

DÁIL ÉIREANN

AN COMHCHOISTE UM THITHÍOCHT, PLEANÁIL AGUS RIALTAS ÁITIÚIL

JOINT COMMITTEE ON HOUSING, PLANNING AND LOCAL GOVERNMENT

Déardaoin, 8 Feabhra 2018

Thursday, 8 February 2018

Tháinig an Comhchoiste le chéile ag 9.30 a.m.

The Joint Committee met at 9.30 a.m.

Comhaltaí a bhí i láthair/Members present:

Teachtaí Dála/Deputies	Seanadóirí/Senators
Ruth Coppinger,	Victor Boyhan,
Barry Cowen,	Jennifer Murnane O'Connor.
Mattie McGrath,	
Fergus O'Dowd,	
Eoin Ó Broin.	

Teachta/Deputy Maria Bailey sa Chathaoir/in the Chair.

Business of Joint Committee

Chairman: Apologies have been received from Deputy Pat Casey. I propose that the committee goes into private session to deal with some housekeeping. Is that agreed? Agreed.

The joint committee went into private session at 9.35 a.m. and resumed in public session at 9.42 a.m.

Reclassification of Approved Housing Bodies: Discussion

Chairman: At the request of broadcasting and recording services, members and visitors in the public Gallery are asked to ensure that, for the duration of the meeting, their mobile phones are turned off completely or switched to airplane, safe or flight mode, depending on their device. It is not sufficient to just put a phone on silent mode, as this will maintain a level of interference with the broadcasting system.

No. 5 is the reclassification of approved housing bodies, AHBs. We will have two sessions. On behalf of the committee I welcome to our first session Mr. Brian O’Gorman, Mr. Kieron Brennan and Mr. John Hannigan from the Housing Alliance; and Mr. Donal McManus, Ms Karen Murphy and Mr. Gene Clayton from the Irish Council for Social Housing, ICSH.

Before we begin, I draw everyone’s attention to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence of the committee. However, if they are directed by the committee to cease giving evidence in respect of a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of that evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I call Mr. O’Gorman to make his opening statement.

Mr. Brian O’Gorman: I thank the Chairman for the opportunity to address the committee to discuss the reclassification of AHBs or housing associations. I am joined by Mr. Kieron Brennan, chief executive officer of Co-operative Housing Ireland, and Mr. John Hannigan, chief executive officer of Circle Voluntary Housing Association.

Housing associations include social housing providers and housing co-operatives. We are independent, not-for-profit charities that primarily provide high quality affordable social rented housing for people on local authority housing waiting lists who cannot afford to pay market rents in the private rented sector, or purchase their own homes. Local authorities are the largest providers of social housing with a current housing stock of approximately 140,000 dwellings, but AHBs play an increasingly important role with a current total of approximately 30,000 dwellings. AHBs did not run their development capacity down in the period following the financial crash. This means that they are able to make a contribution to social housing output that is disproportionate to their size. The current Government target for social housing output

is 50,000 additional homes by 2021. It is envisaged that AHBs will deliver one third of that figure, which will represent a major contribution to social housing output at a time it is universally accepted that we are experiencing an unprecedented shortage.

The AHB sector is very diverse. Almost 232 bodies are registered with the regulator and they are divided into three tiers. The 17 tier 3 AHBs, which are the largest, with between 300 and 6,000 tenancies each, account for almost three quarters of all AHB housing stock. At the end of 2016, five of the larger bodies came together to form the Housing Alliance, which through collaborative working aims, among other things, to promote practical and innovative solutions for the enhanced development and management of social housing and affordable housing. The five members are Clúid Housing, Co-operative Housing Ireland, Circle Voluntary Housing Association, Oaklee Housing and Respond! Housing Association. All members are primarily providers of general needs housing, that is, housing for people whose have a housing need but not a particular personal need such as older people or people with physical or intellectual disabilities. Together Housing Alliance members own or lease a total of just under 16,000 dwellings, which represents more than 50% of all AHB tenancies.

In December 2017, following an investigation, the CSO announced that it would recommend to EUROSTAT that 14 of the larger AHBs should be reclassified from non-profit institutions serving households, NPISH, to the general government sector as defined in European System of Accounts, ESA, 2010. Essentially, this means that the CSO is recommending that AHBs, which are currently off-balance sheet, will become on-balance sheet. However, the letter from the CSO to EUROSTAT acknowledges the complexity of the case and seeks advice and guidance from it on this recommendation. The final decision on reclassification lies with EUROSTAT. If AHBs are classified as on-balance sheet, AHB expenditure will contribute to general Government debt. Perhaps more important, because AHB expenditure will be classified as Government spending, it will compete with others for the expenditure available in fiscal space. This could result in less money being available for AHBs to spend, with an obvious consequential reduction in social housing output by them, which, in turn, could threaten Government targets for social housing. There will in all likelihood be other ramifications of this reclassification, which could impact negatively on the development activities of these bodies.

The Housing Alliance is heartened by statements by the Minister for Housing, Planning and Local Government, which emphasise the Government's continuing support for the AHB sector, notwithstanding the CSO's assessment. At the same time, it is extremely important that if EUROSTAT decides that AHBs should be reclassified as on-balance sheet, it is in everyone's interest for steps to be taken to enable this decision to be reversed. It is important to remember that the assessment of the classification of bodies under ESA 2010 is not a purely technical exercise but one that is judgmental in nature; indeed this is explicitly stated in the regulation. In those circumstances, it is legitimate to examine critically the CSO's interpretation of the regulation.

The Housing Alliance has a number of concerns about the CSO analysis and we do not agree with the entirety of its assessment. We have taken advice which suggests there are grounds for concluding that the CSO's analysis of the current situation is open to challenge and that, even in the present circumstances, AHBs should be classified as public non-financial corporations rather than the general Government sector. Furthermore, we strongly believe that even if EUROSTAT confirms the CSO recommendation, it will be possible to reconfigure the AHB sector in such way that AHBs will be able to apply to EUROSTAT for a further reclassification back to the status of non-profit institutions serving households outside the Government balance sheet.

The Housing Alliance, therefore, proposes the establishment of a working group that will

focus on the reclassification issue. The aim of the working group will be to examine the rationale for the reclassification decision and to determine what changes need to be made to put the AHB sector in a position where an application can be made for a further reclassification back to an off-balance sheet status. In our view, the working group should include representatives from the Department of Housing, Planning and Local Government, the Department of Finance, the Housing Agency and representatives of larger AHBs. We believe that the appointment of an independent chair for this working group would provide additional strength to its recommendations and would assist in a speedy conclusion. We feel that it is important to establish such a working group as a matter of urgency.

It is worth noting that there is a recent precedent for this process. In the UK, housing associations were reclassified to the general government sector in 2015. Two years later, following structural changes made to the relationship between housing associations and Government, housing associations were reclassified again as private bodies. Although the reasons for reclassification in England were different from the reasons given in Ireland, the UK experience demonstrates that a collaborative effort involving government, the housing association regulator and housing associations working together were able to make the changes required for reclassification to be successful.

The Housing Alliance believes very strongly indeed that AHBs have made a huge contribution to the development and management of high-quality social housing, and are on course to play a major role in the delivery of Government targets for social housing as set out in Rebuilding Ireland. In the longer term, this capacity may be threatened by reclassification as on-balance sheet. However we believe that it will be possible to put in place changes that will enable AHBs to apply with confidence to be reclassified as off-balance sheet. It is in the common interest of Government, AHBs themselves, and people on local authority housing waiting lists that this should happen.

I am grateful for the opportunity to address the committee. I and my colleagues will be pleased to answer any questions members may wish to pose.

Chairman: I thank Mr. O’Gorman. I invite Dr. McManus to make his opening statement.

Dr. Donal McManus: I thank the Chair and members for inviting the Irish Council for Social Housing, ICSH, to engage with the committee on what is probably the most significant issue affecting the sector in recent years. I am CEO of the ICSH. Accompanying me are Ms Karen Murphy, director of policy, and Mr. Gene Clayton, who is chair of the ICSH housing development and supply working group, chair of Housing Europe’s internal market group and CEO of the Iveagh Trust. We have included a number of papers on the issue which the ICSH prepared last year and since the recent CSO recommendation last December.

The ICSH is the national federation of housing associations, with over 250 members that collectively own and manage over 32,000 homes at affordable rents for families, older people, people with disabilities, the homeless and single people. The ICSH is part of Housing Europe, the EU social housing federation, which has over 22 million homes in the social housing sector including those owned and managed by housing associations throughout Europe. One common factor to all these jurisdictions is the presence of support from the state, direct or indirect, to house people in the social housing sector, including housing associations or approved housing bodies as they are known in Ireland. With no state support, it is likely that many households in the social housing sector would not be housed. We are not aware that EUROSTAT has directed other EU member states to examine classification of housing associations operating in the so-

cial housing sector.

Over the past 15 years, the approved housing body sector in Ireland has increased from just under 15,000 homes in management to over 32,000 homes in ownership and management. Members of the ICSH range from the larger tier 3 bodies, which manage from over 300 to 5,000 homes located throughout the country with significant plans and programmes for delivery, to local and regional tier 1 and tier 2 approved housing bodies, which often provide housing and related support services to vulnerable groups in local communities, responding to specific local housing need and support services. Therefore, there is a broad range of approved housing bodies that work in partnership with local authorities and the private sector in meeting housing need.

The boards of approved housing bodies decide on their plans in terms of delivery and output. The highest output was previously achieved in 2009 when the sector provided 2,012 homes. However, with the changing funding environment since then and the introduction of loan finance as a new delivery mechanism, approved housing bodies provided an estimated 2,000 plus homes in 2017 for people and families on the waiting list and in need of housing. These homes were delivered by means of new construction, acquisition and some leasing. It is likely that up to half of this delivery will have been in the form of new construction. With additional vacancies that arise in the sector throughout the year, this will bring the total number of households that the sector accommodates into the region of 3,000 for 2017.

The Government's targets for delivery by AHBs indicate that up to one third of social rented homes are to be delivered by 2021 under Rebuilding Ireland. A number of AHBs are also actively engaged to deliver affordable and cost rental housing. Those approved housing bodies that have been using loan finance in recent years have significantly altered their organisational structure to reflect the need for finance and development expertise and have had to develop new relationships with the private sector.

The recommendation by the CSO to EUROSTAT to reclassify tier 3 bodies has caused initial concern within the sector in the context of a number of areas. These include: the Government's commitment to support existing AHB projects in the pipeline and those under contract; meeting Government social housing targets; the implications and impact for reclassified AHBs on their ability to borrow and any new consent that may be required to borrow and function; and the proposed Bill on AHB regulation.

