuilding Ireland Action Plan (2016 – 2021)*) is to acquire properties for social housing nationally, thereby increasing social housing delivery.<sup>3</sup>
- 7.5** The Agency is responsible for the day-to-day operation of the Fund including its financial management, the acquisition process, management and onward sale of the acquired residential units.
- 7.6** The relationship between the Agency and the Department is included in a broader oversight agreement (the agreement), effective from 2019.<sup>4,5</sup> The agreement briefly sets out the purpose of the Fund, the financial management and reporting requirements. The agreement expired in 2020. The Department stated that a revised agreement was drafted but has not yet been signed.
- 7.7** The Agency works with the Department, local authorities, AHBs and the private sector in the delivery of housing for citizens. The Agency's operating procedure sets out how the Agency reports to various stakeholders including the Department, local authorities and the Agency's Board. The Agency stated that it communicates regularly with all AHBs that are in the process of purchasing properties for use in social housing. Weekly or fortnightly meetings are held between the Agency and AHBs actively acquiring units.

1 This was set out in the *Rebuilding Ireland Action Plan (2016 – 2021)* as a short to medium term initiative in direct response to the social housing shortage.

2 While the primary focus was for onward sale to AHBs, some units were disposed of to local authorities.

3 The Department's strategy document *Housing for All*, covering the period to 2030, was published in September 2021.

4 The purpose of the agreement is to ensure, *inter alia*, that the Agency is discharging its statutory functions in an efficient manner.

5 The Agency stated that the governance arrangements and reporting requirements were set out in a letter from the Department in December 2016 and that these were implemented in early 2017.

**7.8** A Steering Group comprising representatives from the Agency and the Department was established in 2017 to support the strategic delivery of the Fund programme. The Group meets monthly to monitor the operations of the Fund.

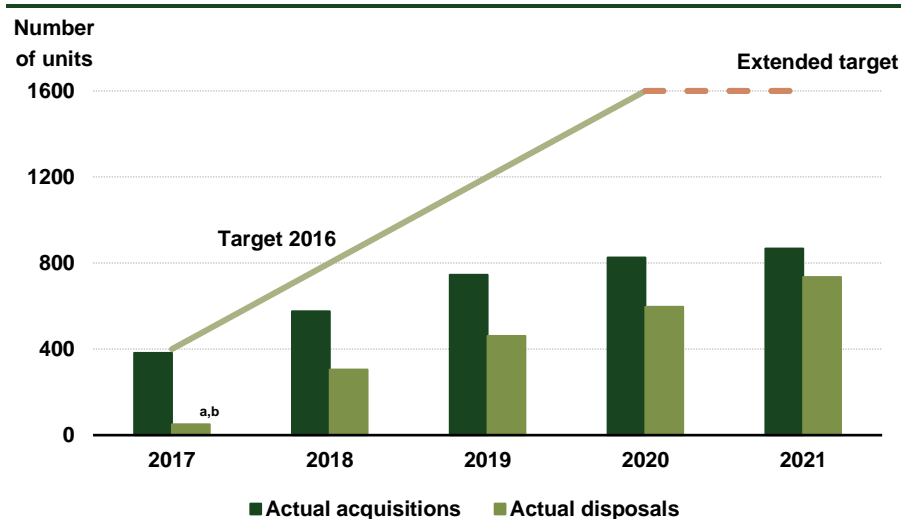
**7.9** This examination was undertaken to assess the outturn and performance monitoring of the Fund.

## Outturn

**7.10** At the outset, it was projected that an investment of €70 million would likely yield acquisitions in the order of 1,600 residential units over a four-year period to 2020. The time target for delivery of the units was subsequently extended to 2021.

**7.11** This target was not achieved. By end 2021, the Agency had completed acquisitions of 868 units (54% of the target) of which 735 units had subsequently been disposed of (see Figure 7.1).<sup>1</sup>

**Figure 7.1 Target and actual acquisition and disposal of residential units, 2017 to 2021 (cumulative)**



Source: The Housing Agency. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Acquisitions for 2017 include 16 units acquired in 2016.

b Disposals include 15 units transferred to local authorities.

