Social Housing and Energy Efficiency in Ireland

Fund Structuring Services

Final Report for the Department of Public Expenditure and Reform

11 September 2014

Important Notice

This document includes an indicative proposal from the European Investment Bank (EIB) to the Department of Public Expenditure and Reform for a potential new financial instrument. The Proposal is intended to provide a basis for discussions between the Department and EIB services. It is subject to change and non-exhaustive. Consequently, it does not constitute a binding commitment - either implicit or explicit – on the part of the EIB. A commitment from EIB to implement the proposals in this document can only be made after, inter alia, conclusion of the required due diligence process, EIB governing bodies' approval and the finalisation of the required legal documentation. **This document shall be treated as confidential. It cannot be made available to third parties without the written consent of the EIB.**

Executive Summary

The Irish social housing sector is in the early stages of transitioning from a fully public sector and grant funded model towards greater involvement of private sector financing. This shift away from 100% capital grants has been influenced both by the need to decrease public sector deficits as well as a wish to increase efficiencies and put Approved Housing Bodies (AHBs) at the centre of social housing delivery in the future. Public capital budgets have decreased significantly and new initiatives such as the Capital Advance Leasing Facility (CALF) and Payment and Availability Agreement (PAA) have been put in place to provide incentives to financial institutions to enter the social housing financing market. As a result, commercial financial institutions have now started lending to the sector, although its scale and terms is still very limited, with only a handful of loans disbursed to a just a few of the larger AHBs.

At the same time, Ireland is now considering the use of European Regional Development Funds (ERDF) through innovative financial instruments, to better leverage scarce public sector resources and increase private sector investment to address low energy efficiency performance in existing social housing stock. EU 2020 policy is to channel significantly more European funding resources into low carbon investment and such investment is considered important, not only in terms of lowering carbon emissions and energy dependence, but also as a stimulus for job creation.

In a current scenario where increasing public debt to finance both new construction and renovation of social housing seems no longer a sustainable solution, the recommendation is to develop a dedicated funding vehicle for the sector, that can leverage more affordable, long term private financing for social housing projects. This funding vehicle (referred to in the documentation as an “aggregator”) provides an opportunity for government to reduce the use of its balance sheet and stimulate private sector financing and delivery of social housing.

The focus of Ireland’s use of ERDF is thematic objective four, “supporting the shift towards a low-carbon economy in all sectors. As such, ERDF can in this case only be used for energy efficiency measures in social housing (and not, for example, for new construction). This report, therefore, recommends that ERDF be channelled alongside and separate from the funding aggregator. In this way, the aggregator would be able to provide funding for all forms of social housing investment. In addition, this allows for ERDF funding for energy efficiency to be channelled as soon as possible, and is not reliant on the aggregator being in place at the time of disbursement of ERDF funds.

Whilst using ERDF in a revolving way, as a financial instrument, seems feasible, it would seem that using ERDF as traditional grant funding is likely to be the most feasible, politically acceptable delivery model. This is especially the case, as the sector moves away from a 100% grant funded situation, and the fact that the majority of AHB revenues needed to repay any loan funding would nevertheless still need to be funded by the public sector anyway. In addition, this option will potentially involve less preparatory work than an actual financial instrument, at least from an ERDF funding point of view, as there would be no requirement, for example, for an ex-ante assessment. Nevertheless, the model proposed of combining ERDF grant funding with a new aggregator funding vehicle could still be promoted as a novel and efficient way of using public resources.

The aggregator will most likely require a strong security system to be in place, consisting of an initial government equity contribution that would serve as a first loss and back stop guarantee structure. The equity contribution, which is expected to initially be in the region of EUR 25 million, minimises the risk of calling on such back stop guarantee as any first losses would be covered by this, which in turn helps to minimise the risk of the structure being classified as "on-balance sheet" for the public sector. Over time as the sector matures and becomes more diversified, this has the potential to leverage significantly more amounts of affordable debt finance, potentially creating a funding vehicle of several hundred million euros.

To ensure the statistical treatment of the aggregator as "off balance sheet", it is important that the aggregator operates at arm's length from government and in accordance with commercial principles. The active involvement of the social housing industry in the set-up of the aggregator will most likely be key in ensuring that the entity is perceived to be operating at arm's length. The Housing Finance Corporation in the UK acts as good example for such an aggregator and should be analysed further.

To enable further progress regarding the set-up of a potential aggregator, it is recommended that the following issues be further analysed:

- Pipeline
    - Local Authority appetite for energy efficiency retrofit and new build should be analysed
    - Potential stock transfer issues and timeline need to be considered
- Availability of government funding
    - For availability payments
    - For equity/first loss injection into the aggregator
    - Buy in from European Structural and Investment Funds Managing Authorities
- Availability payment agreements
    - Ensure that this is a reliable payment stream, whilst transferring appropriate risks to the AHB to ensure off balance sheet treatment
- Analysis of the need for and availability of technical assistance funding
- Government backstop guarantee
    - Thorough assessment of the probability of default/risk of calling guarantee
- Procurement
    - Analyse if AHBs would need to follow public procurement rules in this scenario
- Potential state aid issues
- Legal structure of the financial instrument
- Identification and selection of an appropriate fund operator/administrator
- Statistical treatment
    - Statistical treatment of the aggregator
    - Statistical treatment of the government backstop guarantee
    - Confirm the statistical treatment of the AHBs

Furthermore, if either option 2 or 3 proposed in the report would be chosen, which are classified as a financial instrument, an ex-ante assessment will need to take place (more information on the elements of an ex-ante is provided in Annex IV).

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1. Introduction

1.1 Background

Over recent years, the Irish government has moved away from a publicly funded model for social housing and towards alternative means of financing. As a consequence, government expenditure on housing decreased by 78% between 2008 and 2014, marking both the effect of the economic downturn as well as a transition towards greater involvement of private sector financing. Initiatives such as the Capital Advance Leasing Facility (CALF) and Payment and Availability Agreement (PAA) have provided incentives for commercial financial institutions to enter the social housing sector, thus alleviating pressures on public budgets. However, this is currently only happening on a small scale, for relatively short-term financing and often at variable interest rates.

In addition, Ireland's environmental commitments place further impetus on the structural renewal of an increasingly unserviceable housing supply, with a National Energy Efficiency Action Plan setting an ambitious target of a 20% reduction in energy consumption. This will only be achieved if innovative ways of overhauling this sector are found and implemented.

A Joint European Support for Sustainable Investment in City Areas (JESSICA) evaluation study, finalised in 2013 under the supervision of EIB and a steering committee that included representatives from the Department of Public Expenditure and Reform (DEPR), the Department of Finance, the Irish regional managing authorities and the European Commission (DG REGIO), identified the possibility of using revolving financial instruments in the areas of resource efficiency and innovation. Specifically within the context of resource efficiency, an opportunity in social housing retrofit was identified. In order to increase private sector investment further, Ireland is now considering further the feasibility of setting up such a financial instrument to provide a means of financing this sector. This report provides background information on Ireland's social housing system, taking into consideration the various initiatives and approaches that have been implemented over time, and explores possible structures of a financial instrument to finance it.

1.2 Scope of work

The Department of Public Expenditure and Reform requested the EIB to provide advice on how best European Structural and Investment Funds (ESIF) could be combined with national public sector resources and/or EIB lending through a special purpose fund vehicle to be created to on-lend to Approved Housing Bodies (AHBs) (see Annex I for the agreed work programme). As part of the research, EIB has undertaken desktop research of relevant documents and consulted 29 key stakeholders of 15 organisations (see Annex II for an overview of all stakeholders that were consulted). In addition, internal consultation with lending and project technical colleagues has taken place.

2. Social Housing in Ireland

2.1 Introduction

The provision of social housing in Ireland falls under the responsibility of the Department of the Environment, Community and Local Government (DECLG), with local authorities implementing policies at local level. The Irish government's objective is for "every household to have an available and affordable dwelling of good quality, suited to needs, in a good environment and, as far as possible, at the tenure of its choice" (Department of the Environment, Community and Local Government, 2007).

With the announcement of the National Housing Policy Statement in 2011 the government transitioned from a sector dominated by public grant funding to a sector largely relying on private finance. The policy statement announced a move away from capital intensive forms of supply and promoted the use of flexible delivery options such as leasing structures. Approved housing bodies are at the heart of the new vision for social housing provision and are expected to increase delivery of social housing.

2.2 Provision of social housing

Social housing is provided directly by local authorities as well as by approved housing bodies, with local authorities supplying 83% of current stock versus 17% supplied by AHBs[1]. Currently there are 527 AHBs in Ireland of which only seven manage 1,000 units or more. The top 10 are listed in the table below.

	Approved Housing Body	Total Housing Stock (owned, leased and managed properties)
1	Respond Voluntary Housing Agency	5,200
2	Cluid Housing Association	5,000
3	Túath Housing Association Ltd	1,850
4	National Association of Building Cooperatives	1,800
5	Focus Housing Association Ltd	1,500
6	The Iveagh Trust	1,350
7	Society of Saint Vincent de Paul	1,000
8	Circle Voluntary Housing Association Ltd	550
9	Oaklee Housing	400
10	Simon Communities Ireland	400

Table 1. Approved Housing Bodies listed by size in the Irish social housing sector (Housing Agency, 2014)

At the 2011 census, 1,649,408 households were counted, housing a population of 4,500,569 individuals (Central Statistics Office, 2011). Around 10% of these households live in social housing, as shown in the pie chart below.

[1] 129,033 houses are owned by local authorities, versus just 27,000 by AHBs (Central Statistics Office, 2011)

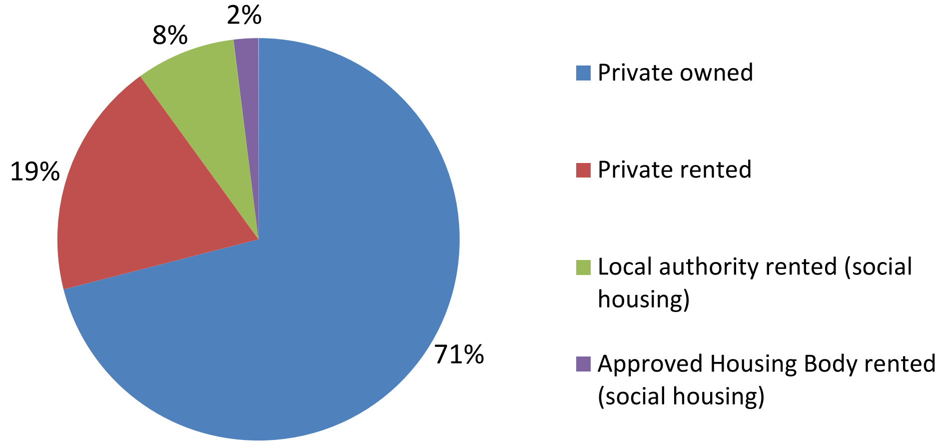

Figure 1. Tenure type listed by frequency in the Irish housing market (Central Statistics Office, 2011)

The Housing Needs Assessment (Housing Agency, 2013) specifies a net waiting list for social housing (excluding current social rented tenants) of 89,872 households. This is lower than the 2011 figure of 98,318 households, but still significantly higher than the “pre-crisis” level of 49,203 (based on an average from 2002-2008). Compared to the existing total number of social housing units available of 156,033 it seems there is a significant gap in the provision of and demand for social housing.

According to the Housing Needs Assessment, 78.5% of social tenants had incomes of less than EUR 15,000 per annum in 2011 (Department of the Environment, Community and Local Government, 2011). This is significantly lower than the average national income of EUR 35,758 in the same period (Central Statistics Office, 2014). The average weekly rent (nationally) for *social rented* housing was EUR 59.01, compared to EUR 166.61 for *private rented* housing, although this varies considerably between rural and urban areas.

2.3 Financing

In the past, the Irish social housing sector was financed entirely through capital grant funding from central government. Recent years have seen a restructuring of the sector (as well as the public sector more widely) and a move towards non-public sources of income (Farrell, 2011).