If EUROSTAT confirms reclassification of tier 3 bodies, as well as tier 1 and tier 2 bodies subsequently, it is important that there be as much clarity as possible on the issues that influenced such bodies being reclassified. Although the CSO pointed to three areas that influenced its recommendation to EUROSTAT, further clarity is still required from EUROSTAT on a number of issues. Such clarity is essential to ensure that there is no moving of the goalposts over the coming years, with additional issues having to be addressed. This has already been done by the CSO as recently as 2014, when it indicated that the balance of control rests with AHBs and debt financing transfers all risk to the AHB.

In the event of EUROSTAT confirming reclassification, we need a robust process that involves cross-departmental support and agreement, as well as input from the sector directly affected, to address policy and operational issues that may need amending. The ICSH and its members have been meeting on a regular basis and would welcome the opportunity to input into this process and build on the engagement we have already had with the Department of Housing, Planning and Local Government and the Minister. However, there needs to be a com-

mon agreed position by all of Government on the overall strategic objective of reclassification. The ICSH supports the position of seeking to return AHBs to an off-balance sheet status. Such agreement across Government will then inform at an operational level what is required to effect changes.

Even focusing on the three areas the CSO identified, we believe that all these issues can be resolved. That would allow the sector to further develop as a non-profit private institution and not as part of the local government sub-sector. We are committed to working with all the key stakeholders to ensure there is no disruption to housing delivery, which would create uncertainty for AHBs, tenants and funders. We hope all other stakeholders would have the same commitment.

I thank the Chair and look forward to taking any questions that arise.

Senator Victor Boyhan: I thank the two speakers for attending. We have had the opportunity to read their presentations and papers. I want to ask a number of questions to keep the focus here. What percentage of housing associations' annual income comes from State agencies, either local or central government? That is a really important thing for us to understand. I would like to see some stats on it rather than just vague numbers. Do the housing associations have other income coming in from the provision of related services, in terms of rent and other charges? We need to break down their income. It is an important aspect of how this is all going to be analysed. What other forms of income are they getting outside of that? If the witnesses cannot share that information with us today, perhaps they could provide it to the committee soon.

Will the reclassification of the AHBs have any impact on their staff's contractual arrangements? Can the witnesses give us the specifics in that regard? Mr. O'Gorman stated earlier that the Housing Alliance has a number of concerns about the CSO analysis and does not agree with the entirety of its assessment. I share those concerns. Mr. O'Gorman also stated: "We have taken advice which suggests there are grounds for concluding that the CSO's analysis of the current situation is open to challenge and that even in the present circumstances, AHBs should be classified as public non-financial corporations rather than the general government sector." That is a very profound statement. I share the concerns of the witnesses in that regard. Given the sensitivity of the surrounding matters, I do not know how much the witnesses can tell us about the advice and indication they are getting but the more the committee can understand about this, the better.

I acknowledge the enormous role played by the approved bodies in regard to housing and its significance in terms of Rebuilding Ireland. There is no doubt that AHBs are expected to deliver on housing, be it social, affordable or the rental sector. Approved housing bodies are key players and I would like to think that the committee will support them where possible. However, because the issue involves how they derive their income, it would be helpful if the witnesses could provide the committee with a very clear and detailed analysis of that income.

Mr. Brian O'Gorman: As I stated, the decision of the CSO was based on three grounds: risk, financing and contractual arrangements with the Government. There are significant grounds on which to challenge the CSO conclusions in terms of risk transfer and contractual arrangements. Changes are needed to the financing aspect in order to be able to reclassify. We need changes in historic debt. We developed several schemes with 100% grant funding from the State, such as the capital loan and subsidy scheme, CLSS, and the capital assistance scheme, CAS, which is still in existence. There are 100% grant-funded schemes on-balance sheet and a mechanism

will have to be found to refinance them off-balance sheet.

We currently provide debt finance funding. Most of our lending comes through the Housing and Finance Agency, which is part of government, with the Minister, Deputy Eoghan Murphy, appointing members of its board and so on. Most of the larger AHBs are currently actively working to source alternative sources of finance and are talking to banks, pension funds, credit unions and other funders in that regard. I sympathise with the committee because this is a hugely technical issue, the full implications of which we are all grappling with because we are not absolutely sure what they will be. We have commissioned additional consultants, economists and so on to consider the implications and ramifications of it and how we might get over them. We will provide that information to the committee.

Mr. McManus also alluded to the possibility that a special case is being made of Ireland in this regard. Some of the grounds relied upon by the CSO in its decision making, such as the tie-in with nominations, did not cause an issue in the case of the United Kingdom. All our tenants are taken from local authority housing lists. The local authority is the independent body that maintains the waiting list and there is that level of governance and oversight in order that we are not involved with the waiting lists. We make the tenancies available and the local authority nominates tenants. That is a good principle of good governance and oversight. An almost identical process occurs in the United Kingdom but was never mentioned in terms of bringing them on-balance sheet. There seems to be an inconsistency in how these judgments and decisions are made, which leads us to believe that there is much subjectivity about the reliance placed on different elements of it.

There is a challenge on the risk transfer and the contractual arrangements. We accept that we will have to make changes in the financing regime and will be able to do so with the help of the Departments of Finance and Housing, Planning and Local Government. We are confident that will be possible if the motivation to do so exists and, as Mr. McManus made clear, the Government clearly states it wants AHBs off balance sheet such that we are outside government but accountable to the Government.

Mr. Kieron Brennan: On the Senator's questions regarding income and staff contracts, the decision was in regard to 16 of the tier three large AHBs, the majority of which are general needs suppliers, as Mr O'Gorman stated. Some other AHBs supply specialist services to people with disabilities and other groups and receive specialist funding from the Government under those schemes. A different decision was made regarding two of those. The main on-balance sheet decision or recommendation was in respect of AHBs supplying general needs rather than specialist services. The two main sources of income of such AHBs are rental income from their tenants or, in our case, tenant members, and subvention via the local authorities for housing people who are on the waiting list. We are concerned that Ireland is being singled out in so far as income derived from tenants or tenant members was accounted for as State income in this exercise. It was calculated in that way and that is a major concern for us.

In terms of staff contracts, the CSO and others advise us that at this point the decision or recommendation that must be adjudicated upon by EUROSTAT relates only to the accounting for statistical purposes of the financial basis of AHBs, not to other contractual matters we have with third parties or to staff internally. However, we remain open the possibility that this may change.

Ms Karen Murphy: As regards Senator Boyhan's question on the staffing issue, there are a significant number of unknowns in respect of this issue, which is why we are asking for a

cross-departmental team to be established as soon as possible to keep it on a priority footing and ensure an early timeframe for resolving the issues involving EUROSTAT possibly returning a decision confirming the CSO's recommendation and also in terms of returning the sector to its previous status of non-profit institutes serving households off balance sheet. We must emphasise that in regard to those unknowns because we do not want any resultant uncertainty to have an impact on the delivery of housing or the decisions that are being taken at board level to ensure that we continue to ramp up delivery, as has been done in recent years.

As regards the question on the sources of income, we have over 250 members, all of whom are autonomous in terms of decision making. Their sources of income vary but generally comprise rent from tenants, a significant amount of fundraising and income from local authorities through mechanisms such as the payment and availability agreement. There are also specialist bodies which provide services to vulnerable tenants and receive State funds from organisations other than local authorities, such as the HSE. In terms of the accounts of several bodies included in the CSO assessment, less than 50% of current funding in each of the bodies we looked at was State money. Over 50% of current income came from rent in the bodies mainly providing housing whose accounts we examined.

Senator Victor Boyhan: On a supplementary question, is Ms Murphy saying just 50% or-----

Ms Karen Murphy: Under 50% in terms of current income.

Senator Victor Boyhan: It is just that.

Ms Karen Murphy: It varied. Some bodies were at 30% or 35%.

Senator Victor Boyhan: I thank Ms Murphy.

Dr. Donal McManus: In terms of clarity on the issues that have to be addressed, we are new to this process and it is somewhat vague to us in the way it manifests itself but now that three errors have been identified, we must be clear on what issues specifically need to be addressed because they are currently quite vague and nebulous. Issues such as contract control, risk and finance were highlighted but more specificity is required in that regard in order for things to be addressed. I do not know whether that is done through EUROSTAT and that is why we are unclear about the process, or through the CSO or whether the CSO is directed by EUROSTAT. That is an issue because unlike the United Kingdom, which had an inventory, a list of things to do and had to make simple changes, in Ireland we will have to drill down into an unknown number of issues.

All the housing bodies have standard reports. A number of issues in the report were red herrings, such as control being manifested through giving information on insurance premiums. That clouds the issue. The major element we would like to see is an inventory of the specific issues that need to be addressed. It is quite high level at the moment and we join Mr. Brian O'Gorman in challenging the idea of risk regarding almost a right to housing obligation on housing bodies. I have not seen that before. It is essential to have an inventory of the issues that need to be addressed because they are a bit vague at present in terms of the three areas.

Mr. Gene Clayton: On the issue of Ireland being singled out from other member states for reclassification, every member state to a greater or lesser extent has government finance as part of the provision of social housing. There needs to be some sort of support, whether it is bricks and mortar or rental support. In practically every system in every country, part of the income of

housing bodies in the provision of social housing has government support, whether it is a rental support through a housing benefit type system or a housing assistance payment, HAP, system, or a state guarantee on the preferential loans from government. Part of the income of almost all housing bodies across Europe would have some sort of Government support and it is curious that Ireland finds itself in the position with regard to the EUROSTAT instruction to ask the CSO to look at the approved housing bodies, AHB, sector.

Chairman: I thank Mr. Clayton. Deputy Ó Broin will ask questions but following that he will take the Chair as I must leave for an hour.

Deputy Eoin Ó Broin: I am genuinely concerned by the imminent decision of EUROSTAT. I understand that EUROSTAT could make a decision by early March and the committee needs to share that concern. People have different views of approved housing bodies. That is fine, but up to 6,000 units will be delivered under Rebuilding Ireland by the sector in the next three years. The redesignation, if it happens as we expect from EUROSTAT, has the potential to disrupt or undermine the delivery of a potentially significant number of those targets. For those of us on this committee, it should be our most immediate concern.

I am also concerned because I know people only received all this information in December 2017. The impression I am getting, and this is no criticism of the sector, is that the sector is trying to work out the implications separately from the Departments of Housing, Planning and Local Government, and Finance. None of the three groups has all of the information themselves to answer those questions. The proposal to have a group that sits down and gets into the technical detail, shares the information and works out the responses is not just sensible, but absolutely urgent. I cannot stress that point enough.

I would like this joint committee to have some oversight role. I know we do not have a statutory oversight role, but as this scenario progresses we should return to it. We will have a problem if this results, for example, in the Government having to take very difficult decisions either to reduce targets because it does not have the fiscal space or to cut expenditure in order to maintain the targets to which it has already committed in some other area to fit within the fiscal space. While we need to talk about the technicalities, they are the big ticket items.