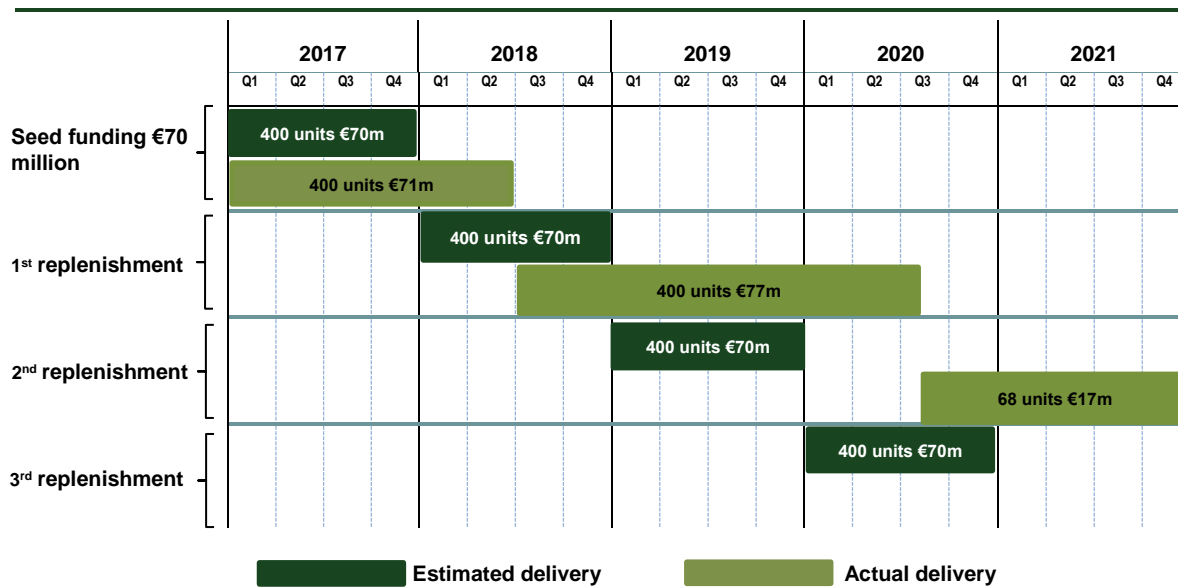
**7.12** The Agency and the Department stated that the Fund delivery shortfall was mainly due to slower than anticipated sales of properties and consequent delayed replenishment of the Fund, combined with a reduced stock of suitable available properties.

**7.13** To meet the original delivery target, the Agency needed to acquire and dispose of a housing unit at an average cost of around €175,000 within an average turnaround time of 12 months. The average turnaround time achieved was just over 17 months per unit. The Agency stated that at the outset of the scheme, it had aimed to recycle properties within six months. However, it became apparent for a number of reasons — AHB operational capacity, AHB lender requirements to bundle property sales into larger transactions and conveyancing requirements — that this would not be possible.

<sup>1</sup> This includes 15 units transferred to the local authorities for no consideration.

**7.14** The acquisition of the first 400 units was completed in mid-June 2018 (six months later than estimated) and the actual capital cost was €71.4 million — an average of €178,500 per unit. The acquisition of the second 400 units, through the recycling mechanism, was completed in July 2020 (18 months later than estimated) at a capital cost of €77.3 million — €193,250 per unit, representing an increase of 8.3% in the average unit cost. The next cycle commenced in July 2020, and just 68 units were acquired to the end of 2021. The capital cost of acquiring the 68 units totalled €16.8 million — an average cost of €247,000 per unit.<sup>1</sup> At that unit cost, the total capital cost of acquiring 400 units, in the third cycle would amount to approximately €99 million (see Figure 7.2).

**Figure 7.2 Target and actual acquisitions of residential units, 2017 to 2021**



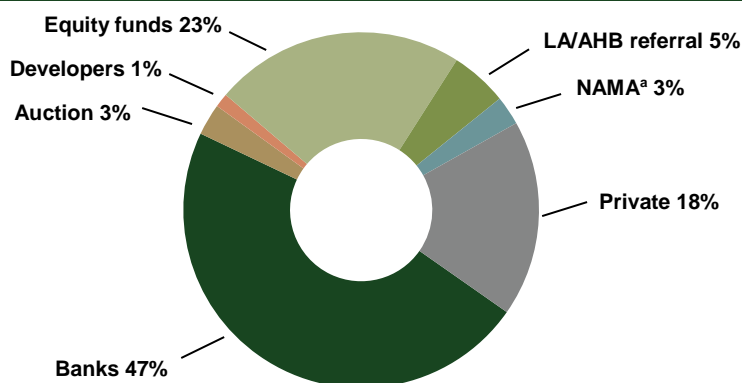
Source: The Housing Agency. Analysis by the Office of the Comptroller and Auditor General.