Government capital expenditure on social housing for 2014 is planned to be around EUR 300 million, of which approximately EUR 120 million is planned for new construction and around EUR 150 million to improve the existing social housing stock. This is divided as follows:[2]

Social housing investment programme:

- Local Authority acquisition/construction programme – EUR 80 million
- Capital Assistance Scheme for Voluntary Housing – EUR 41 million

[2] Information provided by DECLG on 10 April 2014

- Capital Advance Leasing Facility – EUR 10 million
- Traveller Accommodation – EUR 3 million

Improving the social housing stock:

- Regeneration of estates and flat complexes - EUR 70 million
- Energy retrofitting of social rented housing stock -EUR 30 million
- Energy retrofitting and remediation of vacant LA housing stock - EUR 30 million
- Estate-wide remedial works - EUR 9.4 million
- Unfinished housing developments - EUR 10 million
- Private housing grants –adaptations for persons with a disability -EUR 38.5 million
- Mortgage to Rent scheme (for distressed mortgages) EUR 7 million
- Pyrite resolution[3] - EUR 5 million

For AHBs, there are four main sources of finance:

- Rental income
- Grant funding from government
- Leasing arrangements
- Borrowing AHBs

Rental income

Social housing in Ireland has historically been, and remains, oriented towards households that are unable to pay private market rents. In this case, households apply to their local authorities which carry out a housing needs assessment to determine the household's eligibility for social rented accommodation. If the household is successful it is added to a waiting list and allocated housing according to need, which is specified at the local authority level in accordance with DECLG guidelines.

Ireland uses a system of rent setting known as the differential rent system. In this system, rents are determined for each household individually, based exclusively on household income, and are set irrespective of the property inhabited. Social rents are very low in comparison to private rents, representing, on average, 14-20% of an individual's disposable income. As a result, revenue raised via social rents tends to only contribute towards ongoing management and maintenance costs of the housing stock.

The government is currently working on a new policy framework which proposes a number of reforms to the social rental system going forward.

[3] The Pyrite Resolution Board has been appointed by the Minister for the Environment, Community and Local Government under the Pyrite Resolution Act 2013 to make a scheme for the remediation of damage to certain dwellings caused by pyritic heave and to oversee and ensure the effective implementation of a programme of remediation works for affected dwellings.

The first major reform is the introduction of a universal base charge which is paid by all social-renting households regardless of household income. This universal charge varies depending on occupancy, based on the number of adults under and above 26 years of age as well as the number of children.

The second includes a 'household allowance' and 'banded charge'. The allowance is calculated as being EUR 14,000 per annum (for the first adult) and increases by EUR 10,000 for each additional adult. Furthermore, children and students under 23 each contribute EUR 1,500 towards increasing the household allowance.

For households which have an income in excess of their household allowance, a banded charge is levied at progressive rates of 16-20% for the first EUR 5,000 above the threshold, 21-24% for the second EUR 5,000 above the threshold, and 25% for the third EUR 5,000 above the threshold (Housing Agency, 2014a). This means that households that earn more make a greater contribution than lower-income households, whilst still benefiting from subsidised accommodation. Policymakers suggest that the majority of households currently in social housing have an income within the allowance, and so the banded charge will be levied only in a minority of cases and where those households can afford to make a greater contribution.

Grant funding

In the past, Ireland's social housing sector was financed entirely by government capital grants that subsidised the development of social housing primarily through local authorities. In recent years, Ireland's public budget deficits have forced the government to move away from grant funding. Overall, DECLG capital expenditure on housing decreased from EUR 1.5 billion in 2008 to just over EUR 0.8billion in 2010 (Department of Public Expenditure and Reform, 2011). This decrease is projected to decline further in the future, reaching around EUR 0.3 billion in 2014.

A brief description of the main grant funding schemes is outlined below.

<u>Local authority acquisition/construction programme</u>

This is direct funding programme which provides 100% capital grant from the government to local authorities to buy or construct new housing units. For 2014, EUR 55 million has been made available for this purpose. AHBs may be indirectly involved in the subsequent management and maintenance of such properties.

<u>Capital Assistance Scheme (CAS)</u>

The Capital Assistance Scheme provides funding of up to 100% of the approved cost of projects for AHBs to provide social rented housing for households and individuals with specific needs, such as accommodation for the elderly, homeless people, and those with disabilities. The scheme has been in operation since 1984. Funding for projects is provided by way of a grant from DECLG to the local authority which then channels the funding to the relevant AHB in the form of a 30 year mortgage loan (Department of the Environment, Community and Local Government, 2002). The loan charges are waived provided the terms of the scheme are complied with. Tenants are generally taken from the local authority's waiting list. In recent years the Irish government is however increasingly reluctant to grant fund projects in this manner and public funding for the CAS scheme has reduced from EUR 130 million in 2009 (Department of the Environment, Community and Local Government, 2009) to just EUR 31 million in 2014.

Rental Accommodation Scheme (RAS)

The rental accommodation scheme is a government initiative, established in 2004, that is designed to provide for the accommodation needs of long term claimants of rent supplement. Rent supplement is paid to people living in private rented accommodation who cannot cover the cost of their accommodation from their own resources. RAS is a co-operation between DECLG, local authorities, the Department of Social and Family Affairs and the Health Service Executive Community Welfare Service. Typically, a local authority signs an availability contract with a landlord, guaranteeing a monthly payment in return for the landlord making the property available for the duration of the contract. In accordance with the Residential Tenancies Act 2004 this may be for up to a maximum of four years.

Eligible tenants can transfer into the RAS scheme in their current accommodation if it has been assessed as being of a suitable standard for use as social housing and when the landlord agrees to enter the scheme. Once the contract is in place, the tenant pays a weekly rent to the local authority rather than the landlord and has security of tenure for the duration of the RAS contract. Tenants may also remain on the local authority's housing waiting list for as long for as they are eligible, irrespective of being in the RAS scheme. In addition, and different from the rent supplement scheme, the tenants can stay in the scheme upon taking up full time employment and in such cases a higher contribution towards the rent will be sought.

Capital Loan and Subsidy Scheme (CLSS)

The Capital Loan and Subsidy Scheme was established in 1991 and was used to support AHBs in providing housing for general needs social tenants (Department of the Environment, Community and Local Government, 2002). CLSS funds are no longer available.

The CLSS scheme functioned as a loan where government grants covered the capital repayments and interest charges owed on Housing Finance Agency (HFA) mortgages (through local authority on-lending) for as long as the terms and conditions of the scheme were upheld by the AHB. These included commitments for 100% of the units to be provided to social tenants. In addition to this, an annual management and maintenance allowance was paid to the AHB (Respond!, 2011). The legal authority for local authorities to make loans to AHBs derives from the Housing (Miscellaneous Provisions) Act 1992.

Leasing arrangements

Payment and Availability Agreement (PAA)

Social housing providers are increasingly using private funding sources to finance new developments as well as refurbish or upgrade existing stock. In order to access private finance, AHBs need to present an attractive and stable cash flow stream. The Payment and Availability Agreement is a government-led programme designed to assist in this by offering a long term income stream for Approved Housing Bodies.

Payment and Availability Agreements operate across Ireland, whereby an agreement is made between an Approved Housing Body and the local authority. The PAA is a regular 'availability payment' paid to AHBs that make their properties available (that it either builds, purchases, or takes over in, for example, a stock transfer from the local authority) for use as social housing for an agreed amount of time, typically around 30 years. AHBs are contractually mandated to carry out regular maintenance on the properties and are landlords for social housing tenants. The local authority retains the right to nominate tenants, which the AHB must accept as a condition of payment of the PAA income. If the local authority does not nominate a tenant, the AHB retains nomination rights.

The AHB generally receives around 92% of the market rent level through the PAA, and this level can be reviewed on a regular basis and adjusted for Consumer Price Index (CPI) (Housing and Sustainable Communities Agency, 2011, p. 6). In addition to PAA payments, AHBs may receive additional income from tenants, via the differential rent system, which is generally used by AHBs to cover maintenance expenses.

Despite certain risks associated with the PAA, such as the risk around non-payment during a longer void period (if both local authority and AHB cannot find suitable tenants) and the risk around linking payments to market rent, Irish banks and the HFA have recently started providing loans to AHBs on the strength of such PAA agreements (in combination usually with the Capital Advance Leasing Facility, see below). To manage these risks, certain additional terms have been put in place in agreements between the funding providers and the AHBs, including a pledge on the PAA income stream and mortgage security over the underlying housing stock.

Capital Advance Leasing Facility

The Capital Advance Leasing Facility was established by the DECLG in 2011 to improve the financial viability of AHBs when seeking private finance from commercial sources. As such, the CALF facility works in combination with the PAA facility.

The CALF facility is a bullet loan (i.e. repayable only at maturity) and is typically set for a 25 year period with a simple fixed interest rate of 2% per annum. The loan is made from local authorities to Approved Housing Bodies and covers up to 30% of the funding required for purchasing, building or renovating social housing dwellings. The main purpose of the CALF facility is to provide AHBs with upfront capital to invest in new or existing stock. As it is considered as subordinated debt, it allows AHBs to acquire investment from external sources, such as HFA or commercial banks, more easily.

Local authorities may use CALF funds for any social housing expenditure they choose (i.e. refurbishing/upgrading existing stock, or acquiring new units) in accordance with the Housing Acts 1966-2009. By February 2014, EUR 13.5 million has been provided by government for CALF payments[4] since 2011 and it is expected that EUR 10 million will be available during 2014.

[4] http://environ.ie/en/DevelopmentHousing/Housing/News/MainBody,36777,en.htm

Capital advances related to regeneration

We understand that DECLG is currently developing a model to include capital advance payments to AHBs for regeneration projects, which would be broadly similar to the CALF structure. DECLG is intending to start with a number of pilot projects as part of the Limerick Regeneration Project, which has a capital commitment of EUR 30 million a year, and an overall investment of EUR 300 million for phase 1. It is expected that leveraging in private finance could scale up the time period in which phase 1 could be achieved.

Borrowing

The Housing Finance Agency

The Housing Finance Agency is an Irish government-owned agency established in 1982 to provide loan finance to local authorities and AHBs across Ireland for social housing and other housing-related purposes. Although the HFA is a legally separate entity, its shares are owned by the Irish government. Historically, lending was only carried out to local authorities, although this has recently been expanded to include AHBs that meet strict financial and governance criteria set by it. HFA raises finance in the capital markets with a government guarantee. Given its public sector ownership status, all HFA's borrowing is included on the balance sheet of the Irish government.

The HFA operates on a non-profit basis, and offers both variable interest rates (currently around 3% to 3.5% over EURIBOR) and fixed rates (10 year fixed loan for 6.57% p.a.) to AHBs. If AHBs want to borrow from the HFA, they have to first become certified for HFA lending. 22 AHBs applied to become certified, of which seven now have that status, and a further two are still in the process of obtaining this.

The minimum requirements for certification are that the AHBs must be able to demonstrate that they have undertaken projects for at least three years under the Capital Loan and Subsidy Scheme (CLSS), the legal structure of the organisation is appropriate, and they are able to produce at least three years of audited financial statements as well as a current tax certificate. In addition, the AHB has to provide an overview of their financial situation and future plans. Upon completion of this information, the HFA carries out a credit assessment. This is reviewed by a credit committee and if positive, the AHB is requested to sign a master loan agreement, an overarching agreement between the AHB and the HFA covering all lending to the AHB. At the same time, the AHB is required to set up a bank account pledged to HFA, from which the HFA "sweeps" any future financing costs of potential loans.

Once an AHB is certified, it can approach HFA for lending for specific projects. At this stage, AHBs then need to provide more detailed project information, such as the valuation report, building survey, DECLG approval letter that PAA and CALF agreements are in place, and updated financial information. A case by case assessment then takes place which has to be approved by the HFA's credit committee.