What is the Irish Council for Social Housing's assessment of the impact of redesignation on the fiscal space to which Mr. Brian O'Gorman referred? Does the ICSH have people working on the issue and can it provide information on this? What is the level of engagement of the Irish Council for Social Housing with both the Department of Housing, Planning and Local Government and the Department of Finance since the formal briefing with the CSO in December? I note that the opening statement of the Department of Finance referred to not having sufficient information to deal with some of these issues, although the officials had asked other State agencies for it. Has the Department of Finance asked either the Irish Council for Social Housing or the Housing Alliance for information on this and, if so, what information has it requested?

Let me sound a warning. I have a gut instinct that we need to support the approved housing bodies getting back to off-balance sheet. My only fear is that if one looks at what happened in the United Kingdom, and I know the political context and the nature of the sector is different, in order to get them back off-balance sheet, there was a fundamental change in the nature of some of those organisations. To convince EUROSTAT that they had to get off-balance sheet, they had to become more like market operators, particularly in terms of the arms length management organisations. That has created changes and I have a nervousness that I want to express at this point. If the cost of redesignation and getting the AHBs off-balance sheet in any way

undermines the not-for-profit voluntary sector status, and I know those present do not want to do that, it will be a problem. We need to name it and tease it out rather than going down a road where we could end up in a place in a number of years time where no one wanted to be in the first place.

Dr. Donal McManus: I will address a number of Deputy Ó Broin's points. The Irish Council for Social Housing's adviser, PwC, is looking at the three areas, finance, organisation and engagement with other stakeholders. We are putting together an evolving matrix. We are trying to address questions and get solutions. There is an information deficit.

In terms of engagement with Departments, we have not had so much engagement with the Department of Finance, but we have engaged with the Department of Housing, Planning and Local Government and with the Minister. We need more engagement.

We need to engage with the Department of Finance on the fiscal space. We need to know what impact it will have on practical issues, for example, if there will be a new consent required to borrow money. If they are part of a local government sub-sector, will the boards of the AHBs be overridden when they want to borrow by the Department of Public Expenditure and Reform? The people on the boards will want to know this in terms of their control.

To respond to Deputy Ó Broin's point on the UK scenario, that was self-inflicted to some degree. It was not driven by EUROSTAT, but by the Office for National Statistics. In a sense, all of the arrangements they had with market rents and so forth were there long before the changes. They were there for many years. The UK situation did not change that much. In a bilateral teleconference last week with the National Housing Federation in England, it said that nothing changed for those two years and, in fact, even borrowing did not change unless a body was going to raise £3 billion or £4 billion. The situation in Britain was fundamentally different because it was not driven by EUROSTAT, but was an internal quasi-political issue which also encompassed the right to buy. The parallel issue is the structure they got back. For the past ten years, the associations in England have been going down the road of social rent, market rent and for sale. It was before this decision. Our sector is still primarily social housing and we try to get into cost rental and affordable rental. We have done some work with PwC on the challenges but we need more engagement with the Department of Finance on things such as practical consent and when it will be effective and so forth.

Mr. Gene Clayton: Let me try to give Deputy Ó Broin some sense of comfort. We are very wedded to our charitable purpose. The organisation I run, the Housing Alliance, has been in existence for 128 years. The properties that were built in 1890 are still in use today providing affordable rented housing for people in housing need. That is what we will continue to do.

Mr. John Hannigan: In response to Deputy Ó Broin's comments, we would all welcome continued oversight by the committee. It is important from a political perspective and also from a practical perspective that oversight is there. If that could be arranged, we would welcome it.

In terms of the assessment of the fiscal impact, as has already been said by Dr. Donal McManus, we are doing some work in that respect. We are also aware the Department has been in discussions with the regulator who has all of our data and information for the past two years, which it has sought. Our assumption is that there will be a further follow-up discussion with them in respect of the data once they have collated it all. We know they are being active. They have not spoken to any of us directly at this point but we are hoping that will be part of the departmental group that is formed.

I agree with my colleague, Mr. Gene Clayton, that the Housing Alliance is one of the oldest and not just one of the best charities in the country. All the housing bodies are charities. We all cherish that with great gusto and we do not want that to change. I operated in the UK environment for quite a period and, therefore, I understand it well. The UK approach has changed significantly over the past ten years, but more so over the past few years, because of this classification. Options are available within our sector in Ireland that will not impact on the charitable status. It requires some rethinking of how we do things but the nature of what we do and how we do it can be maintained even though structural changes may be required around us.

Deputy Eoin Ó Broin took the Chair.

Deputy Barry Cowen: I thank the witnesses for making themselves available and for responding to this judgment by the CSO. Like others, I acknowledge and welcome the work the housing associations do and there is an undoubted role for them to play in the State's provision of housing. Many would argue, myself included, that there has been an over-reliance on the AHB sector by the State in the provision of social housing. I am also conscious of the restriction applying to AHBs whereby tenants do not have the opportunity to purchase their home at any time, which has to be addressed. It is an aspiration that everybody should share. Tenants should have the opportunity to turn their houses into homes and to be able to live out their lives in the communities where they were lucky enough to be afforded that opportunity. This has resulted in an unfortunate unintended consequence. There has been a diminution of experience and expertise in some local authorities in the provision of social housing. The CSO judgment is a significant blow to Government policy given it has placed many of its eggs in the AHB basket. The recommendation will reduce the Government allocation towards social housing delivery by perhaps up to 30%, at a time we are 30% behind the amount allocated by the State to social housing provision in 2008. I challenge the Government to respond to that.

This issue also highlights the failure of the Government to be bold in seeking the funding necessary for the provision of social and affordable housing. I have advocated on many occasions in this forum and many others for the need to put in place a funding vehicle model or construct that would circumvent EUROSTAT rules. There are willing and able contributors to meet the 51% private funding requirement needed to do that. Credit union representatives will appear before the committee later. They have €8 billion on deposit and the rules pertaining to how they can put that to work are stifling their ability to survive. As they did in the past, they can assist communities and the State. That funding should be put to work in the way they want and their communities want. The return they get on that money does not allow them to become a viable option in the future.

I have no objection to challenging the recommendation. I do not know if that will serve those who are in the midst of this crisis in the short term well. Those on waiting lists cannot wait. The CSO got it wrong previously in respect of water charges but I do not want to go over that ground. Because of that, the AHBs and housing associations should be afforded the right to challenge the recommendation or to have those who have the power to do so to insist on that. This should not be a waiting game. Investors, other than those I have mentioned, including private pension funds and Irish-based funds that want to invest in our economy and our future, are willing to get involved and it will just take the will, urgency and *cojones* of Government to do the right thing and to overhaul the way everything is done to address this emergency the way it should be addressed.

Mr. Kieron Brennan: I will respond to a few points. With regard to the over-reliance on our sector, it should be borne in mind that social housing accounts for 10% of housing overall

while AHB-owned or managed social housing accounts, in turn, for 10% of that. Overall, it has to be acknowledged that we are a small player in the housing market. We are not threatening any other part of the sector, unfortunately. We need everybody firing on all cylinders to produce as many social houses as possible. I include the private sector, the public sector and ourselves in that. We all need to play our part. The over-reliance has been, and continues to be, on the private sector. We have relied too much on this sector to produce. As Mr. McManus and Mr. O’Gorman said, the State has earmarked one third of its social housing provision for AHBs. The largest portion of it will be constructed by the private sector via HAP and other interventions such as the recently launched enhanced leasing scheme. While welcome, as we all want to increasing the overall stock of social housing, that is a concern.

The Deputy is correct about the issue of tenant purchase. It is not part of our make-up. Co-operative Housing Ireland is a co-operative body, which is owned and controlled by its members. They determine our policy. However, our AHB brethren share the view that it is difficult for us to put social housing in place. When we do - and it is with State support in many cases - we want to do that in perpetuity. We want to create those units in order that they are continually available and can be rolled over again and again. As Mr. Clayton said, his housing units have been rolled over for 128 years. The committee should reflect on the social value of that. We found when we entered this crisis in 2008 that, unfortunately, social housing stock had been reduced in the preceding years and we were caught short. We should not want to do that again.

It is worth challenging this recommendation because the State needs complementary funding to be brought into the equation. One of the vehicles through which that could be done is the AHB sector. We are less attractive when we are on-balance sheet. The rationale for using AHBs is undermined if we remain on-balance sheet. Surely, we should try to bring as much resource into the equation as we can with the private sector doing its bit, external investment in AHBs and the State funding as much social housing as possible. If we do not challenge and manage to reverse the recommendation, the overall resources available to deal with the social housing crisis will be reduced.

Dr. Donal McManus: The Deputy mentioned the over-dependency on the sector in recent years. Over the past three or four years, the sector was responding to market failure. Interventions included acquiring properties through NAMA, receivers and so forth. AHBs used funding mechanisms such as the capital advance leasing facility, CALF, and payment and availability, P&A, payments to provide housing, otherwise 4,000 to 5,000 people on the waiting lists would not have been housed. That was more of a pragmatic solution. There was a major market failure and there were opportunities for the sector to avail of. We tried to cobble together different financial mechanisms with different institutions and they worked in some cases but it was tortuous to go through that. It was not a clean ride. People worked together, new funding arrangements were put in place and new experience was built up. We responded to the market failure, which had gone on for a number of years, but we had to do that as a country. Those will be under construction for a while and it will take a couple of years to put them in place. There are vacant properties and the sector decided to use them in the most creative way possible. It is a more pragmatic solution.

The numbers are pretty clear. As Mr. Brennan mentioned, in respect of the Government’s numbers under Rebuilding Ireland, the bulk of supply will come through the private sector. Local authorities are dominant in the social housing sector and two thirds will come from that side. We hope that will speed up in terms of on-site building. We are not trying to replace local authorities, but are playing our part in different ways. That may result in seven different fund-

ing regimes. Bringing in non-Government finance has been a major issue over the past couple of years.

We have had experience in the sector and quite a bit of money has come into it. Last week, the Central Bank gave approval for credit unions to provide finance to the sector. We have worked with credit unions for a number of years on the mechanisms around that. We now have approval from the Central Bank to fund some AHBs, but there has been a reclassification. It is ironic. A lot of work has been done with the credit union sector to get finance into the sector and the Central Bank has given support, with limitations. Credit union finance is almost seen as public money.

It is ironic that much work was done to bring credit unions into the sector, but there has now been a negative reclassification from the bodies who could use the funding in the first place. We had worked around a vague financial vehicle for that happen. It is disappointing from a number of points of view. The Deputy is correct. The spillover effect has manifested itself into the work we have done with the credit unions as one financial option. Larger bodies were part of the vehicle in terms of bringing in finance.

Mr. John Hannigan: I wish to address the lack of funding for social and affordable housing. A key statement was made by the Deputy. The AHB sector has been working with private banks since 2008 or 2009 to develop the opportunity for greater levels of funding to add more to what was there previously. We continue to seek to do that. This classification changes how we have been doing things to date.