**7.15** The Agency stated that the longer than anticipated recycle time between property acquisition and subsequent sale was mainly due to the requirement for repairs and upgrades, and the AHB funders' requirements.

**7.16** Over half of all residential units acquired to the end of 2021 were located in five local authority areas — Dublin City Council (19%), Fingal (11%), Dublin South (8%), Kildare (9%) and Cork County Council (8%).

**7.17** In 2018, in order to reduce the risks of not achieving the Fund's overall target, the Board of the Agency agreed that alternative approaches to acquiring properties for use as social housing be considered. Since mid-2018, acquiring properties directly from the private market has become a more common source (see Figure 7.3). However, the Agency's procedures require it to refrain from bidding against first-time buyers, owner occupiers, local authorities and AHBs.

<sup>1</sup> The Agency stated that the profile of the properties acquired has changed over time. Earlier properties acquired from banks and funds were effectively distressed assets which generally had been vacant for long periods. Since 2020 in particular, a higher proportion of properties have been acquired on the open market which are generally in better condition than properties acquired from the banks and funds.

**Figure 7.3 Source of units acquired to the end of 2021**

Source: The Housing Agency

Note: a National Asset Management Agency.

- 7.18** The Agency's disposal of 735 residential units to the end of 2021 included two units which were sold on the open market and not used for social housing. The Agency stated that the open market sale was due to issues that arose with these units.<sup>1</sup> The Agency also stated that the Fund did not incur any losses in these cases and that the Department approved the on-market sale in both cases.

### Leasing

- 7.19** Initially, the completion of a sale to an AHB was considered to represent delivery of a housing unit. However, since 2018, the number of properties placed on caretaker leases (but not yet sold) are reported as units delivered in the Department's figures for social housing delivery.
- 7.20** Caretaker leases are entered into with the relevant AHBs to allow for remedial works and the early provision of the property to tenants during the sales process. The lease is accompanied by an option agreement which provides the Agency with the security of taking the property back should the sale not proceed within six months.<sup>2</sup>
- 7.21** At the end of 2021, the Agency held 133 residential units acquired through the Fund at a cost of €27.4 million.<sup>3</sup> Of these properties, 69% had been acquired prior to 2021 — 26% in 2020, 30% in 2019, 8% in 2018 and 5% in 2017. Over two-thirds of the 133 units are therefore significantly in excess of the six months limit within which the sale of the unit should have proceeded.

<sup>1</sup> Estate management issues and extensive structural work required which was not discovered until the initial works took place.

<sup>2</sup> The option to buy (by the AHB) must be executed within six months of signing the caretaker lease.

<sup>3</sup> This excludes a further seven properties, for which legal ownership had yet to pass to the Agency i.e. the acquisition process had not formally concluded at end 2021.

<sup>4</sup> The total disposals of 735 to end 2021 do not include the units on caretaker lease at year end.

- 7.22** For 130 of the 133 units held, the Agency had signed caretaker leases in place with AHBs.<sup>4</sup> The remaining three units had only been purchased in December 2021. The Agency stated that there are various reasons impacting on the disposal of these properties, *inter alia*, upgrading delays due to Covid-19, works that are dependent on the apartment owner management companies which fall outside of the Agency's control, and AHBs' resourcing.
- 7.23** Since 2018, the Agency has monitored the residential units it acquired until the units are occupied (this monitoring continues even after the sale to AHBs). 54 of the 133 units held by the Agency at the end of 2021 were vacant, with an average vacancy period of over seven months. The vacancy periods of individual units varied from zero to 38 months, with ten units vacant for over twelve months.

