

## **Verbal opening statement by ADG CSO**

### **Joint Committee on Housing, Planning and Local Government**

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CSO attendees:

Paul Morrin, Assistant Director General, Statistical System Coordination

Gillian Roche, Senior Statistician, Government Accounts

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At the outset, I wish to thank the Chairperson and the Committee for inviting the Central Statistics Office here today. I am accompanied by my colleague Gillian Roche.

On December 20<sup>th</sup> 2017, the Central Statistics Office briefed the Department of Housing, Planning and Local Government, the Department of Finance, the Department of Public Expenditure and Reform, the Irish Council for Social Housing and 15 of the Tier 3 Approved Housing Bodies (AHBs) of the outcome of our review of the classification of these AHBs in the national accounts. The CSO decision was that 14 of the 15 organisations should be reclassified in their entirety onto the State balance sheet and that the housing related activity of the 15<sup>th</sup> should also be classified in the government sector. Documentation setting out this decision was sent on December 20<sup>th</sup> 2017 to Eurostat who are the final arbiters of such classification decisions. This documentation was subsequently published on the CSO website (with redaction where necessary for statistical confidentiality).

This review was undertaken by the Government Accounts division of the CSO. Such classification reviews form a key part of the work of compiling Government Finance Statistics and the Excessive Deficit Procedure notification for Ireland. The legally binding

accounting rules which must be used by all EU countries for producing these statistics are set out in the European System of Accounts 2010 (ESA 2010). The Eurostat Manual on Government Deficit and Debt (MGDD) provides further guidance on the implementation of ESA 2010 for Government Finance Statistics. The classification review was undertaken following the ESA 2010 rules and the guidance of the MGDD.

Up to now, the AHBs have been classified in the national accounts as non-profit institutions serving households. This means that they were considered both non-market and under private control. It is the control issue which determines whether non-market bodies are classified in the non-profit sector or the government sector. Control of a non-profit institution is assessed using five criteria: the appointment of officers, provisions of an enabling instrument or statute, contractual agreements, degree of financing and risk exposure of government. ESA 2010 notes that in most cases a number of indicators will collectively indicate control and that a decision based on these indicators will necessarily be judgmental in nature.

An earlier review of the AHBs in 2014, which was the time of the changeover to ESA 2010, had focussed on their legal structure and internal governance and had concluded that they should remain classified as non-profit bodies, pending further developments in social housing initiatives. This conclusion was communicated to Eurostat in 2014.

Following discussions on housing initiatives between the Irish authorities and Eurostat in late 2016, Eurostat requested the CSO to revisit the classification of the AHBs. They advised that, the role and impact of government financing on the activity of AHBs should be given greater weight in the classification decision than had been the case at the time of the 2014 review. The Departments of Finance and Housing, Planning and Local Government were advised of this request as was the Irish Council for Social Housing.

During the January 2017 Excessive Deficit Procedure dialogue visit to Ireland the classification of the AHBs was further discussed between Eurostat and the Irish authorities (namely the CSO and the Departments of Housing, Planning and Local Government, Finance, and Public Expenditure and Reform). Arising from this visit Eurostat made the review of the AHB classification a formal action point for the CSO.

The review was carried out using the normal procedures for such classification work, namely: developing a further understanding of the sector; gathering relevant documentation; and a structured analysis of the information compiled, leading to a conclusion regarding the relationship between AHBs and government. The information gathering phase of this work included:

- a review of legislation, government circulars, conditions of funding schemes, the governing documentation of the organisations concerned, research and policy analysis documents and general reports on the activity of the AHB sector;
- analysis of contractual arrangements, organisational structures and funding mechanisms; and
- consultation with key organisations including the Department of Housing, Planning and Local Government, the interim regulator and with the AHB sector.

Following this information gathering phase a structured analysis of the information compiled against the control criteria of ESA 2010 was undertaken for each AHB.

The assessment process was not straightforward. The AHB sector comprises a variety of organisation types and the funding schemes are complex in nature. The AHBs have a substantial amount of autonomy in their individual governing structures which are comprised of private individuals. Also they control their own membership and rules of association. Therefore an assessment of control via the appointment of officers or through enabling

instruments shows no evidence of control by government. However these considerations must be balanced against the AHBs' high level of dependence on government financing and the conditions attached to that financing. Specifically:

- Government prescribes the form and governance required for voluntary housing bodies to hold AHB status and therefore to access funding. The decision whether or not to grant AHB status is dependent on a local authority assessment that a newly created AHB would be meeting a need that is not already being addressed in their area.
- When deciding on whether to support an AHB application for funding the local authority decision takes account of the overall delivery of housing services in the geographic area under its remit. The local authority must be satisfied that the housing project will make a useful contribution to the relief of housing need in the relevant area. The management of the assignment of AHB status and of the granting of funding demonstrates recognition by government of its responsibilities in this area which is being met through the AHB sector.
- Other considerations in the granting of AHB status include the number of AHBs already operating in a particular area and their capacity to provide other community based services such as meals on wheels, recreational and social services.

Additionally, a review of relevant policy documentation in the area of social housing demonstrates government's intention of a central role for the AHB sector in social housing policy and provision.

All of these issues are relevant to the statistical assessment of control under the criteria of financing, contractual agreements and risk exposure of government.

Taking the matter of financing, up to 2016 the AHBs reviewed could be seen to be almost exclusively financed by government. At end 2015 less than 1% of their total combined funding came from non-government sources. For 2016 the corresponding proportion remained very low at around 1.5%. The funding from government was provided under three schemes: the Capital Loan and Subsidy Scheme (CLSS), the Capital Assistance Scheme (CAS) and, more recently, the Capital Advance Leasing Facility (CALF).

Following an assessment of the conditions of these schemes the CSO concluded that the schemes indicated control of the AHBS under the contractual agreement and risk exposure criteria, specifically control by local government. Key considerations in this decision were:

- The requirement for a minimum of 75% of tenants to be drawn from the housing list of the relevant local authority.
- The role of the local authority in rent setting.
- The specification of design and build criteria in the case of CAS and CLSS.
- Government exposure to risk through the requirement for the local authority to be a party to lending agreements between the AHB and third party lenders under the CALF scheme.

Overall, taking account of all these considerations, the CSO formed the view that the AHBs relationship with local government through the procedures and contracts for the granting firstly of AHB status and, subsequently, for the granting of capital funding were such as to indicate control.

Therefore, on balance, the CSO assessed the AHBs to be under public rather than private control. Being non-market in nature this requires the AHBs to be classified in the government sector. This decision is with Eurostat who are the final arbiters on such matters. Pending a final ruling with Eurostat, it is our intention to reflect this decision in the

forthcoming Excessive Deficit Procedure notification to Eurostat at end March. The CSO will continue to review the classification of the remaining AHBs during 2018.