There is still a great appetite for those people in the private sector involved in the funding sector including, as the Deputy said, pensions, to be part of what we are trying to deliver. We still need to work together with local authorities but, more importantly, the Government and Departments to ensure that we do not lose the momentum which has been gained. The cross-departmental group is very important from that perspective.

Funders and private financiers are very nervous and conservative people. Anything they believe might threaten an opportunity will be something they will step back from. At this point in time we have heard things which would suggest that they are becoming more nervous about these issues. We want to try to ensure that the confidence we built with them over the past number of years is maintained. This working group, oversight from the committee and the work we have done as a sector will help to keep that confidence there.

There are great opportunities in Ireland to create the models which will provide social and affordable housing, with private finance being part of the equation. We need support from everybody at this point in time. The Deputy is correct. Having the strength of character to address the issues and move forward with them is critical.

Ms Karen Murphy: I want to make a brief point on the over-reliance on AHBs and the perception that appears to be there generally. There are recommendations from the CSO and EUROSTAT but things are presented in a very unbalanced way. The policy of Rebuilding Ireland is to place AHBs at the centre of delivering social housing. We need to challenge that. Rebuilding Ireland has a target of almost 140,000 units but only 15,000 will come from AHBs, double that from local authorities. Over 80,000 units will come from the private sector. That is presented in the CSO documentation in a very unbalanced way and we should challenge that. The Government is facing a crisis in delivering social housing and it is right to try to use every tool at its disposal to meet the needs of people. AHBs are an important part of that, but they are

not the only solution.

Deputy Barry Cowen: We could get embroiled in nitpicking on different points. I hear the thrust of what the witnesses have said and the goodwill and intent associated with it. We all share that, but many of us are frustrated by the fact that despite many grandiose reports, success is not imminent and has not been evident. We are anxious to ensure that happens urgently. Some of us have ways of doing that which differ from the current ways of doing things, and that is a political decision we are prepared to take. We trust the people to make the right decision when they get the opportunity.

Deputy Ruth Coppinger: I welcome this discussion today. This essentially boils down to the impact of EU fiscal rules on our housing crisis. We sat here a year and a half ago when the first thing the new Dáil did was to establish a housing and homelessness committee. I was happy with many things in the report. However, the fiscal rules are central to why we are not making progress on the housing crisis, something which was not adequately dealt with in the report.

The 2012 Stability and Growth Pact means that Government debt cannot be more than 60% of GDP and our deficit cannot be more than 3%. For that reason, our Government decided to make an important change in social policy, one which will be studied in the future by sociologists and academics. It switched from councils building houses to approved housing bodies, so much so that the stock has tripled, as stated in the presentation, and it is envisaged in Rebuilding Ireland that housing bodies would provide up to one third of the public housing stock. This matters because the Government has decided to switch in order to bypass the EU rules and to try to find an off-balance sheet mechanism. The Government tried a conjuring trick and has been found out. With all due respect, how can anybody claim that something is not on the balance sheet when it is almost exclusively financed by Government? My concern is ensuring that the housing crisis is addressed.

Another secondary consideration of the Government is that it is not particularly interested in having councils building houses to the same extent. I have found that when one is a tenant of a housing body, one is not a tenant of the council and does not have the same representation and ability to have councillors batting on one's behalf. I wonder what the point of having councillors is given the current situation in respect of Irish Water and housing. I do not know what they will do apart from deal with lampposts. This is a serious issue. Tenants do not enjoy the same rights as those who have council members fighting for them.

Finance is now a major barrier to resolving the housing crisis. The problem with housing bodies is the volume of houses they can build. In days gone by, councils could build hundreds of thousands of houses quite quickly. Housing bodies tend to build 20 or 60 houses at a time. We need much more volume to resolve the housing emergency.

EUROSTAT may find that this is on balance sheet. It raises the question of what the Government will do if that is the finding. In recent times, the EU has been portrayed as a friend of Ireland given the Brexit situation. However, it is preventing us from dealing with our housing situation. We have money and do not have to borrow. The Ireland Strategic Investment Fund could solve the housing crisis, but we are prevented from using the money. It is quite shocking how little attention has been given to this by the media because it is one of the key issues. One cannot resolve the housing emergency through using housing bodies because we need scale and speed, and I mean no offence to any of the people gathered here.

Let us say EUROSTAT says we are on-balance sheet. Will the Government and the Department of Finance seek a derogation from the EU rules? Will they seek an emergency meeting with the EU to explain to it that we have a serious housing emergency and, therefore, must breach the rules? If we had a Government that was willing to do so then it should go ahead and breach the rules because it is more important to build houses for the people who need them. This is an important discussion. The shift to try to move away from councils has now been exposed. This aspect must be seriously considered if EUROSTAT says the illusive off-balance sheet model does not work.

Dr. Donal McManus: I will respond to the last point and one other one and my colleagues and others will respond to the rest of the questions.

In terms of the perception that there has been a move away from the local authority sector, the reality is we are still a very small player.

Deputy Ruth Coppinger: I mean it will be one-third of public housing. That is the shift.

To clarify, Fingal County Council has given over all of its land and it is generally approved housing bodies rather than the council building them. It is council land that is being used so it is a shift and we should not pretend that it is not.

Dr. Donal McManus: In terms of the shift, the sector has grown from a very small base in the past 15 years and even before that time the sector provided between 25% and 30% of social housing. The work was done under the radar because it was special needs housing. The view adopted was our sector can take care of the dirty jobs but only local authorities can build family housing. The work evolved over the years where housing associations provided mixed housing for people with special needs, which the sector excelled in. There was also family housing provided in mixed communities. That has been another option and is not an either-or situation.

As I have said to Deputy Cowen, the sector has played its part. I have never said that the sector can solve the housing crisis. We have never said that we would solve the housing crisis but we will play our part and we will use different measures to do so. We will also focus a lot on housing management.

In terms of tenants' rights, the 29,000 tenants in this sector come under the remit of the Residential Tenancies Board, RTB. They have direct interaction in terms of their rights with the board. The system has worked okay to date. The local authorities are the only tenants in the rental sector in Ireland that do not have access to an independent body to give effect to their rights.

Deputy Coppinger mentioned the representation available to tenants in housing associations. We have our own independent regulator that will be established. For the past year tenants have been able to approach the RTB and raise issues and there have not been too many cases. The tenants can avail of that pathway. We support their right to do so because the RTB is independent. The local authorities are the only part of the rental sector in this country that do not have access to an independent adjudicator. I have outlined a few issues.

Mr. Brian O'Gorman: Dr. McManus has already covered the following matter. It was an important shift that our tenancies were brought under the remit of the Residential Tenancies Board. It means an independent body can adjudicate on cases. Now people do not have to go to court and it is a much better mechanism for everybody involved. A high emphasis is placed on using mediation to resolve disputes and so on.

I do not think this is an us and them situation in terms of local authorities. We enjoy very good relationships with local authorities. Local authorities, in terms of State, would be remiss if they did not employ instruments and other bodies like ourselves who can contribute and help them to fulfil their housing objectives.

All applicants and all of the people that we house come from the housing list. Whatever part of the country we decide to develop we take people from the housing lists. We do not maintain or control the housing lists. They are run independently of us. If somebody is on a housing list, no matter where it is, the objective for them is to get housed, whoever provides that housing. We provide secure housing that is available to a family in perpetuity as long as they need it and it serves their needs.

The housing sectors across Europe have been built on financing and are comprised of a lot more housing associations. The sector differs here because local authorities remain the main providers of social housing. In other parts of Europe the work has involved a lot more housing association activity. Our objective is to become and remain independent of Government but very much accountable to Government. We are accountable to our boards of directors but also to the local authorities to ensure that everybody that we house come from their waiting lists. We do not wish to escape that monitoring as it ensures that there is good governance and so on.

Mr. Gene Clayton: There is a possibility of the Government using EU funds and taking it out of the fiscal space. A clause in the Stability and Growth Pact states that EU investments can be used so it can be taken out of the fiscal space for investment purposes. This is done by making recommendations through the European Semester so that it is taken account of in the country-specific recommendations on an ongoing basis. Perhaps work can be done on that aspect. For example, the European Investment Bank's element of the Housing Finance Agency. Some presentations could be made through the European Semester to try to have that removed from the Stability and Growth Pact.

Mr. John Hannigan: I will address a couple of issues. As all of my colleagues will agree, we would welcome and do welcome, on a regular basis, representations from councillors from all of the local authorities that we work within on behalf of tenants from time to time. While there may be no statutory footing for same we recognise that they have a very important role to play in terms of representing the people who have voted for them. While they are not councillors per se when they come, as in they are not acting as councillors, they are certainly there to help represent the people that we support. On a continual basis, we see lots of councillors coming through the door for that purpose, which we welcome and it is really important.

On the issue of what the Government will do, we share Deputy Coppinger's concern that certain things need to be done. Some of the things that we have talked about today just need to be agreed and worked forward. The cross-departmental group is a key issue. Having the Department of Finance, the Department of Public Expenditure and Reform and the Department of Housing, Planning and Local Government involved in discussing a regulator for housing bodies, HBs, is really important.

The Government must give a commitment to continue with the funding processes that they have in place until we know exactly where we stand and until we have something that definitively says what we are. At the moment it is a nebulous issue. The Central Statistics Office has made a recommendation to EUROSTAT. We believe that nothing should change until EUROSTAT decides. There must be continuation until we are clear about the implications and know what is required. We should continue with the process of funding as it stands right now.

Finally, it is really important that there is a commitment to helping the sector and others reverse this decision if it becomes one. Having a Government commitment on a cross-party basis is critical for success. Part of the reason the UK has been successful is due to securing cross-party agreement. We need such agreement as a sector and from a housing perspective. We need that agreement to ensure that the people who are on a social housing waiting list receive the houses. We need that cross-Governmental and cross-party support. I hope the Government will make proposals on all of these aspects that I have outlined.

Mr. Kieron Brennan: Where we work with councils it is done on a partnership basis. In many cases, there is co-dependency because the AHBs rely on the local authorities that are the planning authority. The local authorities are the public authorities that decide on housing need. They decide where to build social housing and are responsible for many of the approvals that go along with that. In many cases, we work very well with local authorities.

On the point made about representations, Co-operative Housing Ireland receives representations and deals with them, as one would expect, very seriously and promptly. As a co-operative body, we also have many of our member tenants on our governing structure. In fact, the majority of our board is composed of tenant-members. Therefore, the tenant-member viewpoint is heavily represented in our structure, as it should be. Mr. Hannigan made a good point. The reversal of the UK decision was wholly dependent on the co-operation of the state sector with various departments, the AHB sector and others, which all came together to overturn the decision, and we need a similar response. The establishment of an interdepartmental group is urgently needed.

Land was mentioned and this is a critical issue. AHBs are dependent on the State, local authorities and others for land and every piece of land is under development, of one kind or another. Aside from this issue, by the end of this year the ability of AHBs to deliver will be affected by a lack of availability of land. It is another example of dependence in the AHB sector.