### Financial outturn of the Fund

- 7.24** To the end of 2021, the Agency had acquired 868 residential units through the Fund at a combined cost of €165.6 million, and had recovered €148.4 million through the sale of 720 units.<sup>1</sup> The cash position of the Fund at the end of 2021 was €37.7 million — representing around half the value of the Fund.
- 7.25** The Agency prepares regular cashflow projections which are provided to the Department. The Agency does not have the authority to go into an overdraft on the Fund.
- 7.26** For the purposes of its quarterly reporting to the Department of Public Expenditure and Reform (DPER), the Agency defines its funding capacity — the amount it has available to purchase properties — as the total funding provided by the Department, less the value of contracts for purchase signed by the Agency, less rental income, with value of sales completed added back.<sup>2</sup> Using this definition, the Agency calculated that the funding capacity of the Fund at the end of 2021 was €58.5 million (see Figure 7.4). The Agency stated that the funding capacity, as reported to DPER quarterly, is not used operationally.
- 7.27** When the Agency is reporting to the Department, the Fund's actual cash balance is considered to be its funding capacity.

1 This excludes the 15 units transferred to local authorities for no consideration.

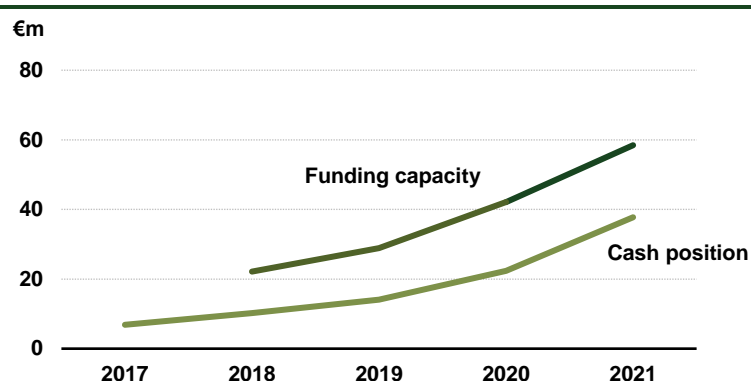
2 The Agency stated that rental income is adjusted to reflect the potential for this rent to be paid over to an AHB at a later stage.

3 The Agency stated that bids were initially made on 115 properties in this portfolio, of which 52 were ultimately purchased. At the time the bids were accepted, the Fund's financial position suggested insufficient capacity to complete the acquisitions if called upon at short notice.

4 The properties were bought directly by the local authorities in 2019/2020. The Agency managed these transactions.

5 The 52 properties are not reflected in the 868 acquisitions and 735 disposals (inclusive of properties transferred) referred to throughout this report. These properties are reported separately in the monthly activity reports submitted to the Department.

**Figure 7.4 The Fund's cash position and funding capacity, 2017 to 2021<sup>a,b</sup>**



Source: The Housing Agency

Notes: a The cash position reflects actual available amounts held in the Fund's bank account.

b The funding capacity excludes upgrade costs and non-recoverable costs incurred by the Fund.

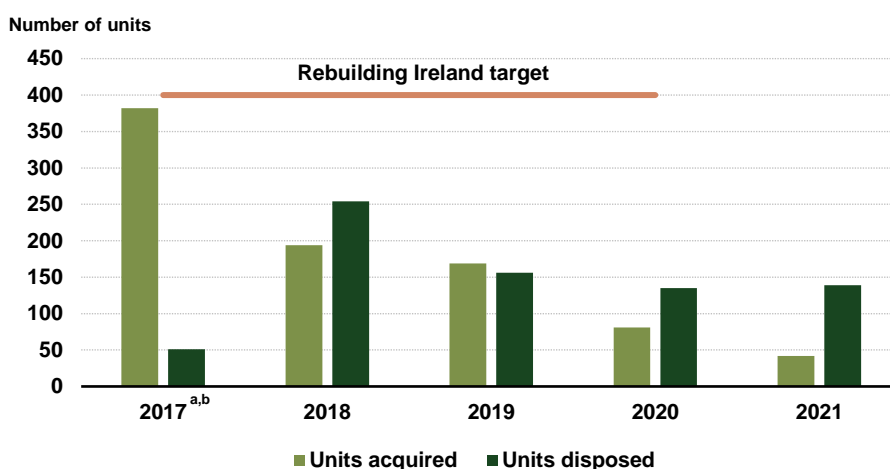
- 7.28** At the end of 2019, the funding capacity of the Fund was €28.9 million — up from €22.1 million at the end of 2018. Nevertheless, the Agency stated that in 2019 it did not have sufficient funds to purchase a portfolio of 52 properties at a cost of €7.6 million (an average of €146,000 per unit) offered to the Agency by a financial institution.<sup>3</sup> While the portfolio of 52 properties was ultimately purchased outside of the Fund using local authority capital funding from the Department, the Agency stated that it was agreed with the Department to record these units as having been delivered under the Fund.<sup>4,5</sup>