Commercial lenders

Since the introduction of the PAA and CALF agreements, commercial lenders, such as the Bank of Ireland, Allied Irish Bank and Ulster Bank, have shown some interest in lending to the sector. So far, they have played a relatively small role in financing social housing in Ireland, with just a handful of loans extended to date and for a maximum duration of 7-10 years. We understand that these commercial banks have negotiated specific terms with the AHBs to minimise their exposure to the risks associated with the PAA agreements. For example, specific bank accounts are generally requested in which the PAA payments are pledged to the bank (similar to the HFA model), and comfort has been sought that the local authority would pay the PAA should the houses be delivered to the agreed standard. We also understand that so far the focus has been on urban areas, where waiting lists are high, and the risk of void periods low.

2.4 Regulatory Framework

Overall policy for social housing in Ireland is set by the central government. The Department of the Environment, Community and Local Government (DECLG) is the department responsible for this area, and local authorities implement policy by assessing needs and allocating social housing as necessary, both through local authority dwellings and through housing associations/cooperatives that have AHB status. Although government sets overall guidelines, local authorities have discretion in how to implement policy in their local areas.

Approved housing body status

Section 6(6) of the Housing Act 1992 provides the Minister of the DECLG with the legal authority to grant approved status. Currently there are 527 AHBs in Ireland and public funds can only be disbursed to AHBs. Organisations that may be considered for approval are limited companies formed by guarantee, societies or trusts. The legislation sets out the following criteria as necessary prerequisites for consideration for “approved” status:

- established with the purpose of relieving housing needs, poverty or hardship or the welfare of Travellers, and providing and managing housing
- structurally provide for (in the organisation’s memorandum of association/registered rules) provisions prohibiting the distribution of any surplus, profit, bonus, dividend to members and requiring that the assets of the body be applied solely towards its objects

The body will have to provide information to DECLG supporting its application, including information regarding its constitution, the names of people involved, a description of its proposed activities, and its financial situation.

A voluntary code of conduct

The Irish government's 2011 National Housing Policy Statement introduces a Voluntary Regulation Code[5], which is designed to provide a framework through which the standards and operating practices of AHB may be more effectively regulated. Currently 89 AHBs have signed up to the code. Although the code is by its own definition voluntary, it is intended to be a precursor to a statutory code of conduct for AHBs, and the DECLG advocates membership of the VRC as a means of contributing to the development of a statutory code. It is anticipated that statutory regulation will be in place by 2016.

The code has been designed to be implemented on a co-regulatory basis by the DECLG and the Housing Agency. An Interim Regulation Committee has been set up to monitor the implementation of the code and will oversee the assessment of participating AHBs in relation to their financial viability, management and government[6]. We also understand that work is underway to add a financial chapter to the voluntary code.

The code divides AHBs in three tiers:

- tier 1: small AHBs with 0 – 50 units without development plans for more units
- tier 2: AHBs with between 50 and 300 units and/or with development plans in place to provide more units
- tier 3: AHBs with more than 300 units

The code furthermore specifies commitments for each tier, ranging from requirements around a properly functioning board, performance indicators and the requirement to have an annual report for tier 1, to external auditing processes, 3-year financial plans and annual review meetings for tier 3 AHBs.

Regulation and guidelines concerning energy efficiency in social housing

The best practice guidelines Quality Housing for Sustainable Communities (Department of the Environment, Community and Local Government, 2007) outline the push towards energy efficiency by improving thermal performance and insulation standards, thus reducing greenhouse gas emissions due to lower energy requirements. It commits to improving the energy efficiency of new homes by 40%. Measures include improving the quality of materials used, the circulation of heat, improved waste management and solar gain. The targets from the best practice guidelines are reiterated in Ireland's Second National Energy Efficiency Action to 2020 (Department of Communications, Energy and Natural Resources, 2012), which commits to promoting higher standards of energy efficiency in social housing and states that retrofitted social housing properties should aim to achieve a target of C1 on the Building energy Efficiency Rating certificate for the dwelling, and reaffirms the commitment to deliver 20% energy savings in 2020, along with a public sector energy saving target of 33%.

[5] https://www.housing.ie/Housing/media/Media/AHB%20Regulation/Voluntary-Regulatory-Code-for-AHBs.pdf

[6] See also https://www.housing.ie/News/Current-News/Minister-O%E2%80%99Sullivan-welcomes-first-meeting-of-Inte.aspx

These documents are underpinned by the EC's Energy Efficiency Directive[7], which requires member states to use energy more efficiently at all stages of the energy chain. The Directive states that the public sector should "lead by example" by renovating 3% p.a. of buildings owned and occupied by the central governments starting from 1 January 2014 and by including energy efficiency considerations in public procurement. Furthermore, it states that existing buildings undergoing major refurbishment should meet the same minimum requirements for energy efficiency as new buildings.

3. Pipeline of projects

3.1 Introduction

Social housing in Ireland accounts for around 9% of the total housing stock, with around 129,000 local authority properties and 27,000 AHB dwellings. Despite extensive construction during Ireland's 'Celtic Tiger' years, the country suffers from long social housing waiting lists and an estimated 25,000 older properties with low levels of energy performance.

3.2 DECLG proposed projects

DECLG has proposed the retrofit of older properties that lack adequate insulation and efficient heating systems. The DECLG proposal includes 2,000 older properties in need of refurbishment, of which 1,500 are located in Dublin and the remaining 500 in Cork and Limerick. The buildings in Dublin are mainly 5-storey maisonettes that require substantial energy retrofitting to meet new building standards of energy efficiency. The flat complexes in Cork and Limerick are smaller in scale but exhibit the same deficiencies in terms of thermal performance and comfort levels.

The proposal is for the installation and design of energy efficiency retrofit works, to be carried out to National Building Regulations, to include the following areas:

- Insulation of walls and roofs externally, and floors internally to adhere to building regulations and achieving cost optimal performance as defined by the EU's Recast Energy Performance of Buildings Directive
- Insulation of soffits and decks over rooms
- Elimination of condensation risk at cold bridges
- Enclosing external balconies to reduce external envelope and improve energy performance

DECLG proposes to set up a Social Housing Operational Partnership comprised of Approved Housing Bodies and the Housing Finance Agency to implement the project.

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[7] http://ec.europa.eu/energy/efficiency/eed/eed_en.htm

Implementation of energy efficiency measures in buildings is expected to make a significant contribution to Ireland's carbon emissions reduction and energy reduction targets for 2020: energy savings in buildings is expected to contribute 45% of Ireland's total energy savings for 2020.

3.3 Local Authority projects

The government has made EUR 55 million available for local authorities to buy or construct social housing in 2014. We understand that each local authority develops its own pipeline, in cooperation with and dependent on the amount of funding allocated to them from DECLG. For a complete overview it is therefore necessary to consult local authorities on an individual basis, which was not possible within the timescale of this work. However, we are aware that Dublin, Cork and Limerick all have appetite for increasing and/or improving their stock of social housing. Cork City has indicated that they may require future funding for social housing complying with energy efficiency standards[8]. Limerick has embarked on a regeneration programme titled 'Limerick 2030: an Economic and Spatial Plan for Limerick' which aims to significantly change the infrastructure of the city centre. We understand that discussions are ongoing with DECLG to develop a CALF-type structure with capital advances for AHBs to enable them to leverage in private finance. In January 2013 Dublin City Council outlined a programme for the refurbishment of 435 five storey maisonette flats across eight complexes in the capital, estimating an average cost per maisonette of EUR 145,000. However, in the period since the original application the City Council, in response to a request from DECLG, has proposed a modified scheme that includes 1,500 units, with three possible levels of upgrade, ranging from minimum standards when altering an existing building (at EUR 63,000 per unit) to meeting most standards that a new building is required to meet (at EUR 112,000 per unit). The minimum total costs would therefore be in the region of EUR 95m.

3.4 Projects initiated by AHBs

Approved Housing Body projects are fully dependent on government grant and availability of funding for CALF and PAA agreements. Our research with AHBs has indicated that the future government expenditure is considered as uncertain, which means that their project pipelines are limited to usually just 12 months forward looking. From conversations with DECLG we understand that in total around EUR 40 million will be available for AHBs, of which around EUR 10 million will be available for CALF. Assuming that the CALF payment will constitute 30% of the capital expenditure, this could potentially lead to project expenditures of around EUR 33 million, initiated in 2014.

[8] It was indicated that Cork City may require funding for transport and social housing complying with energy efficiency standards, in the region of some EUR 25-30 million from 2015.

3.5 National Asset Management Agency

Ireland's National Asset Management Agency, or NAMA, is the government agency set up as a tool to help address Ireland's problems in the banking sector. Together with the Housing Agency and DECLG, a process was developed where residential properties made available by NAMA (through its borrowers and receivers) are made suitable for social housing. Properties may be leased or purchased by local authorities or AHBs through engagement with the property owners directly (or appointed insolvency practitioners), or through the special purpose vehicle that NAMA has set up, the National Asset residential Property Services Limited (NARPS). NARPS operates by purchasing the properties directly from the owners and makes them available to local authorities and AHBs through long term lease agreements. The properties stay in the ownership of NARPS, but it is expected that this portfolio will be sold off in the longer term.

Up until April 2014, NAMA has delivered 518 properties, with 166 properties contracted where works are ongoing. In addition, 1,267 properties are under negotiation or at the earlier stages of consideration with a local authority or approved housing body. The total properties that could potentially be delivered for funding through NAMA are 1,951.[9]

4. Proposed Structure of Aggregator Funding Vehicle

4.1 Introduction

This section sets out the options for using European Regional Development Funds (ERDF) in social housing. The first two proposed structures focus on energy efficiency investment, but also allow wider investments in social housing. The first option describes the use of ERDF as a grant, which will most likely not be classified as a financial instrument by the European Commission, although it would be an innovative combination of grant and private financing. The second option proposes to use ERDF as subordinated loans directly from the managing authority to the AHBs, which would be classified as a financial instrument. In both of these options ERDF (either as grant or subordinated debt) will flow directly from the Managing Authorities to the Approved Housing Bodies or Local Authorities, and co-financing will be provided alongside ERDF through an aggregator/fund that aims to attract long term attractive financing from private banks. The third option is to create one aggregator/fund that will include both ERDF as subordinated debt or equity and private finance. In this scenario, which would be labelled as a financial instrument, the projects funded through the aggregator will be limited to projects focused on energy efficiency.

[9] See also http://www.housing.ie/nama.aspx

4.2 Mobilising private finance

In a current scenario where increasing public debt to finance both new construction and renovation of social housing seems no longer a sustainable solution, a dedicated funding vehicle for the sector can leverage more affordable, long term private financing for social housing projects. The aggregator provides an opportunity for government to reduce the use of its balance sheet and stimulate private sector financing and delivery of social housing. A strong security system minimises the risk of calling on the back stop guarantee, which in turn helps to minimise the risk of the structure being classified as “on-balance sheet” for the public sector. Over time as the sector matures and becomes more diversified, this has the potential to leverage significantly more amounts of affordable debt finance, potentially creating a funding vehicle of several hundred million euros.

4.3 Regulations

Ireland’s allocation of ERDF is aimed at supporting thematic objective four, “supporting the shift towards a low-carbon economy in all sectors”. If Ireland’s ERDF funding would be integrated in an overall fund structure, the focus of the fund structure would therefore have to be on energy efficiency. As a consequence, the fund would not be able to make investments in non-energy efficiency investments in social housing. The current assumption is that there is interest and a potential future pipeline with projects that are not specifically focused on energy efficiency, such as new build or general renovation. This assumption is based on the significant social housing waiting lists and feedback from housing associations and DECLG. Therefore the first two options that are proposed suggest that the ERDF funds are channelled separately from the fund structure, to allow more flexibility for future projects to benefit from the funding provided by the aggregator.

The new regulations allow for a combination of grant and lending to the same project within state aid rules. However, a financial instrument cannot be used to pre-finance grants[10], and grants will therefore have to be channelled separately to the project from any loans provided to the project. For example, projects can benefit from ERDF grant that can then be match-funded potentially by funding from the aggregator.