Ms Karen Murphy: A question was asked about scale and about the size of some schemes, with some coming in at between 20 and 30 units. This is a consequence of the sustainable communities guidelines, to which we adhere. One decides on the scale of developments in partnership with the local authority and under those guidelines. There must not be an overconcentration of social housing and that is the main reason schemes are the size they are.

Deputy Ruth Coppinger: That is problematic. The council has agreed to develop 1,100 or 1,200 units on one site in Blanchardstown, at Damastown. Is that going to be divided up into eight housing bodies? That will be a nightmare. The representation issue is important because of tenants with pyrite who have not been able to get any communication from their housing body. I have raised this before but nothing has changed and I cannot get any communication from them either. There is a huge disadvantage for people on a council list who are put with a housing body, because they are then competing with a private company, although I am sure not all are like this. There has still been no report on the pyrite situation. For that reason, I am very cynical about handing over control to eight or ten housing bodies in a community. Tenants can go to the RTB so they are private tenants, while council tenants go to the council if they have issues with rent arrears. I am not sure if that is a huge selling point.

Acting Chairman (Deputy Eoin Ó Broin): Deputy Coppinger is raising important questions but I want to keep the focus on redesignation as we are pressed for time.

Senator Victor Boyhan: Mr. Hannigan made a good point about the possibilities of re-

versing the decision and he is right to say that united we stand. There may be other fora in this House at which we can raise the matter. Mr. Brennan mentioned the lack of availability of land. There is, however, a substantial amount of land in Dublin city and county. The issue is the level of co-operation with the parties which own these lands. What level of co-operation and support has there been from local authorities as Mr. Brennan attempts to get land to carry out his principal activity, which is to provide new homes?

Mr. Kieron Brennan: Most of our new builds have been done in co-operation with local authorities and have, in many cases, been on local authority land. We acknowledge that and are grateful for it. Our build programme will grind to a halt early next year, however, because we do not have further land to move onto. In order to plan a project for 2019, one needs to begin in 2017. In a way, we are falling off a cliff in this area.

The Senator is correct in so far as a lot of land has been identified as potentially available but there appears not to be a proactive land management policy in place. There is a need for this and something needs to happen to link the two things together. Speed is an issue and we need to make some changes fairly quickly.

Acting Chairman (Deputy Eoin Ó Broin): I have allowed us to go way off topic so my reputation as a Chair is in tatters. However, the issue of land is very important. I thank all the witnesses for their presentations and they are welcome to stay for the second session, if they so wish. We will suspend briefly.

Sitting suspended at 10.56 a.m. and resumed at 11.01 a.m.

Acting Chairman (Deputy Eoin Ó Broin): At the request of the broadcasting and recording services, members and visitors in the Public Gallery are requested to ensure that, for the duration of the meeting, their mobile phones are turned off completely or switched to aeroplane, safe or flight mode depending on their device. It is not sufficient to put phones on silent mode as that will maintain a level of interference with the broadcasting system.

On behalf of the committee, I welcome Mr. David Smith and Ms Nina Murray from the Department of Housing, Planning and Local Government; Mr. Paul Morrin and Ms Gillian Roche from the Central Statistics Office, CSO; and Mr. Stephen McDonagh and Mr. John McCarthy from the Department of Finance.

In case we get ourselves into trouble, I wish to draw attention to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence in respect of a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of that evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I call Mr. Morrin.

Mr. Paul Morrin: At the outset, I wish to thank the Acting Chairman and the committee for

inviting the CSO here today. I am accompanied by my colleague, Gillian Roche.

On 20 December 2017, the CSO 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 15th should be classified in the Government sector. Documentation setting out this decision was sent on 20 December 2017 to EUROSTAT, the final arbiter in respect of such classification decisions. The documentation was subsequently published on the CSO website with redaction, where necessary, for statistical confidentiality.

The 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, focused 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, the latter requested the CSO to revisit the classification of the AHBs. It 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 relation-

ship between AHBs and Government. The information-gathering phase of the 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 the AHB sector. Following this 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 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 regarding whether 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 responsibility 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. In addition, 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 the end of 2015, less than 1% of their total capital funding came from non-Government sources. For 2016, the corresponding proportion remained very low at approximately 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; and 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 of, first, AHB status and, subsequently, 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 - the final arbiter on such matters - and it has indicated its agreement with the CSO decision. Formal confirmation is expected in the coming weeks. It is our intention to reflect this decision in the forthcoming excessive deficit procedure notification to EUROSTAT at the end of March. The CSO will continue to review the classification of the remaining AHBs during 2018. Ms. Gillian Roche is in charge of Government finance statistics and is here to answer questions on the procedure.

Acting Chairman (Deputy Eoin Ó Broin): I thank Mr. Morrin and call Mr. Smith.

Mr. David Smith: On behalf of the Department of Housing, Planning and Local Government, I thank the Chairman and members for inviting us to attend in order to discuss the issue of reclassification by the CSO of AHBs from non-profit institutions serving households to being part of the local government sector for Government accounting purposes.

I am from the housing funding mechanisms unit in the Department which is the main unit interacting with the CSO on this matter. I am joined by my colleague, Ms Murray, who is head of the social housing leasing unit which, among other matters, oversees the Department's capital advance leasing facility and payment and availability funding framework available to AHBs for social housing. We are part of two divisions within the Department that are responsible for developing policy and overseeing its implementation on housing, including social housing.

The situation regarding the demand for and provision of social housing is set out in the recently-published summary of social housing assessments. The assessments show that progress is being made in tackling the existing housing shortage and meeting the social housing needs of eligible households on local authority waiting lists. However, the Department also acknowledges the significant challenges we continue to face in meeting housing needs and providing social housing for those on housing waiting lists, as well as ensuring a wider housing supply across all tenures, particularly at affordable prices to purchase and rent.

The Government has responded to this challenge with Rebuilding Ireland: Action Plan for Housing and Homelessness. The plan, which was revised by the Government last year, has set ambitious targets under five pillars, including the provision of 50,000 additional social housing units by the end of 2021, through building new homes, acquisitions, filling voids and leasing. On foot of the additional €500 million capital resources secured in budget 2018 and the mid-term review of the capital plan, the revised target figures are 40,000 new builds, acquisitions or voids and 10,000 under leasing arrangements.

Under the plan, the AHBs have an important role to play in providing homes for those in need of social housing, both through new social housing stock as well as through leasing arrangements. The objective is for them to provide approximately one third of the new social housing homes under the action plan. The AHBs have already played a significant role, as they have provided 3,490 out of the almost 12,800 new social housing homes provided under the plan in the past two years. As the Minister announced at the recent housing summit, while we expect that a greater percentage of new house-building will be undertaken by local authorities in future, in accordance with targets set for each of them last month, the AHBs will continue to have an important partnership role with local authorities in the provision of social housing.

Following the CSO's review of the AHB sector in 2014, that office undertook a further review, at the request of EUROSTAT, in October 2016. To assist this review, the Department

was requested to submit information regarding the governance and funding of AHBs and the relationship between the sector and the Department and local authorities. The Department and the interim AHB regulator, which is based in the Housing Agency, actively engaged with the CSO in this work to gather information to inform the review and address any queries comprehensively. We provided detailed responses to these requests. We also met the CSO on a number of occasions to clarify any issues arising from the information we submitted.

Mindful of the CSO's independence in making decisions on such matters, the Department strongly put forward the view that AHBs are independent private bodies and that the basis on which they operate has not substantially altered since the previous review in 2014. While a particular emphasis was placed by the CSO and EUROSTAT on the levels of State funding being provided to AHBs, the Department emphasised that other factors also need to be considered in testing whether the Government exercises effective control over the operations of AHBs, namely: that AHBs decide their own strategic and management priorities; that the boards of the bodies make the decisions on entering contracts and taking out loans and bear the risk of developing new projects; that, by definition, to be approved as an AHB, a body must be a limited company or a society registered or a trust incorporated under the Charities Acts; AHBs register their tenancies with the Residential Tenancies Board in the same way as private for-profit landlords, which is unlike the situation applying to local authority tenancies; and AHBs are responsible for all matters of management and maintenance of their properties. It does not fall to the State to address any action taken by the tenant for redress taken against an AHB.

The CSO has now made a decision and has submitted it to EUROSTAT for final determination. Following an initial outline briefing of the CSO's decision and rationale before Christmas, the Department received the redacted version of the submission from the CSO to EUROSTAT on 15 January. We have been examining this documentation in detail in order to precisely understand the basis on which the decision was made and assess the full implications of it.

As no doubt our colleagues from the Department of Finance will indicate to the committee, the initial assessment is that all expenditure by the 14 of the 16 tier 3 AHBs that have been reclassified will in future count as expenditure in the local government sector. Any borrowing by the reclassified bodies will count as part of general Government debt. In financial terms, an initial rough estimate is that in regard to the social housing building and acquisition programme it would add, on average, approximately €250 million each year to general Government expenditure figure, to be counted in the local government area. This would not, as far as we understand it, have any impact on the Exchequer figure but would be captured in the wider local government expenditure figure. I stress that this is very much a provisional figure and we still have a good deal of work to do to fully calculate the financial estimates and impacts within the sector.

In view of the potential consequences of this decision and the prospect that borrowing and expenditure for the provision of social housing by AHBs could now count as being on the Government's balance sheet, the Minister, Deputy Eoghan Murphy, has signalled his intention to set up a cross-departmental, cross-agency working group to: assess fully the potential fiscal impact of reclassification in the context of the commitment to deliver 50,000 new social housing homes under the Rebuilding Ireland action plan; and report on the implications for Government expenditure and borrowing, with a view to identifying what measures can be taken in mitigation, given that the planned delivery of social housing will not change. The group, which will be made up of officials from my Department and the Departments of Finance and Public Expenditure and Reform, along with representatives from the Housing Agency and the Housing Finance Agency, will report back to Government within a short timeframe. It is important that

the working group also engages with the AHB sector in the course of its deliberations to ensure that there is a full understanding of impacts while at the same time following through on projects committed to and being advanced in 2018 and beyond. The Minister has communicated to both the local authorities and the AHB sector that this accounting issue will not affect his ambitious plans under Rebuilding Ireland.

I hope this provides a useful summary of the issue and both Ms Nina Murray and I are happy to provide any clarifications or answer any questions that members may wish to pose.

Acting Chairman (Deputy Eoin Ó Broin): I thank Mr. Smith. I now call Mr. McCarthy. We are expecting great things from him today.