**7.29** The Department stated it is satisfied that the monthly reporting from the Agency to the Department and the quarterly reporting to DPER is very comprehensive, consistent and accurate and has been agreed with the Agency. It further stated that a unit is only ever counted once at each status point and therefore inconsistencies or double counting do not occur. Acquired, sold or delivered figures are provided as per the specific query being answered with clarifications provided as necessary. It stated that the 52 properties acquired are an exception to all other local authority direct acquisition activity and are presented independently in the monthly activity reports submitted by the Agency. All other local authority direct acquisition activity is reported by local authorities in their quarterly returns and is not included in the Fund's 'delivered' figures. The Fund's financial reporting does not reference the 52 properties, as there was no capital expense incurred by the Fund for these properties.

### Monitoring performance

- 7.30** The Agency's strategic plan 2019 – 2021 set out an average annual target of acquiring 400 units for social housing using the Fund. This was in line with the *Rebuilding Ireland Action Plan (2016 – 2021)*. This level of acquisitions was almost achieved in 2017, but the rate of acquisition declined year on year thereafter (see Figure 7.5).
- 7.31** A target of 400 disposals a year is implied from the concept of a revolving fund. Since the acquisitions didn't happen, consequently the disposals could not happen.

**Figure 7.5 Annual target and actual acquisitions and disposals, 2017 to 2021**



Source: The Housing Agency

Notes: a 2017 acquisitions include 16 properties acquired in 2016.

b 2017 disposals include 15 units transferred to local authorities.

**7.32** The Agency is required to provide the Department with regular reports which include information on a set of measures for the key outputs and activities of the Fund. Specific targets for some of these measures were not adopted.<sup>1</sup>

**7.33** This examination reviewed the Fund's objectives and the sufficiency of its performance indicators and noted the following opportunities for improvement

- develop performance indicators to monitor the economy and efficiency of the Fund
- ensure adequate systems are in place to set achievable, timely and relevant targets based on robust information
- document the procedure for the approval of revised annual targets.




**7.34** In line with the commitment under *Housing for All*, the Department has carried out a review of the scope and operation of the Fund. The review was completed in 2022 and resulted in a number of recommendations. The Department has stated that it is engaging with DPER to obtain sanction to implement the review's proposals.

### ***Control measures***

<sup>1</sup> A range of performance indicators was agreed at the outset and included as part of the reporting requirements in the departmental letter to the Agency in 2016 in relation to the Fund.

**7.35** The Agency is required to ensure the suitability, quality and value for money of residential units purchased under the Fund. It is also required to ensure that the funds for further acquisitions which are recycled through the sale of units are ring-fenced. An assessment of the key controls over the Fund is set out in Figure 7.6.