4.4 Separate channelling of ERDF funding

With the focus on thematic objective four, ERDF funds in social housing should focus on energy efficiency investments. To allow the aggregator to include investment in social housing that is not solely focused on energy efficiency, it is recommended that the ERDF funding be channelled alongside, and separate from the financing provided by the aggregator to the AHBs. In addition, this allows for ERDF funding for energy efficiency to be channelled as soon as possible, and is not reliant on the aggregator being in place at the time of disbursement of ERDF funds. There are two possible options to achieve separate channelling of ERDF funding:

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[10] Regulation No 1303/2013, adopted 20 December 2013, Article 37 (9)

Option 1: ERDF as grant funding

In this scenario, ERDF funding is provided by the Managing Authorities, potentially via DECLG as an intermediate body, to the AHBs for up to 50% of the energy efficiency measures in their projects. This is in line with DECLG's proposal to develop the Social Housing Operational Partnership, although a specific new entity might not be required in this case. The AHBs subsequently access match-funding through the aggregator for the remaining part of the project costs. A selection procedure would take place for the ERDF funding, which might link in with the qualification process for the AHBs to access financing from the aggregator. Local authorities would play an important role in identifying the projects that would be proposed in the selection process, and could potentially play a role in channelling the ERDF as capital grant to the AHBs, similar to the existing Capital Advance Leasing Facility. This option of channelling the ERDF as grant, although combined with the aggregator, would most likely not be regarded by the European Commission as a financial instrument as the ERDF resources are not being used in a revolving way. Nevertheless this would be an innovative combination of grant and private sector financing.

Option 2: ERDF as subordinated loans

The second option is that ERDF funding would not be provided as grant, but as long term loans, subordinated to all other AHB borrowings and without security/collateral. The loans could be provided with relatively low or even zero interest rates (Regulations allow for the combination of grants and loans in the form of interest rate subsidies), similar to the current CALF facility. The new Regulations allow for the Managing Authority to provide the loans directly to the final recipients (being AHBs), without the need for a financial intermediary or fund structure (subject to certain requirements[11]). In this case, the Managing Authority could therefore provide the loans directly to the AHBs, and perhaps rely on a credit scoring/financial due diligence being undertaken by the aggregator. This option would most likely be classified by the European Commission as a financial instrument, as the structure would aim to recycle the ERDF resources provided to the AHBs. However, a key consideration is the ability of AHBs to repay the loan. Subject to clarification with the Commission, these loans might even be provided with repayment being contingent upon certain future events/outcomes occurring, including for example, their sale in the open market at an undetermined future date.

4.5 Key requirements

To attract private finance into the Irish social housing market and to ensure that the aggregator is an attractive proposition for private financiers, the following requirements should be met:

11 For example, the Managing Authority must be entitled by national law to provide loans, must possess the necessary expertise and know-how to provide loans. In addition, payments from the European Commission are made in the same way as for grants (reimbursements of actually disbursed loans to final recipients) and Managing Authorities cannot declare management costs and fees to EC, as is done for FIs.

Strong regulatory framework

A strong regulatory framework needs to be in place, including a body or organisation that has real power to intervene if AHBs are failing to comply with agreed performance standards. Ireland is currently developing a legal framework and we understand that the voluntary code should be made statutory in 2016. The additional financial chapter to the voluntary code (still under development) will be an important element in reinforcing regulation in the sector and providing sufficient confidence to attract more private finance.

AHBs to be financially healthy and knowledgeable

The financial capacities of AHBs vary widely, which is not surprising given such a large number of AHBs of varying size. Although most likely only the top 20 will be interested in accessing private finance (22 AHBs applied for HFA certification), financial knowledge and expertise amongst the top 20 is also still varied, with only seven AHBs currently approved for HFA funding. Through technical assistance and guidance (potentially from the fund/aggregator) this can be further improved.

Reliable income streams

Reliable income streams that are able to service the debt taken on by AHBs are critical. This means that the government needs to be committed to entering into long term availability payment agreements. The current leasing agreements are generally considered as relatively stable, long term agreements, but have some important elements that might need to be further reviewed/refined:

- The Local Authority only enters into Payment and Availability Agreements once units are refurbished/completed. Some comfort would need to be provided that as long as the units were refurbished to the agreed specification, that the local authority would unconditionally agree to sign up to the agreement.
- Risks around market rent and resulting downward adjustments in the payments is borne by the AHB. This could potentially affect the AHB’s ability to repay the loan if market rents moved downwards. To some extent, AHBs do not operate under normal market rental conditions and should therefore not be expected to assume or manage such risks.
- The risk around non-payment by the local authority under the PAA agreement, in case of void periods, is partly borne by the AHB. The risk is shared and there is a significant lead time in which the AHB can propose a suitable tenant should the local authority not perform in this respect. Although the AHB is allowed to sell the property as a last resort, the risk of providing suitable tenants should arguably sit fully with the local authority, which is ultimately responsible for managing such lists.

Predictable pipeline of projects

A predictable and reliable pipeline of projects (and resulting government funding streams) is required to ensure sufficient demand for funding for private financing made available through the fund/aggregator to AHBs. Due to uncertainties around government funding budgets, the AHBs that were consulted for this report indicated that their pipelines were difficult to predict and in no case could they provide a pipeline of longer than 12 months.

Strong security/collateral structure

As outlined above, a strong security/collateral structure including a back stop government guarantee is most likely required to ensure sufficiently low-cost, and long term financing. Many other countries initially used a guarantee to reduce reliance on public funds and continue to use this instrument to ensure low-cost financing, even as markets have further developed, such as in the UK and the Netherlands.

4.6 Backstop guarantee

Some social housing markets have a state backed guarantee in place, which is the case for example in the UK and the Netherlands. Even though these markets are experienced in the use of private finance, a government backed guarantee is still used to drive down pricing, reducing the reliance on government cash funding and accelerating investments in social housing (Lawson, 2013). A key reason for the effectiveness of guarantees is based on underlying systems of regulating housing associations, minimising the risk of the guarantee actually being called.

Given the novelty of the Irish social housing market with respect to the use of private finance, and the risks around limited and developing regulation, it is likely that a government backed guarantee is required to enable large investors, such as the EIB, to provide long term fixed rate attractive financing and to further develop the market (particularly for larger institutional investors).

A possible backstop guarantee mechanism could even consist of several layers:

- First loss provided by the initial equity provided by the government through ERDF and/or other public resources. This would absorb any losses before the next layers of capital funding (including that from Banks and institutional investors) would be affected.
- Local Authority guarantee to continue to pay under the payment and availability agreement directly to the aggregator in the case of an AHB bankruptcy. We understand that this structure is also in place with the special purpose vehicle that NAMA put in place (National Asset Residential Property Services 'NARPS').
- National government guarantee as an ultimate backstop in case the first two steps do not provide enough security in case of financial problems of AHBs. In this case, government could step in and take over the repayment of principal and interest, similar to the backstop guarantee in the Netherlands (see Annex III).

The government backstop guarantee would need to be underpinned by a strong regulatory framework, with strong controls over the financial performance of AHBs. In addition, in some other countries, such as the Netherlands, the housing associations contribute to a central fund that is used to support housing associations in financial problems (see Annex III for a description of the Dutch social housing system). Further research would need to be done to decide if this might be a suitable solution for Ireland, but at this stage this is considered unlikely given the relatively fledging stage of the AHB market.

The statistical treatment of the guarantee would need to be further analysed, but the impact on the accounts can potentially be minimal, depending on the underlying regulatory framework and assessed risk of the guarantee being called (see section 5.5).

4.7 Equity contribution

The recommendation is for the aggregator to have an equity contribution in place in the region of EUR 25 million, injected by government as a one off contribution. This would provide cover for the first EUR 25m of losses and provides an extra risk buffer for the senior debt. It therefore minimises the risk on the back stop guarantee being called. Over time, as the sector matures and becomes more diversified with more AHBs using larger amounts of private finance, this has the potential to leverage significantly more amounts of affordable debt finance. This structure is similar to the initial set-up of The Housing Finance Corporation (THFC) model in the UK.

By providing the total amount of equity upfront, the aggregator should be able to attract relatively large amounts of borrowing at attractive rates. If required, it would be possible to provide the initial equity in several tranches, but this would most likely then limit the amount of other funding that the aggregator could attract initially. If this is the preferred route, it is important that the amount of equity provides sufficient cover for first losses on the actual loans provided, especially to avoid the risk that the government guarantee might be called, and therefore provisioned for on the government's "balance sheet".

4.8 Option 1 and 2: aggregator with separate channelling of ERDF (option 1) as grant or subordinated loans (option 2)

The proposal is to develop a dedicated aggregator for approved housing bodies, with the goal of providing long term funding at attractive (fixed) rates. The AHBs would undergo a 'pre-qualification' process, which could be similar to, or linked to the HFA certification process. ERDF funding would be channelled separately alongside the aggregator, to allow the aggregator to finance investment in social housing that is not solely focused on energy efficiency measures. This also means that ERDF funding can be channelled at any time, also before the aggregator is in place. ERDF could be provided either in the form of grant or subordinated loans, which is explained below in section 4.4. In both scenarios, the base case is an aggregator, which would channel funding from large investors, for example EIB and other banks, to AHBs. The structure is outlined in the figure below.

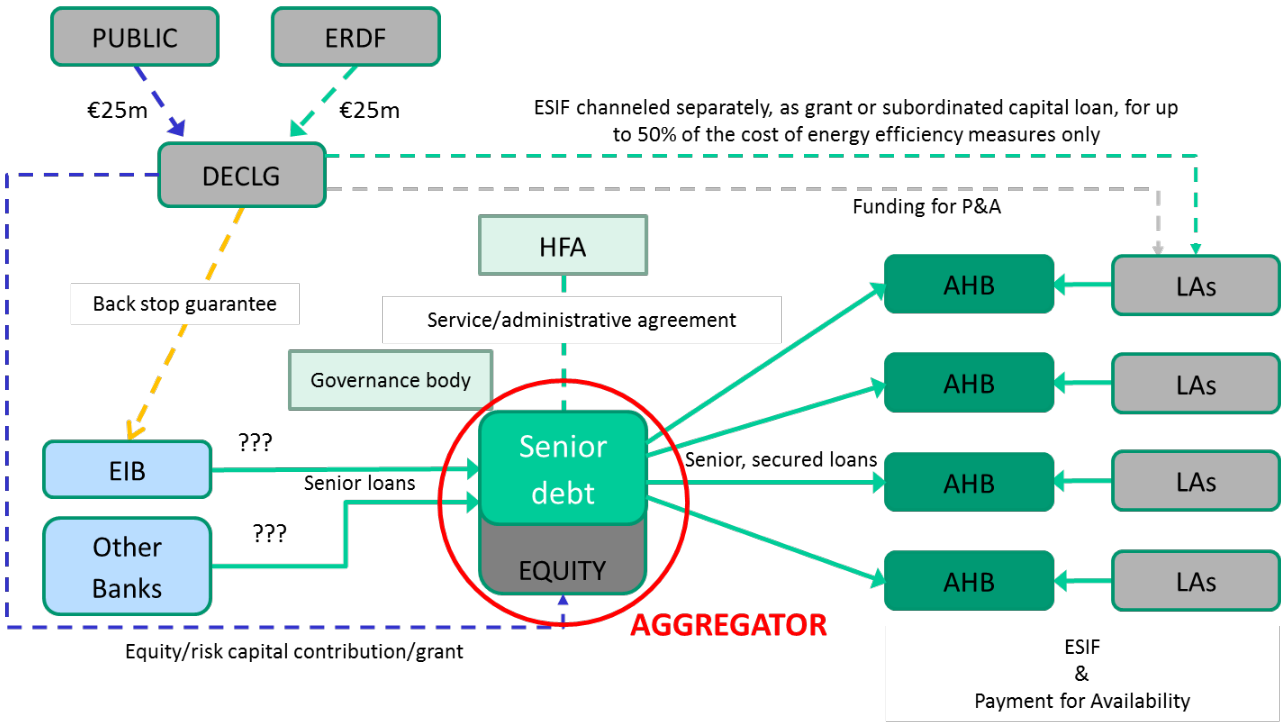

Figure 2. Overview of potential structure of aggregator option 1 and 2

The amounts in the figure above are based on information provided by DECLG. A project portfolio of 2,000 units (1,500 in Dublin and 500 units in Cork and Limerick) has already been proposed by DECLG for energy efficiency retrofit. Subsequently, the local authorities or DECLG would develop a tender for AHBs to take over the stock to be retrofitted, combined with a payment for availability (leasing) agreement. Alternatively, in case of a wider pipeline in future, this could also be a tender for new build for which the local authorities will enter into a payment for availability agreement.