Mr. John McCarthy: Okay. First, I thank the committee for the invitation to attend. I am joined by my colleague, Mr. McDonagh, who heads up the statistical unit in the Department. I have circulated a short presentation and I want to highlight the Department's role in this area. Essentially, it is twofold. First, we are responsible for compiling general Government expenditure and revenue forecasts. The CSO, represented by our colleagues on my left, compile the outturn. We compile forecasts and they are required, under EU legislation, for the stability programme, which is published every April, for the summer economic statement, for the budget and for the so-called draft budgetary plan. Our second role is to provide advice to other Departments on proposed policies and their statistical classification, and so forth. The framework is the so-called European system of accounts 2010 which is the legal framework across the EU. Regarding our interface with the CSO, we, in conjunction with our colleagues in the Department of Public Expenditure and Reform, provide data to the CSO for compiling the outturn and calculating the current year forecasts, which are included in the twice-yearly excessive deficit procedure, EDP, notification. We do not have any direct interactions with EUROSTAT. The CSO is the primary interface with EUROSTAT in this country. I stress that the Department of Finance always respects the statistical independence of the CSO, and this is enshrined in law. We use the register of public sector bodies within general Government, which is compiled, maintained and published by the CSO.

What does the reclassification mean? It means, from a public finance perspective, our medium-term forecasts will have to include the expenditure by AHBs. Obviously, this expenditure will worsen the general Government balance. Revenues to the AHBs from third parties will improve the general Government balance. Borrowing from private sources by AHBs will increase general Government debt because it is within the general government boundary. We are examining data to assess this impact and working with the Housing Agency, our colleagues on my right in the Department of Housing, Planning and Local Government, our colleagues in the Department of Public Expenditure and Reform, and the CSO. We also participate in some of the working groups Mr. Smith mentioned.

In the final two graphs I wanted to show the committee the position regarding the general Government sector. As the committee can see, it is quite complicated. General Government accounting is not for the faint-hearted, as members can imagine. Before this decision, AHBs were classified outside the general Government boundary. Moving to the next slide, the committee can see they are now within the general Government boundary. This means that flows between the local authority and the AHBs must be consolidated. Expenditure by AHBs, as I mentioned, is now classified as general Government, GG, expenditure, and revenue from non-GG bodies is classified as general Government revenue. As I mentioned earlier, debt raised by non-GG bodies is counted towards general Government debt. By way of a quick overview on the public finance implications, I will leave it at that. I hope Mr. McDonagh and I can answer

members' questions.

Acting Chairman (Deputy Eoin Ó Broin): If we were confused beforehand, that graph has us even more confused now-----

Mr. John McCarthy: Indeed.

Acting Chairman (Deputy Eoin Ó Broin): -----but I thank Mr. McCarthy for showing it to us anyway.

Deputy Maria Bailey resumed the Chair.

Senator Victor Boyhan: I thank all the witnesses for coming before the committee. Before I ask a number of general questions, I want to ask Mr. Smith about two or three issues regarding his statement before the committee. On page 3 of his statement, he states: “the Department [has] received the redacted version of the submission from the CSO to Eurostat on 15th January” and that the Department has “[examined] this documentation in detail in order to precisely understand the basis on which the decision was made and assess the full implications of it.” At some point, again, given the sensitivities of this, would Mr. Smith be in a position to make his assessment available to the committee? It is important. I acknowledge there is a process, but he might just consider this and give us his view. Further down the page, Mr. Smith tells us that the Minister, Deputy Eoghan Murphy, “has signalled [he uses the word “signalled”] his intention to set up a cross-Departmental, cross-Agency working group” to look at this issue. Mr. Smith might just tell us when this will happen if he knows. He has outlined the kind of people within the Department who may be involved in this. I appeal to him, possibly through the Minister, to pass the message on, respectfully, that the AHB sector should be involved directly in this process. It should not only be a consultee. It is a critical part of the process. Mr. Smith himself acknowledges the sector has a greater understanding. We have heard from representatives of the sector this morning. They have an amazing understanding because they work in this business all the time. I therefore ask that the Minister, perhaps through a conversation with Mr. Smith, consider appointing a member of an AHB, nominating someone from that sector to sit on this cross-party group. We also need a timeframe for this. That is urgent. It is interesting that one of the remits of this committee, as I understand it, is to assess fully the potential impact on the 50,000 new houses to be built under Rebuilding Ireland. That is what Mr. Smith’s opening statement tells us. Page 4 tells us, “Minister Murphy has communicated to both the local authorities and the AHB sector that this accounting issue will not affect his ambitious plans under Rebuilding Ireland.” On page 3 we are told there is an objective for the committee to examine its impact on the reclassification, and on page 4 we are assured by the Minister that it will not have an impact. These are very different views. I ask Mr. Smith to address this in his response.

I now move to my general questions for all the witnesses. I will read them out in the order in which I have them written down. First, can the witnesses explain why EUROSTAT chose Ireland over and above any other country? We saw earlier in papers that were presented to us comparisons with other parts of Europe. I ask the witnesses to talk to us about this. Second, what effect does the Department believe the reclassification will have on the AHBs securing finance into the future? Third, when did the Department first become aware of the possibility of the AHBs being brought on-balance sheet, and what steps have been taken for this eventuality? To wrap up, one of the most important matters is the local government auditing service. The local government auditing service published a report, No. 29, on the oversight role of local authorities in the provision of social housing by approved housing bodies in December 2015. The report made 13 recommendations regarding the AHB sector. Can the Department or anyone

else here provide an update on these 13 recommendations? I know we are short for time but I ask the witnesses to give us a commitment to look at this and come back to the committee with some kind of written response. I would be very interested in looking at the follow-up to these 13 recommendations.

Chairman: Does Mr. Smith wish to answer a question?

Mr. David Smith: Yes. To respond to the Senator's first question, we are working through the implications of the CSO's decision. It must be acknowledged that the CSO is an independent body that makes independent decisions on these matters and that we must work within the parameters set accordingly. If we require further clarification on any issues as we work through this, we will go back to the CSO and ask it to clarify matters. It is also important, in the context of the proposed working group, that we examine all these issues. The point we are making is that it is important for us to understand how best we can advance the policy, the Government's action plan, and that we understand fully the implications of this decision, both its fiscal impact and the impact on Government expenditure and borrowing. I am just reiterating what the Minister has clearly stated, that is, that it is his intention to ensure that the Government's action plan is fully implemented and that we achieve the 50,000 target by the end of 2021.

Regarding the make-up of the working group, it is important we have a small working group that can work through the technical issues on this. We value very much the views of the AHB sector. Our Department has been in constant contact with the Irish Council for Social Housing on this issue over the past 12 months. We will engage fully with the sector and take on board or have regard to the views it expresses, but the group will very much deal with working out the technical issues involved. Therefore, it is appropriate it be made up of the representatives I have outlined.

Chairman: Does Mr. McCarthy wish to come in on any of the Senator's questions?

Mr. John McCarthy: I do not think any of them was addressed to me.

Senator Victor Boyhan: Not particularly.

Chairman: I just asked in case Mr. McCarthy wanted to comment on any of them. Does Ms Roche wish to come in?

Ms Gillian Roche: EUROSTAT has a role in ensuring the consistency of Government finance statistics and the coverage of the composition of the government sector across all EU member states. This is why it focuses on certain sectors and requests countries to conduct reviews. The issue of housing more generally was being discussed with EUROSTAT, and this brought to light the classification of the AHBs. More generally, it is not a case of us being targeted. These kinds of discussions go on all the time for different sectors, and EUROSTAT looks across all countries to ensure consistency of treatment. This is just one example.

Chairman: Does the Senator want anything clarified before we move on?

Senator Victor Boyhan: I asked five other general questions. Luckily, I have them here so I can repeat them. I raised the local government auditing service. It published a report containing 13 recommendations. Clearly, I am not expecting everyone to be on top of that today, but perhaps someone might give a commitment to look at this and come back to us on it. There were 13 recommendations. The sector was dealt with comprehensively in that and surely it is not gathering dust on some shelf somewhere. We should see the outcome of it and someone

might give an undertaking to look into it. The local government auditing service published a report on the oversight role of local authorities in the provision of social housing and approved housing bodies. Maybe I will talk to the previous witnesses from the housing bodies about this as they may know more about it.

Mr. David Smith: We can certainly come back to the Senator on that.

Senator Victor Boyhan: I thank Mr. Smith.

Deputy Ruth Coppinger: We raised some of the same issues in today's earlier session with the approved housing bodies. My questions are directed more at the CSO and the Department, however. Can the CSO clarify for us that the approved housing bodies are being put onto the State balance sheet on the basis that they are almost exclusively financed by Government? Is that correct?

Ms Gillian Roche: That is one of the criteria but being exclusively financed is not the sole reason. It is also about the conditions that come with the funding.

Deputy Ruth Coppinger: To me, the upping of housing provision under the approved housing bodies was a deliberate tactic to try to bypass the fiscal rules. It would seem that maybe the game is up on that now.

I wanted to raise a number of issues with the Department about the EU fiscal rules. Some of these points came up in the special committee on housing and homelessness. Has there been any movement on them in the 18 months since that committee sat? The then Minister for Finance, Deputy Michael Noonan, told the housing committee that following the referendum in 2012, the European fiscal rules are constitutional. He said:

We do not have a shortage of money [for housing]. We have almost balanced the budget and can borrow money. [...] We would get the money at less than 1% for ten years. The key problem is not a shortage of money. We can raise the money. [...] The problem is that it goes on the balance sheet and then we break the fiscal rules and the expenditure ceilings.

That is the Minister for Finance himself explaining how the EU fiscal rules are a problem for us resolving our housing crisis. The former Taoiseach, Deputy Enda Kenny, wrote to the European Commission complaining that the EU rules to classify certain investments were posing a significant threat to the ability to fund major projects in housing, transport and water. The Opposition spokesperson for housing also agreed they were a problem.

The report of the committee on housing and homelessness called on the Government to seek flexibility. To me, that is very weak. Has the Department of Finance or the leading civil servants in it made any efforts to talk to the Government and persuade it to seek a derogation from these EU fiscal rules to solve our housing emergency? Have we held any meeting with the EU at any level to say that Ireland has a housing problem and we need to break these rules?

The labyrinthine diagram that the witness showed us is like the "tangled web we weave," as the poem states. Everything is being done to try to find this elusive off-balance sheet model and it would seem now that the ploy of using approved housing bodies rather than local authorities could be called out by EUROSTAT. We will wait and see. It is a delay and a barrier to resolving the housing crisis. The Department's civil servants should be talking to the Government about it.

If the approved housing bodies do not prove to be a mechanism for funding social housing, approximately what amount of money is left in the Ireland Strategic Investment Fund? This is a fund from which we do not have to borrow and to which the taxpayers contributed over the years. Most of it was used to bail out the banks and is gone. There was up to €7 billion when the last Government came into office but I think it might be down to about €4 billion now. Perhaps the Department officials could clarify that point. Is that not the pot of gold we need to solve the housing crisis? The barrier to it is the EU fiscal rules. There should be much more attention focused on this. The EU is now posing as our great friend in the negotiations over Brexit. If it is our great friend, are we now seeking its permission to use money that we actually have? That is what we should be using to build houses rather than trying to find other ploys through approved housing bodies that have not got the means or wherewithal to build on the scale and at the speed that we need.