Figure 7.6 Assessment of key Fund controls

Area	Key control	Assessment of operation of control	Overall assessment
Exchequer funds are protected, accounted for and managed properly	The funds for acquisitions which are recycled through the sale of properties to AHBs and local authorities are ring-fenced	In mid-2018, the Agency set up a separate bank account for the Fund. The balance on the bank account is periodically reconciled to the Fund's income and expenditure account. In 2021, to mitigate the exposure to negative interest, 95% of the Fund's balance was placed on a finance facility with the Housing Finance Agency. While the facility is used for the Agency's cash balances generally, the Fund's transactions are recorded and shown separately (under a separate heading).	
	Compliance with the DPER Circular 13/2014 — <i>Management of and Accountability for Grants from Exchequer Funds</i>	<p>There is no written procedure to ensure compliance with circular 13/2014.</p> <p>The Agency stated that the checklist for adherence to circular 13/2014 was reviewed to ensure compliance and that compliant governance structures are in place. The Agency also stated that all Fund amounts were drawn down from the Department in 2017. Confirmation of compliance with the circular is provided to the Department monthly.</p> <p>Administrative checks are carried out by the Agency when drawing from the Fund's ring-fenced bank account. The checks include: 1) a review of whether the funding is being used for the purpose intended (social housing); 2) confirmation that the purchaser i.e. the AHB has a current tax certificate; 3) confirmation that there are adequate financial controls in place.</p>	
Value for money of properties purchased under the Fund	Adherence to acquisition limits for local authorities, set out periodically by the Department	<p>The Agency's operating procedure requires Board approval of purchase within the acquisition limits. To the end of 2021, the acquisition limits were exceeded by an average of €50,000 (19%) for six (0.7%) of the 868 residential units acquired. While the Agency stated the reasons for exceeding the limits for five properties, there was no record of why one property was acquired at a price above the limits. The Agency stated that Board approval to proceed to acquire the properties was obtained by email from the designated Board member in all cases and that there are no Board minutes which deal specifically with these properties.</p> <p>The Agency also stated that the Fund's standard operating procedures, which have evolved significantly over the years, are formally updated annually and signed off by senior management. It further stated that the current procedures require that acquisition cost guidelines are consulted at each of the following stages — property sourcing, bidding and acquisition sign off.</p>	



Area	Key control	Assessment of operation of control	Overall assessment
	Independent professional valuations	The Agency's operating procedure requires an independent professional valuation to be conducted for all properties for which a positive response from the local authority has been received. The property valuation is conducted by an independent valuer from a panel of valuers appointed by the Agency following a procurement process.	●
	Approval process	The Agency's internal controls require a Board member to sign off on each purchase under the Fund along with a delegated member of the executive.	
Suitability of properties acquired	The Agency is required to work in close consultation with local authorities throughout the process to ensure that, prior to entering into any contracts or commitments, suitable properties only are approved for purchase in areas where there is a demand for social housing	<p>The Agency has operating procedures in place to assess demand for properties. All potentially suitable available properties are referred to the relevant local authority to advise whether there is a need for the property or not. Local authorities also specify, as part of this 'expression of interest' process, whether they wish the property to be acquired directly for them (in trust for the local authority) or whether they would like the Fund to acquire it for onward sale to AHBs. If a need and positive interest is confirmed by the local authority, the Agency obtains a valuation and commences the purchase process.</p> <p>By the end of 2021, the Agency stated that it had considered 5,064 properties and made bids on 1,655 properties. The Agency stated that demand (positive expressions of interest/need for the properties) from local authorities was confirmed for 2,345 properties. The Agency also stated that it may decide, for a variety of reasons, not to bid on a property for which demand has been confirmed. These reasons include — not bidding against a first time buyer/owner occupier; bidding may already have exceeded the Agency's market valuation before it gets involved; the property may have been withdrawn by the vendor; the property may be tenanted and following investigation, the Agency decided to withdraw.</p>	●
Quality of properties acquired	Building survey report	The Agency has operating procedures in place to ensure the quality of properties acquired. An independent professional building survey report is required as part of the final sign off to acquire a property. This report includes the property description, building condition and works required. The cost of required works identified by the survey is assessed, with consideration given to AHB requirements and standards.	●
	A flood risk assessment	A flood risk assessment is initially undertaken by the Agency's staff by reference to the OPW website. If the property is within a flood risk area, a detailed flood risk assessment report is conducted by the designated flood risk consultants.	

Source: The Housing Agency. The Department of Housing, Local Government and Heritage. Analysis by the Office of the Comptroller and Auditor General.

Key: ● Adequate key control in place. ● Opportunity for improvement. ● No key control in place.

## Conclusions and recommendations

- 7.36** The concept of a revolving fund is that the same funding is made available for use a number of times successively. The original objective of the Housing Agency Acquisitions Fund was to purchase residential units from financial institutions, and to sell them on mainly to AHBs.