Administration of the aggregator

The aggregator needs to be administered by a capable organisation, experienced with social housing financing in Ireland, assessment of AHB credit risk and negotiation of loan and security packages. The Housing Finance Agency would be a natural choice as an administrator and advisor to the aggregator, as it is most likely the only player with significant experience in this area. We understand that as a public financial institution, HFA might be appointed without public procurement, although this would need to be further confirmed through legal advice. In addition, it needs to be ensured that HFA is not the actual credit decision making body, but rather acts as an advisor and/or administrator, to ensure that the structure remains at arm's length from government. The ultimate credit decision would be taken by an independent investment committee or board of directors of the aggregator.

Security arrangements

For private financiers to be able to offer long term financing at attractive rates to the aggregator, a package of security arrangements would need to be in place, most of which are currently already being requested by HFA and/or commercial banks:

- Mortgage security over underlying properties
- Availability of ERDF and/or public funding as a capital subsidy or subordinated debt
- Equity contribution as a first loss in the aggregator (see section 4.7)
- Pledge over the Payment and Availability income stream from local authorities to the AHBs

Develop capacity to take on private finance and prepare projects for funding

The experience of using private finance in social housing in Ireland is still limited, with only a handful of AHBs having taken on loans from private banks. Only seven out of the 22 applications to HFA for certification have been approved, indicating that there is still a gap in the knowledge and expertise required in taking on private finance. Therefore, it would be beneficial to have a facility in place that could provide technical assistance to the AHBs in preparing their project proposals and applications for private finance.

4.9 Option 3: "Integrated" aggregator

The third option proposes to combine ERDF funding with private funding in one aggregator. ERDF and other public funding could be contributed to the aggregator vehicle as subordinated debt or equity, to act as a first loss/risk buffer for senior lenders. This should be classified as a financial instrument, and the key advantage is that the AHBs will have one "portal" to access their funding. The drawback however is that the aggregator will then only be able to finance energy efficiency projects, as with the focus on thematic objective four, ERDF funding and any match-funding in the financial instrument, will only be able to focus on eligible expenditure. Also, the likely additional monitoring and reporting requirements associated with the ERDF funding element would have to be done by the fund operator, who might not be as familiar with the regulatory requirements as would, for example, a Managing Authority, government department or even a local authority. The graph below provides an overview of the potential structure.

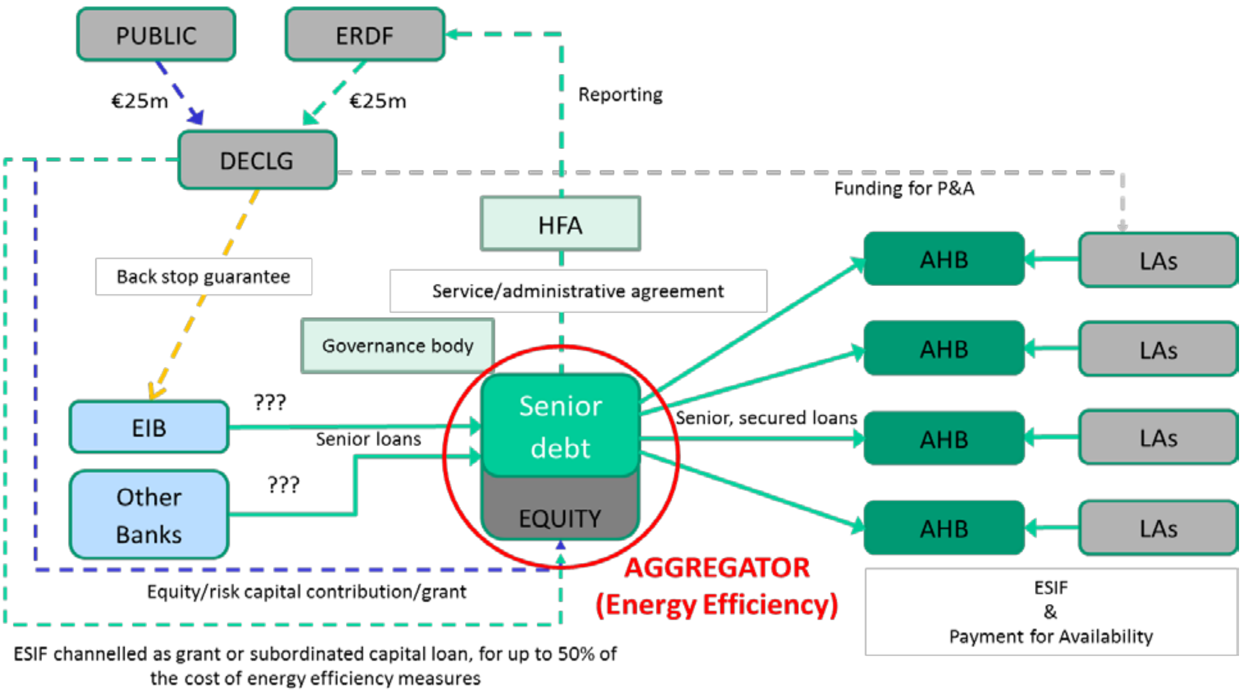

Figure 3. Overview of potential structure of aggregator option 3

4.10 Potential risks

The following are potential risks that will need to be managed to ensure a correct set-up of the aggregator/fund:

- Large scale stock transfer of local authority owned housing to AHBs
    - Politically, stock transfer can be a sensitive topic, especially if it is to occur on a large scale. Tenants are anxious that their rents may increase and that conditions could change. Careful management by local authorities and AHBs could help avoid long delays and manage expectations effectively.
    - ERDF funding will need to be spent in the 2014-2020 time period. Delays caused by political concerns around stock transfer could potentially jeopardise early spending targets being achieved.
- Limited pipeline beyond the initial EUR 100 million identified by DECLG
    - The current future pipeline is heavily dependent on (fluctuating) government resources. There is no clear overview of projects that are expected to occur, for example, in the next three years. Communication of a forward government programme and a stock-take of local authority projects could assist in further clarifying and building the pipeline.
- Limited capacity of AHBs
    - AHBs are still in their infancy with respect to tapping private finance and business models still need to be proven. As outlined before, technical assistance could assist AHBs in making the transition to private finance, as well as preparing projects for financing.

- Evolving regulatory environment
    - Although the regulatory environment is evolving and being developed, there is currently little financial control over AHBs, potentially providing opportunities for misuse of funds. Clear procedures regarding financial management and procurement need to be implemented.
    - Simultaneously, changes are planned to the rent regime, which provides uncertainty for AHBs future revenue forecasting.
- Statistical treatment
    - Additional borrowing by the Irish public sector is limited and it is therefore likely that an aggregator/fund would only be feasible if it is to be classified as "off balance sheet". It is therefore necessary that the aggregator operate at arm's length from government, and on an appropriately commercial basis.
    - Furthermore, we understand that the statistical treatment of AHB still needs to be confirmed. If the outcome of this would be that borrowing by AHBs would be classified public debt then the feasibility of an aggregator funding vehicle would be limited.

4.11 Qualification as a financial instrument

The key characteristics of a financial instrument are as follows (European Commission, 2013):

- Repayable character through the provision of equity or quasi-equity investments, loans, guarantees or other risk-sharing instruments
- Address specific market needs and align with EU goals
- Substantial participation by private sector investors and financial institutions on an appropriate risk-sharing basis

Therefore, the option whereby ERDF is used as a grant would not be classified as a financial instrument, whereas the other two options, involving the use of ERDF as either equity or subordinated loans, would most likely indeed be classified as a financial instrument. The classification of the structure as a financial instrument has both advantages and disadvantages. We understand that there is a strong desire to implement financial instruments in Ireland during the 2014-2020 programming period. Such instruments should provide opportunities to recycle European funding to potentially benefit a larger number of projects. On the other hand, financial instruments require potentially more intensive preparation time and set up costs. This even starts before the set-up of the financial instrument, as the European Commission requires that the managing authorities undertake comprehensive ex-ante assessments before any programme contributions can be made. The objective of the ex-ante assessment is to assess the rationale for a financial instrument against prevalent market failure or suboptimal investment and to ensure that the FI will contribute to the achievement of the operational programme and ESIF objectives. A summary of the key elements of the ex-ante assessment is included in Annex IV.

4.12 Proposals in partnership agreement and operational programme

The European Commission's guidance on financial instruments[12] states that it would be useful to include general information on the use of financial instruments in relation to relevant thematic objectives and/or investment priorities where use of financial instruments is envisaged. In the operational programme it could be indicated at priority axis level where there is a consideration of a financial instrument, although this is not obligatory. Any text to be inserted could be quite broad at this stage, and could merely refer to the possibility of delivering the investments through either financial instruments or grants, or a combination of both. It is not recommended to provide too much detail before the ex-ante assessment has taken place, as this could lead to unnecessary programme modifications at a later stage, which could be time consuming. The exception is however if managing authorities are planning to deliver a whole priority axis through financial instruments or wish to make a contribution to an EU-level instrument, but this is not likely to be the case here.

It might therefore be useful to include reference in the partnership agreement and operational programme to the fact that Ireland is considering the set-up of an innovative fund structure for energy efficiency in social housing, which is likely to include a combination of grant funding and lending from either commercial or public sources, and could take the shape of a financial instrument.

5. Governance Structure and Statistical Treatment

5.1 Introduction

This section provides a brief background on the proposed governance structure for the aggregator/fund structure and will give an indication of initial discussions with the Ministry of Finance and the Central Statistics Office regarding the statistical treatment of a potential aggregator which would combine public and private funding.

The governance structure is a key factor for the ongoing transparent and fair management of the aggregator, and is key for the following elements:

- Setting the parameters for ERDF funding and aggregator funding through the investment policy
- Providing clarity around the decision making process, such as investment decisions and appraisal processes
- Outlining any other management and control procedures

[12] See also: http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

In particular, in case of public and/or ERDF funding, the aggregator will have to comply with State Aid and procurement rules, and take necessary steps to comply with document retention requirements for monitoring, verification and audit requirements. National rules will also be relevant, for example to ensure that the administrator of the aggregator has secured all necessary licences permits and registrations to enable it to operate the fund as well as other areas such as data protection issues. This type of obligations should be clearly set out in the agreement between the managing authority or government and the administrator of the fund.

5.2 Proposed governance structure

The following elements should feature as part of the overall governance structure:

- Independent investment board
  - The investment board would typically meet every quarter and would review the performance of the aggregator and its operator/administrator, discuss changes or deviations from the investment strategy and any other higher level issues.
  - It is proposed that board members consist of national and international independent experts in social housing and financing. Potentially international financiers, The Housing Finance Corporation (THFC) and members of the Dutch guarantee body Waarborgfonds Sociale Woningbouw could potentially be approached to participate in this structure.
- Day to day management/operator of the aggregator
  - Assigned by the government, either on the basis of a competitive process or through direct appointment. This would need to be carefully assessed on the basis that the aggregator would need to be seen as operating at arm's length of government and on a fully commercial basis.
  - Responsible for day-to-day operations including credit decisions, based on the agreed investment strategy.
  - The administrator/operator agreement would cover the rights and obligations of the administrator/operator, including performance rewards where appropriate, reporting, and the option for replacing the operator in the case of poor performance.
- Investment strategy
  - Agreed strategy that sets the parameters for investment in AHBs, including appropriate risk management, loan terms and pricing policies, etc. The investment strategy would be set by the independent investment board/board of directors of the aggregator.