Mr. John McCarthy: First, I do not agree with the view that the fiscal rules constrain any form of expenditure. They are designed to ensure fiscal sustainability but it is left at the discretion of individual member states to make the choice as to whether they want to spend more or less. All the rules do is say that if the state wants to spend more - surprise, surprise - it must be able to finance it. I do not think there is any issue with that.

We engage with the Commission on an ongoing basis on various issues such as how the rules are interpreted and applied. Ireland is the exact same as every other member state. My colleagues from the CSO talk about their discussions with EUROSTAT. We engage with the Commission on pretty much a weekly or monthly basis.

There is potentially a role for some flexibility in the rules. We have a so-called investment clause. We cannot use it at the moment given where we are in the economic cycle but there is a structural reform clause which could be applied for potentially. Ultimately, the rules are about ensuring fiscal sustainability-----

Deputy Ruth Coppinger: Mr. McCarthy does not agree with the former Minister for Finance, who told the housing committee that if it goes on the balance sheet, we break the fiscal rules.

Mr. John McCarthy: The fiscal rules, as I said, are about ensuring fiscal sustainability. If the Government was to decide to spend more in any particular area, all the rules say is that is absolutely fine but it has to raise revenue to pay for it. To me, that is not unreasonable given where we have come from and our debt level at over €200 billion. That seems absolutely reasonable to me.

Deputy Ruth Coppinger: I am sorry, and I will not interrupt Mr. McCarthy again, but just to clarify this point. Is he saying the Government could spend the money if it decided, for example, to introduce a wealth tax or something, to pay for house building? Could it do that? Could it decide to increase taxation of a sector to do that?

Mr. John McCarthy: As long as the Government balances the books. That is all the rules say. It must achieve its medium-term budgetary objective, MTO, which is essentially to balance the books. It can then choose to spend more if it wants but it has to be able to finance it, either through some form of taxation or by reducing expenditure. That would be a sort of UK-type model where the size of Government is relatively low but taxation is low as well.

Deputy Ruth Coppinger: Has there been any discussion about something like a million-

aires' tax or wealth tax or some kind of major taxation to build houses?

Mr. John McCarthy: These discussions take place all the time. The Deputy will probably have seen some of the analysis that is published by the Department every July, the so-called tax strategy group papers. They go through all the options on taxation. I think last year's set of papers did have something on wealth taxes. The Deputy might look into that; I cannot give her the specifics right now.

Another point I would make in respect of the Deputy's question is that we expect to achieve a balanced budget this year. This is to achieve the MTO and once we achieve the MTO, there is a significant amount of fiscal space that opens up for next year as the growth rate of expenditure then moves in line with the potential growth rate of the economy. In nominal terms, that is about 4.5% or 5% in Ireland. If the Deputy looks at our publications, we have been quite clear that there is quite a lot of fiscal space available for 2019. If we look at the budget and the summer economic statement, the figures are there in black in white. How the Government decides to allocate that will be done on the basis of the discussions over the summer, the expenditure discussions and so forth, although that is a matter for the Minister. The point I would make is that we have outlined that once we get to the MTO, there is a lot of fiscal space subsequently.

Deputy Ruth Coppinger: I am delighted to hear this brought out because they could decide to increase taxation on, for example, the huge wealth we saw amassed last year, much of it based on property prices, by the way.

Mr. John McCarthy: I do not want to get into specific policies, as the Deputy will appreciate. All I will say is that if we look at what the Minister did in the last budget, he was able to increase expenditure above what was set out in the fiscal rules by increasing taxation on the commercial property sector. It is the same principle. If the Government so chooses, it can undertake additional spending by financing it appropriately. The rules *per se* do not prevent additional spending. One simply has to be able to finance it, and, in my world, that is not unreasonable.

Chairman: Does Mr. Smith want to come in?

Mr. David Smith: In terms of the role of the AHBs, their involvement is not a means of getting around any rules. What we are doing is implementing a plan which is built on a policy of using all the possible tools available in providing the additional social housing units, and that includes the engagement and use of the potential of the AHBs in this sector.

Deputy Ruth Coppinger: It was not to get around the rule.

Mr. David Smith: The purpose of it was to use all of the available options open to us in order to implement the action plan as set out in Rebuilding Ireland.

Deputy Ruth Coppinger: That would be fine except they use council land and public land. It is not like they are coming up with land themselves. This could easily be done by local authorities. Most people would have viewed it as being a way to outsource this to smaller bodies in order to bypass the rule. Why else would they be in here pleading for a change of policy?

Mr. David Smith: It would be important, looking at the context of social housing and its development in this country, particularly over recent years, that the approved housing bodies have a clear role to play, given they have specific capacity and specific expertise in particular areas. From a departmental point of view, it was critically important that we would involve those

bodies, given their expertise and background in the areas. As I said, it was a policy decision that entailed using every possible option available to us in order to implement the action plan.

Mr. John McCarthy: I mentioned there was a substantial amount of fiscal space - I think it is of the order of €3.5 billion for next year. Of course, the Minister and the Taoiseach have said that just because the money is there does not mean it should be spent, but I do not want to go into policy and that is a decision that will have to be made in the context of the budget.

Deputy Eoin Ó Broin: Mr. Morrin said EUROSTAT has indicated to the CSO that it intends to support its recommendation. Has it done that in writing? He also said the CSO expects EUROSTAT to confirm that publicly in the coming weeks. Can he confirm that? The approved housing bodies mentioned some inconsistencies between the CSO's recommendation and, for example, the similar recommendations in regard to the UK, particularly in terms of nominations off the housing list. Will the CSO witnesses comment?

For me, the aspect of the CSO's recommendations which was the least clear, although I understand it because Ms Roche very helpfully explained it to me before Christmas, was in regard to recommendation E on the risk of exposure of Government. Will the witnesses explain that in plainer English for the benefit of the committee so we fully understand it, and for the record?

I have a couple of points for Mr. Smith and Ms Murray. As it will also be relevant to the questions I ask Mr. McCarthy, I am interested to know the estimated cost of the availability agreements last year or this year from the Department of Housing, Planning and Local Government to the approved housing bodies sector, so that figure would be helpful. After the Department received the news in December of the CSO's recommendations, has it corresponded directly with EUROSTAT or the CSO to question, challenge or argue against the recommendations? Has its consideration up to this point really been what to do following the decision by EUROSTAT?

I will come back to Mr. McCarthy again when he begins to answer my questions. When we invited him here today, there were two things we were hoping he could do, and neither of those was for him to explain to us what his role is, because we understood that before he came in to us today, although his explanation was very welcome. The two things are as follows. We are trying to get our heads around the impact of redesignation on the fiscal space for this year and next year. I know Mr. McCarthy will not be able to give me fine-tuned calculations but we want a rough idea. If we start with the figure Mr. Smith mentioned, somewhere in the region of €250 million will be borrowed by approved housing bodies this year to meet the Rebuilding Ireland targets. The bulk of that is from the Housing Finance Agency but some will be from private sources. We know all of that is going to go on the debt end, and that is relatively uncontroversial. However, what we are trying to understand is what would be the impact of that €250 million this year on the expenditure side of the fiscal space. My understanding - correct me if I am wrong - is that this €250 million, because it would be capital investment in the Government sector, for accounting purposes would be smoothed over the four years, so we are talking about €62.5 million of fiscal space this year. Hopefully, Ms Murray is going to give us the figure of what potentially could be netted out of that figure from the transfers from the Department of Housing, Planning and Local Government through the availability agreement to the approved housing bodies.

Am I right in thinking we are going to need somewhere below that €62.5 million of fiscal space this year? If that is the case, what are the options available to Government for dealing with that? Mr. McCarthy said we cannot use the capital investment provisions of the rules.

Will he explain that? He talked about a structural reform clause. Will he explain whether that is something different? If there is an amount of fiscal space needed this year, whether it is €20 million, €40 million or €60 million, what tools are available to Government to meet that, first, on the rules side, or is it simply the case that if there is €20 million, €40 million or €60 million needed this year, the Government just has to revisit the budget decisions of October and decide that if it is going to spend that, it cannot spend something else? Notwithstanding the fact there is the increased fiscal space from 2019 in the order of €3 billion plus, as mentioned by Mr. McCarthy, if the approved housing bodies sector has to borrow the €250 million fresh each year to meet its targets, then there is an accumulative fiscal space requirement in regard to meeting the targets the Minister has said he definitely wants to meet. This year it could be €20 million, €40 million or €60 million but, next year, that doubles and it then trebles. While it might not be a huge deal this year or even next year, it is significant.

If any of what I have said is incorrect, I am looking for Mr. McCarthy to clarify it because this committee needs to have a sense of what is the quantum of fiscal space required and what are the policy options the Government has at its disposal to try to tackle that, particularly this year and next year.

Mr. Paul Morrin: I will take Deputy Ó Broin's first question and Ms Roche will take the other two. At this stage EUROSTAT has indicated its agreement and the formal confirmation will come through in the next couple of weeks. It will be published by EUROSTAT, as is normal with these matters.

Ms Gillian Roche: On the issue of inconsistencies, the UK decision was rather more straightforward in terms of the control criteria. As I said earlier, the role of EUROSTAT is to ensure consistency across member states. We are confident in our decision and EUROSTAT has expressed confidence in our decision. If there are inconsistencies elsewhere, it will look at that.

I am not clear what the issue is on the nominations.

Deputy Eoin Ó Broin: As I understood it from the approved housing bodies, when the CSO recommendations refer to the contractual arrangements, one of the issues of concern is that the local authorities nominate potential tenants through the approved housing bodies. While those approved housing bodies can refuse any nomination, it would be replaced by another nomination. The approved housing bodies are saying that was not an issue of concern in the EUROSTAT decision to reclassify in the UK. Perhaps that was evened out by EUROSTAT in its final decision.

Ms Gillian Roche: The arrangements across countries can be very specific and that is why EUROSTAT has an overarching role in ensuring consistency. It was identified by us as an area of control. While EUROSTAT has not commented in detail yet on our decision, it has indicated its agreement. In fact, it was something EUROSTAT mentioned in the discussions during the dialogue visit last January. If there is an inconsistency it will address that, but it will not be by an amendment to our decision.

The Deputy asked about the risk exposure issue. One clear point is that under the new CALF arrangement with the payment availability agreement with the local authority, which provides the revenue for its borrowing, the local authority is a party to the lending agreement between the AHB and the financial institution.

Deputy Eoin Ó Broin: I understand that, but that was not my question. That is one of the

points the CSO lists in its contractual arrangement concerns. I was referring to point E on the PowerPoint presentation which states that risk exposure can be seen to exist as the Government is meeting its obligations to persons assessed as entitled. Will Ms Roche explain that part?