### *Outturn*

- 7.37** There has been a significant shortfall relative to the target for delivery of 1,600 residential units by the end of 2020. The target for delivery was extended to end 2021, but the revised target was not achieved.
- 7.38** To the end of 2021, the Housing Agency completed acquisitions of 868 residential units (54% of the target) of which 718 units were sold on to AHBs and local authorities; two units were sold on the open market; and fifteen units were transferred to local authorities for no consideration.
- 7.39** Under the Fund's mandate, only units sold are considered units delivered. Since 2018 however, the number of residential units placed on caretaker leases (but not yet sold) have been counted as units delivered in the Department's figures for social housing delivery. At end 2021, 130 units were held under caretaker agreements. Of these, 51 were currently vacant.<sup>1</sup>
- 7.40** 52 properties were bought directly by local authorities in 2019/2020 using local authority capital funding from the Department. As the Housing Agency was involved in the acquisition, it stated that it was agreed with the Department to record these units as having been delivered under the Fund. These units are not captured in the 868 acquisitions but are shown separately in the Agency's monthly reporting to the Department.

<sup>1</sup> **Correction:** Due to a typographical error, 54 was incorrectly included in the original published report.

<sup>2</sup> **Correction:** The sentence in the original published report incorrectly stated that at year end, the cash balance was more than half of the total Fund investment.

### *Cash balances*

- 7.41** The Agency's acquisition of properties in 2021 was at its lowest level since establishment of the Fund. At the year end, the cash balance of the Fund was €37.7 million — around half of the total Fund investment.<sup>2</sup> This represents an underutilisation of the Fund's resources.

**Recommendation 7.1**

The Department should, in conjunction with the Agency, consider whether at least some of the financial resources available to the Fund should be returned to the Exchequer.

**DHLGH Accounting Officer's response**

Part agreed.

In Q1 2022, my Department completed a review of the Acquisitions Fund, which investigated the challenges faced by the Fund and explored opportunities that centred on the possibility of re-purposing the Fund to support other initiatives within *Housing for All*, including *Housing First* and *Town Centre First*. My Department is currently engaged in a process with the Department of Public Expenditure and Reform to obtain sanction that would allow the proposals within the review to be implemented. If the outcome of this engagement allows the mandate of the Fund to be amended around these proposals, the financial resources will be directed to their implementation. If sanction is not received to progress these proposals, the above recommendation will be taken on board.

**Monitoring performance**

**7.42** The examination reviewed the Fund's objectives and the sufficiency of its performance indicators and noted the following opportunities for improvement

- develop performance indicators to monitor the economy and efficiency of the Fund
- ensure adequate systems are in place to set achievable, timely and relevant targets based on robust information
- document the procedure for the approval of revised annual targets.

**Control measures**

**7.43** The Housing Agency is required to adhere to the cost acquisition limits set by the Department. The examination found that the limits were exceeded in some instances.

**Recommendation 7.2**

The Housing Agency should ensure that it has adequate processes in place to assess the reasons why acquisition limits are exceeded and put mitigating controls in place to address these. Departmental approval should also be sought prior to acquisition limits being exceeded.

**Chief Executive Officer's response**

Agreed.

The Housing Agency's standard operating procedure (SOP) sets out the basis for the bid assessment; and that the acquisition cost guidelines issued by the Department of Housing, Local Government and Heritage are used to calculate whether a bid may be made. The SOP sets out that three conditions must be satisfied for obtaining Board approval for an acquisition — one of these conditions is that the bid accepted is within the Department's acquisition cost guidelines.

It is accepted that the SOP does not deal with exceptions to the limits (as these are very rare) and how such cases should be approved.

**7.44** The Housing Agency is required to ensure value for money for residential units purchased under the Fund and that the Exchequer funds are protected, accounted for and managed properly.

**7.45** The Fund expenditure is recognised as a grant and the Agency is required to ensure compliance with the requirements under Department of Public Expenditure and Reform circular 13/2014. The examination found that the Agency does not have a written procedure to ensure compliance with the circular.

### **Recommendation 7.3**

The Housing Agency should introduce a written procedure which provides for formal and regular reviews of compliance with the requirements of circular 13/2014 to ensure that Exchequer funds are properly accounted for and managed.

#### **Chief Executive Officer's response**

Agreed.

The Housing Agency accepts that there is no specific written procedure dealing with compliance with circular 13/2014 and accepts that a written procedure can be drafted which specifically sets out how compliance with circular 13/2014 is ensured.

Notwithstanding the absence of such a specific procedure, the Housing Agency is satisfied that the terms of circular 13/2014 are being fully complied with, within the governance structures in place between the Agency and the Department.