5.3 Legal structure

The set-up of the aggregator would most likely need to be initiated/set up by an independent body, to ensure it is seen as arm's length from government. In Ireland, the Irish Council for Social Housing (ICSH) could potentially play an important role in this regard, as a sponsor of the industry.

In terms of legal entity, further review needs to be done, but potentially the aggregator could be set up as a company limited by guarantee. This could have independent members and could receive a capital contribution from government as an initial capital injection.

It will furthermore need to be analysed which specific authorisation will be required from the Central Bank of Ireland regarding any regulation of the aggregator. This will depend on the specific activities that the aggregator will undertake, which will be focused on disbursing loans. As it will not be taking deposits, it is potentially possible to receive an intermediary registration with the Central Bank, but this will need to be further analysed.

A similar model exists in the United Kingdom, where The Housing Finance Corporation, was set up by the sector regulator and the industry federation as a dedicated lender to registered providers of social housing. THFC fulfils a public policy role and has a close relationship with its government partners, but the government does not control THFC, with the majority of the board members being independent. THFC is a not-for-profit limited liability entity incorporated under the UK Industrial & Provident Societies Act. THFC's borrowing is not included in the UK government's accounts as it operates independently from and at arm's length from government. The THFC model would be worthwhile to explore in more detail as it seems an applicable model for the aggregator in Ireland.

5.4 State aid

The current state aid ruling for Ireland[13] classifies the guarantee for borrowings by the HFA as a service of general economic interest and considers this aid to be compatible with the EC treaty. Further research will need to be done to examine the potential impact of the aggregator's activities in relation to state aid, but at this stage this does not appear to represent a significant concern.

5.5 Statistical treatment

Due to budgetary constraints, further borrowing by the Irish government is currently restricted. Therefore, any borrowing and lending by a potential aggregator / financial instrument would need to be classified as "off the general government balance sheet".

General government accounting rules concerning the classification of certain financial institutions are currently being reviewed in light of the interpretation of ESA2010, and it will be important to revisit the appropriateness of the legal structure, its ownership, governance and management finalising decisions on the appropriate aggregator vehicle.

Initial conversations with the Department of Finance statistical unit indicate that the following elements would need to be carefully considered to ensure "off balance sheet" treatment:

[13] N209/2001, see http://ec.europa.eu/eu_law/state_aids/comp-2001/n209-01.pdf

Independently managed and at arm's length from government

There should be limited government influence both in the set-up and the day to day operation of the aggregator. To ensure classification in the private corporations sector, the aggregator should not be controlled by nor be dependent on government. Management of the vehicle, certainly in so far as investment and other commercial decision making is concerned, would most likely need to be undertaken by an independent, suitably skilled and experienced decision making body.

In the case of the aggregator, it is anticipated that government will inject, either by way of equity investment or grant contribution, around EUR 25m. Initial indications from the Department of Finance statistical unit are that if the aggregator were to be capitalised with an equity injection, this would probably mean that the aggregator would be classified as a public sector body. However, this does not necessarily mean that the entity is in general government or on balance sheet and further work is required on this topic.

Examples of where funds have been established with public fund contributions are the so-called "JESSICA" and "JEREMIE" initiatives of the European Commission. In those funds managed by the EIB Group, the funds are capitalised using "contributions" of public funds, essentially as grant contributions. These funds are then overseen by independent investment boards or investment committees that endorse the investment recommendations provided by the EIB Group as fund managers. It is understood that such structures sit "off balance sheet" of general government.

Commercial principles

In the case that the aggregator is considered a public body (a government-controlled institutional unit), it can still be classified outside of government if the entity places itself at risk by acquiring financial assets and incurring liabilities on its own account. The aggregator should apply commercial principles in its activities and act like a 'normal' private lending institution in terms of assessing the credit risk of individual AHBs and appropriately risk pricing its financing. The Department of Finance statistical unit has indicated that in the case of an equity investment, it would need to be demonstrated that there is a return on the equity injection. They further indicated that the expected return should be based on risk adjusted 10 year government bond yields.

In addition, if the only or main customer of the aggregator would be government, the entity may still then be classified to the government sector. In this case, it is assumed however that AHBs are not classified as public sector.

Statistical treatment of a potential government guarantee

In general, guaranteed debt is recorded as the borrowing of the aggregator with no impact on government debt. In the context of the current review of the classification of certain financial institutions, a government guarantee indicates risk borne by government that may impact on the aggregator's classification.

The above issues will need to be addressed in the design of the aggregator and it is recommended that the Department of Finance and the Central Statistics Office Ireland be closely involved in this regard.

6. Technical Assistance

6.1 Introduction

The Irish social housing sector has had to make significant changes in its business model: within the space of a few years, it has moved from a 100% capital grant funded sector to having to mobilise private sector financing, negotiate capital advances with government and rely on leasing payments from local authorities. This is a substantially different operating model and it is no surprise that many AHBs seem to struggle to operate professionally in the new situation. Technical assistance (TA) could help in further professionalising the sector.

6.2 ELENA

Lack of know-how or capacity to implement energy efficiency projects can often be a problem in implementation. The provision of TA can help ensure suitable and timely implementation of successful projects. One option currently being promoted by EIB, is to mobilise ELENA funding for this purpose. ELENA stands for European Local ENergy Assistance and can provide up to 90% of eligible costs. ELENA funds can be used for structuring programmes, business plans and additionally needed energy audits, preparing tendering procedures and contracts, and paying for project implementation units. Only public authorities or other public bodies (financed for more than 50% by public sources) are allowed to be the main recipient, although they are allowed to work together with other organisations. For example, local authorities could group together and request ELENA assistance for project preparation.

6.3 Technical support funded by ERDF

Another option is to use ERDF funding allocated to Ireland to develop a TA facility linked to the disbursement of ERDF funding. If the ERDF funding is channelled as subordinated debt, and thus classified as a financial instrument, the grant can be combined within the same facility, as long as the technical support is to the benefit of the prospective investment of the final recipient to be supported by that operation[14]. If ERDF is channelled as grant, then similarly, the TA facility could be set up and run by the same organisation that provides the grants to the beneficiaries. The requirement in both cases is that the TA will have to focus on the energy efficiency elements of investments, as it is expected that thematic objective four (energy efficiency) is the sole contributor to the scheme.

[14] Regulation No 1303/2013, adopted 20 December 2013, Article 37 (13)

6.4 Technical support for the wider social housing sector

The issue of professionalism is relevant not solely to the energy efficiency elements, but to the wider sector. It might therefore be relevant for the aggregator to include technical assistance for all loan applications, not just for applications focused on energy efficiency. If this is desired, then the potential of developing a combination of funding streams of ELENA, ERDF and public resources could be further explored.

7. Conclusion and recommended next steps

7.1 Conclusion

The report recommends the establishment of a dedicated aggregator funding vehicle for AHBs, with three potential options for the channelling of ERDF funding specifically for energy efficiency renovations:

- Aggregator with ERDF separately provided to AHBs as grant
- Aggregator with ERDF separately provided to AHBs as subordinated debt
- Integrated aggregator with ERDF contributed as equity. In this case, the aggregator would have an exclusive focus on energy efficiency renovation measures.

The table below outlines the key elements, benefits and disadvantages of the options:

Option	Key elements	Advantages	Disadvantages
Aggregator with ERDF separately provided to AHBs as grant	- Aggregator with equity contributed by government to cover for first losses - Private financing through aggregator provided as senior debt - ERDF channelled separately as non-repayable grant for max. 50% of energy efficiency costs of AHB projects - Not labelled as a financial instrument for ERDF purposes	- Mix of debt and grant is most likely more feasible operating model for AHBs - Both energy efficiency and new build projects can be financed by the aggregator - No ERDF "ex-ante assessment" required	- ERDF will not be repaid and will not be recycled
Aggregator with ERDF separately provided to AHBs as subordinated debt	- Aggregator with equity contributed by government to cover for first losses - Private financing through aggregator provided as senior debt - ERDF channelled separately as subordinated debt for max. 50% of energy efficiency costs of AHB projects - Labelled as a financial	- Both energy efficiency and new build projects can still be financed by the aggregator, matched with ERDF at the AHB project level - Some benefits in the regulations related to financial instruments, but	- Additional obligations on AHBs to also repay ERDF provided as subordinated debt that will have to be financed through local authority leasing agreements - ERDF "ex-ante assessment" required - Potentially more extensive ERDF reporting and monitoring

	instrument for ERDF purposes	these are limited.	requirements imposed on the aggregator
Integrated aggregator with ERDF contributed as equity	- Aggregator with equity contributed by government and ERDF funds - Private financing through aggregator provided as senior debt - Labelled as a financial instrument for ERDF purposes	- One-stop-shop for AHBs - Potentially a larger equity contribution to the aggregator which, subject to sufficient pipeline in energy efficiency specific measures, could leverage substantially more senior debt funding than other options above - Some benefits of the financial instruments ERDF regulations, including potentially early drawdown of the funds.	- Focus on energy efficiency projects only - Additional repayment obligations on AHBs as ERDF would not be provided as grant that will have to be financed through local authority leasing agreements - ERDF "ex-ante assessment" required - Potentially more extensive ERDF reporting and monitoring requirements imposed in the aggregator

In the current situation where increasing public debt is no longer a sustainable solution for the social housing sector, the recommendation would be to establish an off balance sheet aggregator funding vehicle. The aggregator would have a long term character that can provide financing for social housing projects, including new build and energy efficiency projects. The aggregator would provide an opportunity for government to transfer a potentially significant portion of its balance sheet to the private (although regulated and non-profit) sector, helping to decrease the government deficit, whilst simultaneously attracting the most affordable long term funding from investors, including institutional investors and international parties such as the EIB. Overall, the set-up of an aggregator could significantly boost the attractiveness of the sector, increase investments in social housing and provide a more sustainable long term financing solution.

ERDF is earmarked for energy efficiency measures. Therefore, ERDF is recommended to flow alongside, but separate from the actual aggregator. In this way, the aggregator is able to provide funding for projects that are not specifically labelled as energy efficiency projects, such as new build, alongside funding energy efficiency projects that receive ERDF funding.

Using ERDF as grant is most likely the most feasible option, considering that the sector is moving from a 100% grant funded situation and revenues of AHBs to repay loans are limited to income streams from government. In addition, this option would not require a formal "ex-ante assessment" and the ERDF reporting and monitoring requirements would not be imposed on the aggregator (but would sit with the Managing Authority and AHBs as final recipients of the grant funding). However, this innovative structure still maintains the benefits of combining grant with private finance and could be promoted as a novel and efficient way of combining ERDF and public resources with private sector loan funding.

The aggregator will require a strong security/collateral system to be in place, consisting of an initial equity contribution from government and a back stop guarantee. The equity contribution, which is expected to be in the region of EUR 25 million, minimises the risk on calling the guarantee as it would cover first losses up to EUR 25 million. Over time as the sector matures and becomes more diversified, this has the potential to leverage significantly more amounts of affordable debt finance, potentially creating a fund of several hundred million euros.

There are various risks that will need to be managed closely to ensure that the fund/aggregator and ERDF funding stream will be in place and operating within the timeframe of the new ESIF funding period. The key risks are:

- Time delays around large scale stock transfer
- Limited pipeline beyond the initial EUR 100 million identified by DECLG
- Limited implementation capacity of AHBs
- Still evolving regulatory environment
- Confirmation of statistical treatment for government debt purposes

To help ensure the statistical treatment of the aggregator is considered "off government balance sheet", it may be important to consider whether the social housing industry itself plays a role in setting up the aggregator, rather than government, and that the aggregator operates at arm's length from government, acting according to commercial principles.