Ms Gillian Roche: It comes back to the nominations agreement. The local authority assesses people as being in need of social housing, identifies them as eligible and places them on the housing list. Under the terms of their capital funding, the AHBs are required to fill at least 75% of their units from this list. Effectively, in national accounts terms we are saying this is a mechanism for local government to meet an obligation to people identified as eligible for a service. If it was not done this way, it would have to be done in another way by the local authority.

Deputy Eoin Ó Broin: That is clear. How does that relate to the use of the phrase “risk exposure of Government”? For clarity purposes, where is the risk in that?

Ms Gillian Roche: It probably links risk and responsibility. It is a responsibility of Government and that is the association being made there.

Ms Nina Murray: The Deputy asked the total cost of the payment availability agreements to approved housing bodies. The figure for 2017 is approximately €48 million. That is in respect of availability contracts either on units the AHBs own themselves or have leased from a private owner.

Mr. John McCarthy: I will try to answer on the fiscal rules and the fiscal space. There are two rules. One is the so-called expenditure benchmark, where spending should move in line with the long run trend growth rate of the economy. The inclusion of AHBs within the general Government sector does not affect that rule. The reason is that it is the change in expenditure that eats into fiscal space. If there is a situation where the €250 million is already included in the 2017 base, and in 2016 and backwards, if there is another €250 million in 2019 there is no change. It does not eat into the fiscal space.

Deputy Eoin Ó Broin: To clarify, that €250 million is not Government expenditure in the budget that was announced in October because it is not coming from tax revenues. It will come from a variety of borrowings, some from the Housing Finance Agency and some from private banking institutions. My understanding is that if there was no redesignation in March, the €250 million would not be included anywhere in the fiscal space. Anything that is underwritten by State guarantees on the debt end would be on the debt side, so when the approved housing bodies borrow that money and spend it to build or buy, that will not be counted in the fiscal space. Is that correct?

Mr. John McCarthy: The new classification shifts the level of expenditure.

Deputy Eoin Ó Broin: Before we get to the reclassification, my understanding is that the expenditure by the approved housing bodies of the money they are going to borrow this year to build and buy units is not currently taken account of within the fiscal space. Am I correct?

Mr. Stephen McDonagh: That is correct. As the Deputy said, the debt is general Government debt raised by the HFA or through whatever other channel.

Deputy Eoin Ó Broin: However, the expenditure is not within the fiscal space.

Mr. Stephen McDonagh: The expenditure by the AHBs in our last set of statistics in the budget and the economic and fiscal outlook is not counted because they were at the time-----

Deputy Eoin Ó Broin: The crucial thing from our point of view is that if EUROSTAT does as we expect in a matter of weeks and says that this is now on the balance sheet, the fundamental change is that the expenditure of €250 million must now be factored into the Government's calculations on the fiscal space for this year. I am trying to work out how that operates.

Mr. John McCarthy: It is not for this year, but for next year. For this year, everything is locked down. The way it is done at European level is that the fiscal space is calculated and locked down by the European Commission in May-June of every year, so even if there are changes like this, it would be taken into account. This alone does not affect compliance with the fiscal rules for this year.

Deputy Eoin Ó Broin: I apologise for focusing on this but it is the nub of the dilemma and I am anxious to understand it. From the point when redesignation happens all of that expenditure is on-balance sheet. Suddenly, an expenditure of €250 million that was not part of the original calculations of the Government in its agreement with the European Commission for this year is now going to be part of Government expenditure. Is the witness saying that, for accounting purposes, it will not be factored in at all this year and it is only from-----

Mr. John McCarthy: It will be included within general Government expenditure this year and going all the way back until however far-----

Deputy Eoin Ó Broin: That is my point. Perhaps the witness does not understand the question or perhaps I am not explaining it right. If there is €250 million of additional expenditure out of nowhere and it was not calculated in the original budget agreement, fiscal space has to be found for that somewhere this year. How is that done?

Mr. John McCarthy: The fiscal space is calculated on the basis of the change in expenditure. Let us say that under the technical calculations the Commission says that spending can grow by 2.4% for this year and that worked out at X billion - I cannot remember the number off the top of my head. The figures for expenditure growth will still be 2.4% this year because the €250 million is included in last year's expenditure and this year's expenditure. There is no change in the level of expenditure arising from the AHBs.

Deputy Eoin Ó Broin: Is that because it is reclassified retrospectively?

Mr. John McCarthy: Absolutely.

Deputy Eoin Ó Broin: Okay. There is no problem.

Mr. John McCarthy: Not for this year and probably not for next year as well. The €250 million is in the base for this year and if the level of spending stays at €250 million, the change is zero.

Deputy Eoin Ó Broin: It is only a net increase above the €250 million.

Mr. John McCarthy: Absolutely. Then it comes back to the point made by the Deputy, which is very valid. It would be the increase that affects fiscal space, but it is capital expenditure so it-----

Deputy Eoin Ó Broin: It is over four years.

Mr. John McCarthy: Yes. It is only the first quarter of the increase that would be absorbed into the fiscal space.

Deputy Eoin Ó Broin: Am I correct that, on the basis of what the witnesses said, they are quite relaxed about this?

Mr. John McCarthy: This is where we come to the second part of the fiscal rules. What I say now is very preliminary, as we will do a deeper dive and assessment in the stability programme when we have the outturn for 2016 and 2017. It is the issue of achieving the medium-term objective, MTO, for this year.

Deputy Eoin Ó Broin: What is the MTO?

Mr. John McCarthy: It is the balanced budget in structural terms. It has been the goal of the Government's fiscal policy since we corrected the excessive deficit in 2015 to balance the books by 2018. We set out in the budget that we would achieve balance by 2018. The €250 million is slightly less than 0.1% of GDP. That alone would put us slightly off the MTO. It is not something I would be concerned about, given that when assessing this the European Commission gives a little leeway of 0.25% either side of balanced because there is so much uncertainty. That alone would not jeopardise the achievement of a balanced budget this year.

Deputy Eoin Ó Broin: So that the committee is clear, the medium-term objective is not a rule, rather it is a point in time that is agreed by negotiation by the Government and the Commission. Is that correct?

Mr. John McCarthy: That is not fully correct.

Deputy Eoin Ó Broin: Either it is a rule or it is not.

Mr. John McCarthy: It is a rule, and the Deputy is correct about that, but the pact is absolutely silent on when one achieves a balanced budget. What it says is that one needs to have a correct flight path and to improve by a certain amount every year.

Deputy Eoin Ó Broin: This is crucial. My point is that while reaching a balanced budget is the rule, the point at which one reaches it is a matter for negotiation. For example, if the €250 million knocks the State off reaching its medium-term objective by the agreed date, it can be negotiated, subject to agreement between the Government and the Commission, if it was significant.

Mr. John McCarthy: Yes. A state is supposed to improve its structural deficit by at least 0.6%. Ireland will do that. It has done that under the expenditure rule and the Commission has assessed our budget as broadly compliant with the Stability and Growth Pact. If a one-off factor throws a state off that, it is not held responsible. I would not say that I am relaxed about it, but having a medium-term objective that is 0.1% off is not something that would keep me awake at night.

Deputy Eoin Ó Broin: If the total borrowing to spend on new units this year is larger than last year, and it may be, although the increase will be fractional - let us say it was €220 million last year, or €175 million, and it is now €250 million - would that difference cause a difficulty on the expenditure side? At what point would that be cause for concern?

Mr. John McCarthy: This year is done and dusted from the perspective of fiscal rules. Is the Deputy speaking about next year?

Deputy Eoin Ó Broin: No. If understand Mr. McCarthy correctly, it is only done and dusted this year if this year's borrowing and spending is the same as last year's borrowing and

spending by the approved housing body sector. If this year's borrowing and spending on new units is slightly above last year's, does that cause an issue, or does it only cause an issue if it is significantly above?

Mr. John McCarthy: Yes, if it was significantly above.

Deputy Eoin Ó Broin: What is significant?

Mr. John McCarthy: A significant deviation is 0.25% of GDP.

Deputy Eoin Ó Broin: What is that in euro?

Mr. John McCarthy: In real money, 1% of GDP is about €270 million. I cannot do the maths off the top of my head.

Deputy Eoin Ó Broin: Roughly, what are we talking about?

Mr. John McCarthy: It is about €140 million.

Deputy Eoin Ó Broin: So it will not be a problem this year??

Mr. John McCarthy: No, not for this year. I do not see any issues for compliance with the rules for 2018. The Commission has assessed the figures as broadly compliant.

Chairman: Does Mr. Smith wish to come in?

Mr. David Smith: I want to be clear that the figure I quoted is very much an initial assessment. It will be an issue for the proposed working group to bottom-out what are those figures.

Deputy Eoin Ó Broin: That is really helpful. It clarifies some things from my point of view and makes me a little less anxious, although I am concerned from the perspective of the Department of Housing, Planning and Local Government. The witnesses are absolutely correct that there is a level of technical detail in all this. The Department has some of it and the Department of Finance has some of it, as do the approved housing bodies. I do not understand the resistance, which I clearly hear in the response to the question, as to why the witnesses would not want everybody in the room to work this out together. Otherwise, what will happen is that there will be the two Departments working their way through this, and I do not know if they get into the same room regularly enough, and then having to check. Given the imminence of the decision, surely it makes eminent sense to have a working group where the three main players are around the table trying to work this out. Even if it does not have an impact this year, and it is relatively minimal next year, which seems to be the case, at some point that accumulating expenditure by the approved housing bodies will place the Government in the position where it will have to make decisions around expenditure. If it can be put off-balance sheet, that makes people's lives easier. I would say to Mr. Smith that I do not understand the resistance to having the approved housing bodies around the table.

Mr. David Smith: I do not think it is a question of resistance. As I said before, it is a question of setting up a technical working group with Government Departments and agencies to work through it. There is no question but that we will work closely with the approved housing body sector and sit down with them. I am sure that our colleagues in the Departments of Finance and Public Expenditure and Reform will be happy to sit down with us and go through the figures with the approved housing bodies in relation to its figures too.

Mr. John McCarthy: When I spoke earlier, it was all in relation to compliance with the fiscal rules. The one thing we did not touch on was the impact on debt. The debt is €200 billion, and we spoke of adding an extra €250 million or so. That would accumulate over time and it would be cause for concern. It would not affect compliance with the debt rule because the debt to GDP ratio is decreasing, but only because the denominator is increasing so much. I wanted to cover that off and mention the debt.

Deputy Eoin Ó Broin: I understand that. The other factor which already mitigates that having a negative impact is a significant amount of the approved housing bodies' borrowing is already factored into the debt because it is coming from the Housing Finance Agency. It is only the additional bit that is coming from the private banks or, I presume, the credit unions.

Chairman: I thank the officials and the representatives, and also the witnesses who were here this morning, for engaging with the committee. There was a lot of very technical detail which was most helpful to us in forming policy.

The joint committee adjourned at 12.06 p.m. until 9.30 a.m. on Wednesday, 14 February 2018.