7.2 Recommended next steps

It is recommended that as next steps, the following issues are further analysed:

- Pipeline
    - Local Authority appetite for energy efficiency retrofit and new build should be analysed
    - Potential stock transfer issues and timeline need to be considered
- Availability of government funding
    - For availability payments
    - For equity/first loss injection into the aggregator
    - Buy in from European Structural and Investment Funds Managing Authorities
- Availability payment agreements
    - Ensure that this is a reliable payment stream, whilst transferring appropriate risks to the AHB to ensure off balance sheet treatment
- Analysis of the need for and availability of technical assistance funding
- Government backstop guarantee
    - Thorough assessment of the probability of default/risk of calling guarantee
- Procurement
    - Analyse if AHBs would need to follow public procurement rules in this scenario
- Potential state aid issues
- Legal structure of the financial instrument

- Identification and selection of an appropriate fund operator/administrator
- Statistical treatment
    - o Statistical treatment of the aggregator
    - o Statistical treatment of the government backstop guarantee
    - o Confirm the statistical treatment of the AHBs

Furthermore, if either option 2 or 3 proposed in the report would be chosen, which are classified as a financial instrument, an ex-ante assessment will need to take place (more information on the elements of an ex-ante is provided in Annex IV).

Annexes

Annex I	Terms of Reference
Annex II	Overview of people consulted
Annex III	Description of the Dutch social housing sector
Annex IV	Description of ex-ante assessment
Annex V	Literature
Annex VI	List of abbreviations

Annex I. Work programme

Background

The last few years have seen a shift in the Irish social housing sector from a publicly funded model to a situation where the private sector will be the main provider of finance. Government initiatives such as the Capital Advance Leasing Facility (CALF[15]) have provided incentives and possibilities to combine government assisted financing with private financing, combined with an increased focus on revenue based funding.

Simultaneously, there is an increasing need for investment in energy efficiency measures in social housing, in line with the activities outlined in Ireland's National Energy Efficiency Action Plan to 2020 and the EU2020 goal of achieving 20% increase in energy efficiency.

To increase private sector investment in the social housing sector, Ireland is considering the set-up of a financial instrument to structure and bring together investment needs and supply. This instrument could take the form of a special purpose vehicle or revolving fund for financing approved housing bodies, also for energy efficiency measures in existing housing stock, and European Structural Funds could potentially be used in or alongside this financial instrument. In addition, at a later stage and subject to normal due diligence procedures, EIB and other financial institutions might be able to lend to/through the financial instrument.

Work programme

The key activities that the EIB plans to undertake are as follows:

- Options appraisal, based on a demand analysis done by the Department of Environment, assessing how best ESIF resources could be combined with national public sector resources and/or EIB lending through a special purpose fund vehicle to be created to on-lend to Approved Housing Bodies. The work would consist of interviews with a number of Approved Housing Bodies, the Irish Council for Social Housing, and other relevant government departments to ascertain the appetite for such a financial instrument. The appraisal would consider how the instrument could be established in accordance with the ESIF regulations and whether ESIF resources should be used as either grant, technical assistance, loans, guarantees or a combination thereof. Please note that any decision on EIB lending will be subject to a separate appraisal procedure.
- This work would culminate in a brief summary report outlining the outcomes of the Services including recommendations/options for the way forward, and outlining any additional elements of work that may be required to deliver on the European Commission's requirement for an "ex-ante assessment" for any financial instrument to be used in this area. This work is contingent upon the availability, and will draw to a large extent on the content of any European Commission's guidance on ex-ante assessment methodologies (currently being undertaken by the EIB Group on behalf of the Commission).

[15] Through the CALF, Approved Housing Bodies (AHBs) may lease or build housing units. In return, the AHBs will receive an availability payment from the Housing Authorities. To finance the project, AHBs can apply for a capital advance of maximum 30%. The remainder of the required financing will need to be attracted in the private sector.

Annex II. Overview of people consulted

Organisation	Name
Allied Irish Bank	Maura Moore
Bank of Ireland	Mark Naughton
Bank of Ireland	Brian Walley
Bank of Ireland	Imelda Crumlish
Central Statistics Office Ireland	Patrick Quill
Cluid housing association	Cathal Callan
Department of Finance	Ronan Heavey
Department of Finance	Peter Neary
Department of Finance	Anthony Maloney
Department of Public Expenditure and Reform	Rory O’Rua
Department of Public Expenditure and Reform	Jim Deane
Department of Public Expenditure and Reform	Gearoid O'Keeffe
Department of the Environment, Community and Local Government	Jim Ganley
Department of the Environment, Community and Local Government	Damian Allen
Department of the Environment, Community and Local Government	Deirdre Kearney
Department of the Environment, Community and Local Government	Claire Gavin
Department of the Environment, Community and Local Government	Aidan Culhane
Housing Agency	Rosalind Carroll
Housing Finance Agency	Sean Cremen
Housing Finance Agency	Maria O'Reilly
Housing Finance Agency	Barry O’Leary
Irish Council for Social Housing	Donal McManus
McDowell Purcell	Breen Purcell
National Asset Management Agency (NAMA)	Kate Joyce
Respond! housing association	Pat Cogan
Respond! housing association	Liam Fewer
The Iveagh Trust housing association	Gene Clayton
The Iveagh Trust housing association	Paul Harrison
Túath housing association	Anna Marie Gavin

Annex III. Dutch social housing sector

Decentralisation post-1980s

A process of decentralisation of social housing began in the 1980s, whereby responsibility for provision shifted from the central government to local and regional municipalities as well as housing corporations. During the 1990s subsidies on housing construction were lifted and housing corporations became fully independent[16].

In 1995 the government made a one-off transfer of EUR 16.7billion to the housing corporations, the 'grossing and balancing operation' (bruteringsoperatie), writing off outstanding loans to the sector as well as abolishing subsidies. This effectively cut the link between the State management of social housing. As a result of this, housing corporations raise revenue through rental income as well as other sources, such as the construction and sale of dwellings. In addition to this, housing corporations benefit from a Guarantee Fund (*Waarborgfonds Sociale Woningbouw,* explored later) that allows them to borrow at reduced interest rates.

The social housing rental sector

The rental market in the Netherlands covers 44% of all houses in the Netherlands, 31% being owned by housing corporations, and 13% by private landlords[17]. Around 75% of all rental housing (around one third of all housing in the Netherlands) is considered social housing and is provided by housing corporations, private landlords and private investors. Rental housing in the Netherlands is considered as social housing if the monthly rent is no more than EUR 699.48, and at least 90% of these houses need to be assigned to people with an annual income of less than EUR 34,678 (in 2014). The total number of social housing units and an estimate of the units provided per type of provider are illustrated below (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2013):

	Number of social housing units	**As % of all social housing units**
Housing corporations	2,115,000	82%
Private landlords	455,000	18%
Private landlords	*390,000*	*15%*
Private investors	*65,000*	*3%*
Total	**2,570,000**	**100%**

Table 1. Number of social housing units per provider. Source: CBS, IVBN and Ministry of Interior.

[16] http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp_457_en.pdf
[17] Centraal Bureau voor de Statistiek, July 2013, statline.cbs.nl/statweb/

Private landlords

The private provision of social housing consists of around 18% of all social housing provision. Of this 18%, the majority (86%, around 390,000 units) are owned by relatively small private investors. The remaining 14% (around 65,000 units) are owned by institutional investors[18].

Housing corporations

There are 389 housing corporations in the Netherlands, which own around 2.4 million houses, of which 2.1 million houses are considered social housing. The corporations are therefore the largest provider of social housing units, providing 82% of all social housing units. On average, the housing corporations own around 6,000 units each, although this varies quite widely, with 22 corporations owning more than 40,000 on average each.

Number of units	Number of housing corporations	In %	Average # of units per category
<500	49	13%	227
500 - 5,000	207	53%	2,244
5,000 - 10,000	72	19%	7,033
10,000 - 20,000	39	10%	14,094
> 20,000	22	6%	40,122
Total	**389**	**100%**	**6,206**

Table 2. Average units per housing corporation in 2011. Source: CFV Annual Report 2012

In total the 22 largest corporations own 34% of all social housing in the Netherlands. Dutch housing corporations are not-for-profit organisations and are run independently from government.

As their primary task, housing corporations in the Netherlands build, maintain and rent affordable houses to people with lower incomes or people with specific needs, such as the elderly or other people requiring specific care[19]. In addition to this, they are also allowed to invest in social property, such as community centres, and are allowed to invest in the social and economic development of neighbourhoods.

Most of the tasks of housing corporations are classified as services of general economic interest (SGEI) and are allowed to receive state aid under specific conditions. The European Commission views the following activities as State Aid[20]:

- Support for housing corporations in financial distress by Centraal Fonds Volkshuisvesting (CFV);
- Waarborgfonds Sociale Woningbouw (WSW) guarantee;
- Lower costs of land acquisition from municipalities.

The following have been specified as situations when State Aid is permissible:

[18] This information is based on IVBN, the Society for Institutional Investors (www.ivbn.nl) who state that their members own around 130,000 houses, of which around 50% is in the regulated social sector.
[19] See Besluit Beheer Sociale-Huursector.
[20] http://www.rijksoverheid.nl/onderwerpen/woningcorporaties/staatssteun-corporaties

- Housing with a rental value below EUR 699.48 per month (2014). 90% of this housing needs to be assigned to households with an annual income below EUR 34,678 (2014) or to people requiring special care;
- Building of social property, such as community centres and schools.

Currently, non-SGEI activities are allowed within the same legal entity (in Dutch: ‘toegelaten instelling’), but have to be administratively separate. Housing corporations can voluntarily decide to set up a separate legal entity to undertake non-SGEI activities. In that case, the activities of a separate legal entity will not fall within the remit of the regulatory framework and will not be able to enjoy the same guarantee structure.

Regulatory framework of housing corporations

Dutch housing corporations operate in a regulated environment, with oversight from the Ministry of Interior and Kingdom Relations and the Centraal Fonds Volkshuisvesting (CFV).

The CFV is the regulator for the sector and has two main tasks: to provide oversight of the housing corporations and provide support to housing corporations in financial distress. Annually, CFV reviews the housing corporations’ future plans and monitors solvency, liquidity, cash flows and risk management procedures[21]. On the basis of this information, CFV provides a rating to the housing corporation, which can be A1, A2, B1 or B2. In 2012, 342 corporations received an A1 rating, 24 an A2 rating, 6 a B1 rating and 13 a B2 rating. Two corporations (Vestia and WSG) are classified as corporations in financial distress and currently receive CFV support. CFV raises funds for this type of activity through a levy on the sector. CFV has been in place for 25 years and during this time has provided financial support to 19 cases, almost all of which ended in mergers with other housing corporations. The Ministry is responsible for all other non-financial aspects. The Minister for Housing determines if a housing corporation is classified as a ‘toegelaten instelling’ (allowed institution), and is to be part of the regulatory framework of housing corporations. The Ministry reviews the social outcomes, expediency, integrity and efficiency and receives input from CFV on this, resulting in an annual report to each housing corporation.

The Ministry announced in March 2013 that it would like to include financial oversight as one of its tasks. It proposed to move this task from CFV to a body which would be part of the Ministry. More detailed proposals are currently being discussed.

The following diagram provides an overview of the regulatory framework of housing corporations.

[21] In addition, housing corporations have to provide detailed reports on their derivatives portfolios which the CFV assesses on a quarterly basis.

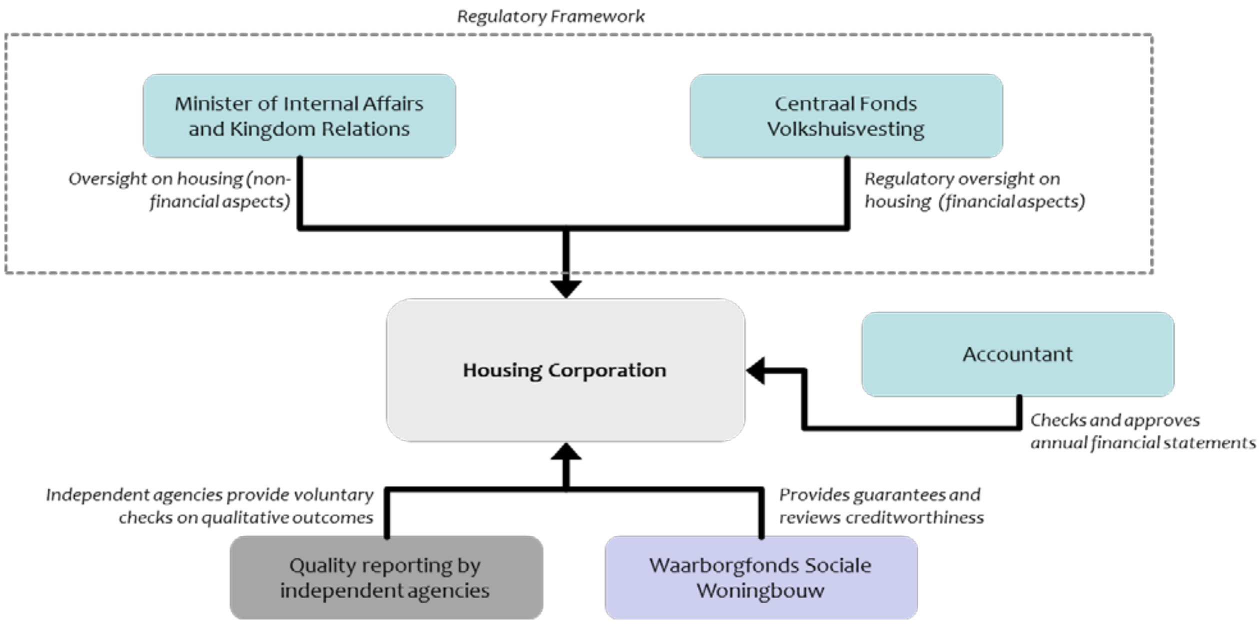

Figure 1. Overview of regulatory framework of housing corporations

Guarantee Fund: Waarborgfonds Sociale Woningbouw (WSW)

The WSW provides guarantees for debt, related to the activities of housing corporations that are considered Services of General Economic Interest (SGEI). The WSW is AAA rated and provides guarantees to its members, allowing its members to borrow on favourable terms. WSW determines the housing corporation's creditworthiness on the basis of predefined criteria, such as a cash flow analysis, debt service coverage ratio, interest coverage ratio and market analysis. On the basis of this assessment, the corporations are classified into monitoring profiles of one to five, ranging from corporations that are visited on an annual basis (profile one) to corporations that are monitored much more closely and are only able to receive guarantees for refinancing (profile four) or in some cases are referred to CFV for support (profile five). This monitoring profile is confidential. If a housing corporation is classified as profile three or higher, WSW enters into discussions with the corporation to implement improvements.

WSW is based on a three-tier security: the primary security is provided by the housing corporation's own capital. The secondary level security is WSW's capital and its participants' combined committed capital (i.e. being all of the member housing corporations together), totalling EUR 3.7 billion. The tertiary level security consists of a backstop guarantee jointly from the central government (50%) and the Dutch municipalities (50%). The housing corporations have been independent from government control since 1995, when the 'grossing and balancing operation' (bruteringsoperatie) removed subsidies. Lending or guarantees received by housing corporations are not included on the Government's balance sheet.

Financial sector

Financing for housing corporation activities is dominated by two banks: Bank Nederlandse Gemeenten (BNG, 50% state owned) and Nederlandse Waterschapsbank (NWB, 17.2% state owned). It has been suggested that these two banks provide around 90% of all loans to housing corporations. Other Dutch banks, such as ING, Rabobank and ASN Bank have relatively small interests in this sector. For example, the Rabobank mainly provides private placement of WSW guaranteed loans and ASN Bank manages a revolving fund in the Province of Overijssel, which includes loans to housing corporations for energy efficiency.

Funding for WSW guaranteed activities is relatively easy to arrange, both for the short and long term. Due to the involvement of WSW, that prescribes the use of a standard loan contract, funding is available to the housing corporations quickly and at relatively attractive terms. Funding for non-WSW activities, however, is more difficult to attract for housing corporations and corporations have to access multiple funders[22].

[22] This topic was discussed during a meeting with four housing corporation, Aedes and EIB on 15 October 2013.

Annex IV Brief description of ex-ante assessment

Introduction

The objective of the ex-ante assessment is to assess the rationale for a Financial Instrument (FI) against prevalent market failure or suboptimal investment and to ensure that the FI will contribute to the achievement of the Programme and ESIF objectives. It will also help to avoid overlaps and inconsistencies between instruments implemented at different levels.

There is no formal deadline for the completion of the ex-ante assessment before the adoption of the Programme itself, however it must be completed before the MA decides to make Programme contributions to an FI. The ex-ante assessments summary findings and conclusions shall be published within three months from their date of finalisation.

Article 37(2) of the Common Provisions Regulation (CPR) articulates the required content of an ex-ante assessment around seven main elements outlined in **Error! Reference source not found.** the table below.

Article 37 (2) requirements	Description
a) Analysis of market failures, suboptimal investment situations and investment needs	• Analysis of the amount of ESIF resources to be allocated to the FI in order to attract other investors and fill the investment gap or contribute to this objective; • FI needs to contribute to the strategy and to the expected results of the relevant Programme(s) by bridging a viability gap or a financing gap; • Identification of the main reasons, type and size of market failure and suboptimal investment situations with a good practice methodology to make sure the FI resources are used where they make a difference.
b) Value added of the financial instruments	• Check the value added of the FI; • Consistency with other forms of public intervention addressing the same market failure to limit overlap and avoid conflicting targets; • Possible State aid implications including the proportionality of the envisaged intervention to the identified market needs; • Measures to minimise market distortion resulting from the FI.
c) Additional public and private resources	• Estimate of additional public and private resources to be potentially raised by the FI; • Co-financing down to the level of the final recipient; • Expected leverage effect; • If relevant, an assessment of the need for and level of preferential remuneration to attract counterpart resources from private investors.
d) Lessons learnt	• Analysis of lessons learnt from similar or instruments considered relevant in the past; • Analysis of ex-ante assessments carried out by the MS in the past; • Application of these lessons to make sure that the FI builds on existing and acquired knowledge.
e) Proposed investment strategy	• Thematic and geographical coverage of the FI; • Ensure that within the meaning of Article 38, the most appropriate implementation option is chosen in regard to the country/regional situation; • Financial products to be offered to ensure an adequate response to market needs; • Final recipients targeted; • If relevant, envisaged combination with grant support to maximise efficiency and ensure minimum intensity of the support element/element of subsidy.

Article 37 (2) requirements	Description
f) Expected results	• Specification of the expected results and outputs of the FI within the priority of the Programme(s); • Definition of reference and target values based on the specific contribution of the FI to the priority of the Programme results and outputs indicators.
g) Provisions allowing the ex-ante assessment to be reviewed	• Rationale for the revision of the ex-ante assessment; • Practical and methodological procedures to update the ex-ante assessment; • Steps to adapt the FI implementation.

As required by Article 37 (3), MAs are asked to submit to the monitoring committee a coherent document encompassing all the seven elements listed above however these can be prepared along an iterative process as well as in stages.

A possible approach that may assist MAs is to distinguish a first logical building block focusing on the "Market assessment" covering points from (a) to (d) while those from (e) to (g) form part of a building block called "Delivery and management".

Before starting an ex-ante assessment

The decision to set up an FI does not happen in isolation and it needs to fit into the priorities set by the Programme. As a result, before conducting an ex-ante assessment for the envisaged FI, MAs need to ensure consistency with the Programme. There are several dimensions of consistency to be taken into account:

- Consistency with Thematic objectives and Programme priorities
- Financial consistency
- Governance consistency
- Consistency with other regions

Building block 1: Market assessment

Building block 1: Market assessment includes the analysis of market failures, suboptimal investment situations and investment needs, the assessment of the value added of the envisaged FI, an estimate of additional public and private resources, which could be potentially raised by the FI, and lessons learnt from past experience in the implementation of similar instruments and in carrying out ex-ante assessments for FIs. After completing this first building block, MAs should have acquired a good understanding of the market conditions in which the FI will have to operate.

The separate elements of building block 1 are outlined below.

<u>Analysis of market failures, suboptimal investment situations and investment needs</u>

Market problems 1	**Market failure and suboptimal investment** 2	**Investment gap** 3
Identify the market problems existing in the country or region in which the FI has to be established.	Establish the evidence of market failure, by analysing the gap between supply and demand, and identify suboptimal investment situations.	Quantify the investment gap to the extent possible.

<u>Assessment of the added value of the FI</u>

Value added 1	**Consistency** 2	**State aid implications** 3
Identify the quantitative and qualitative dimensions of the value added of the envisaged FI and compare it with the added value of alternative approaches	Assess the consistency of the envisaged FI with other forms of public intervention.	Consider the State aid implications of the envisaged FI.

<u>Estimate of additional public and private resources to be potentially raised by the FI</u>

Identification of additional resources 1	**Leverage of the FI** 2	**Preferential remuneration** 3
Identify the additional public and private resources to be potentially raised by the FI and assess indicative timing of national co-financing and of additional contributions (mainly private)	Estimate the leverage of the FI.	Assess the need for, and level of preferential remuneration based on experience in the relevant markets.

Assessment of lessons learned from similar instruments and ex-ante assessments carried out in the past

Information Gathering 1	Success Factors 2	Performance Enhancement 3
Gather relevant available information on past experiences particularly those that have been set up in the same country or region in which the envisaged FI will be established.	Identify the main success factors and pitfalls of these past experiences.	Use the collected information to enhance the performance of the envisaged FI (e.g. mitigate and reduce risk of the FI, ensure a faster set-up and roll-out of the FI).

Building block 2: Delivery and management

Building block 2: Delivery and management focuses on the “implementation and delivery” of the FI and includes the development of the proposed investment strategy, specification of expected results and provisions allowing the ex-ante assessment to be reviewed and updated as required during the implementation phase if deemed necessary by the MA.

The elements of building block 2 are outlined in the following tables.

Proposed investment strategy

Level of Detail 1	Scale and Focus of FI 2	Additional Analysis 3
Define the level of detail for the proposed investment strategy maintaining a certain degree of flexibility.	Define scale and focus of the FI consistently with the results of the market assessment and the value added assessment, in particular by selecting the financial product to be offered and the target final recipients.	Define the governance structure of the FI, by selecting the most appropriate implementation arrangements and the envisaged combination with grant support.

Specification of expected results

Expected Results 1

Establish and quantify the expected results of the FI by means of result indicators, output indicators and FI-performance indicators.

Strategic Objective 2

Specify how the FI contributes to deliver the strategic objectives for which it is set up.

Monitoring System 3

Define the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvement areas.

Provisions allowing the ex-ante assessment to be reviewed and updated

Trigger Values 1

Define the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed.

Data Enclosure 2

Enclose this information in the monitoring and reporting provisions established in the previous step of the analysis.

A methodological guidance, including a quick guide, on implementing ex-ante assessments is currently being finalised and is anticipated to be available during April/May 2014. While the methodological guidance is non-binding, it will provide good practice and guidance to MAs in the preparation and set up of financial instruments.

Annex V Literature

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Annex VI List of abbreviations

Abbreviation	Name
AHB	Approved Housing Body
CALF	Capital Advance Leasing Facility
CAS	Capital Advance Scheme
CFV	Centraal Fonds Volkshuisvesting
CLSS	Capital Loan and Subsidy Scheme
DECLG	Department of the Environment, Community and Local Government
DEPR	Department of Public Expenditure and Reform
EIB	European Investment Bank
ELENA	European Local ENergy Assistance
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
FI	Financial instrument
HFA	Housing Finance Agency
ICSH	Irish Council for Social Housing
JESSICA	Joint European Support for Sustainable Investment in City Areas
MA	Managing Authority
NAMA	National Asset Management Agency
NARPS	National Asset Residential Property Services
PAA	Payment and Availability Agreement
RAS	Rental Accommodation Scheme
SGEI	Services of General Economic Interest
TA	Technical Assistance
THFC	The Housing Finance Corporation
WSW	Waarborgfonds Sociale Woningbouw