Rialtas na hÉireann
Government of Ireland

Housing for All Commitment 4.10

Review the Structure and Operation of the CALF to assess whether any refinements to the facility are required to support delivery of social housing by the AHB sector across a wider range of Local Authority Areas

Prepared by the Department of
Housing, Local Government and Heritage
gov.ie/housing

Contents


Caireal Mor, Headford Road, Co. Galway delivered by Respond

Executive Summary

Housing for All recognised that Approved Housing Bodies (AHBs) have been significant partners in social housing delivery in recent years, playing a key role in increasing the level of new social housing. Accordingly, AHBs have a central role, with a multi-annual focus on social and affordable housing delivery in Housing Delivery Action Plans. Across all local authority areas, under Housing for All, the AHB sector will be responsible for the delivery of an average 45% of total social housing delivery.

In order to deliver on these targets, increased funding is being made available to AHBs through increases in the budget available for the Capital Advance Leasing Facility (CALF) which, when combined with long-term Payment and Availability (P&A) funding, is the primary funding stream for the delivery of social housing. In order to assist the AHB sector in achieving these ambitious targets, Housing for All contains a specific commitment (4.10) to carry out a review of P&A-CALF funding. In this review, which commenced in December 2021, this Department has examined the structure and operation of the P&A-CALF funding model to assess whether any refinements to the facility are required to support delivery of social housing by the AHB sector across a wider range of Local Authority areas.

The backdrop to this is that certain housing authorities, mainly in the West and North West, find it very difficult to achieve viability under the current P&A-CALF funding model due to relatively lower rents in those areas. In our consultations on the Housing Delivery Action Plans, this also emerged as an issue in certain other Local Authorities who wish to expand their social housing footprint into smaller towns and villages. In addition, increases in both interest rates and construction inflation are now making it difficult to achieve viability for AHB projects in certain urban areas so a revised P&A-CALF funding model has to be capable of delivering social housing in all Local Authority areas.

Since the commencement of this review, the AHB sector has experienced an increasingly challenging external environment, arising from a combination of factors including the rapid rise in construction inflation, supply chain issues, two interest rate increases and labour shortages. The cumulative effect of these issues has created a very challenging environment for the delivery of social homes within the framework of the current P&A-CALF funding model.

Accordingly, the aim of this review is to deliver a funding model which can respond to these recent pressures and can be deployed to operate in all areas across the country and therefore giving both local authorities and the AHB sector a greater level of stability regarding the financial model and accordingly, the output of social housing.

The key objectives of the review are as follows:

1. Assess the extent to which delivery is impeded and identify the key factors that inhibit delivery. This will include consideration of factors related to the funding model and the underpinning policy for P&A-CALF funding.

2. Consider the options to address any limiting factors identified and the consequential impacts on the funding arrangements.

3. This will include a review of the current decision threshold and if any changes to the assessment model should be made to more closely align with the wider lending market approach.

4. Consider if there are any changes that should be made specifically to the P&A-CALF funding arrangement and what the impacts of any proposed changes will have for meeting the delivery targets in Housing for All and the availability of funding.

In terms of responding to the identified challenges with the P&A-CALF funding model, our main recommendation is that the combination of the initial P&A Agreement amount and CALF be established on the basis of the overall capital cost and to remove the limit on P&A funding which is currently linked to a percentage of market rent.

Graigue na hAbhainn, Graiguecullen, Laois delivered by Co-Operative Housing Ireland

Recommendations

1. It is recommended that the approach of limiting the initial Payment and Availability Agreement (P&A) amount to a percentage of local market rent be discontinued. The initial P&A amount will be calculated to achieve a debt-service cover ratio (DSCR) target that will provide sufficient borrowing capacity for the AHBs with a minimum level of 25% CALF funding.
2. An internal Departmental working group be established to explore the issue of gearing within the Approved Housing Body sector and recommend solutions.
3. It is recommended that options are explored in terms of the early repayment of the CALF loan, subject to agreement with the Housing Finance Agency.
4. It is recommended that the CALF Loan remains as a repayable loan and that specific operational procedures are developed and issued which guide the sector regarding its repayment at term end.
5. It is recommended that there is an explicit link between applications for financial support under P&A-CALF and the HDAP of a Local Authority.
6. It is recommended that the definition of when a project is considered to have delivered under P&A-CALF is revised. The proposed change is that a unit will be considered completed once the sale has taken place and the utility connections are in place.

St Canice’s Hall, Finglas, Dublin 11 delivered by Co-Operative Housing Ireland

Introduction

Background

Introduced on 24 June 2011, the Capital Advance Leasing Facility (CALF) is a loan facility which is exclusively available to Approved Housing Bodies (AHBs) to assist them in financing acquisition, construction or refurbishment projects that will deliver units to be made available for social housing. The funding model also provides ongoing funding through the Social Housing Current Expenditure Programme (SHCEP). The original intention and purpose of this funding mechanism was to provide funding for the development of social housing in urban centres where there was the greatest need.

The facility works by providing AHBs, where funding is approved, with a capital advance of up to 30% in the form of a loan, that will be made available by the Department of Housing, Local Government and Heritage (DHLGH) through Local Authorities. This loan facility is a contract debt between the local authority and the AHB. The facility is only available as part of a project where the AHB makes homes available under a P&A agreement[1] to nominees of the local authority for a set period of time. Repayments on the CALF loan are not required during the term of the P&A agreement but the amount, plus interest, will remain outstanding at the end of the loan agreement. The purpose of this to ensure that the capital advance can assist AHBs in securing all of the necessary finance to deliver homes and make projects more viable for AHBs to meet the lending conditions of the senior lenders.

The P&A CALF funding model has become one of the main funding mechanisms for the development of social housing by AHBs. The use of loan finance will continue to play an important role in ongoing delivery of housing and the continued availability of CALF funding is intended to support the delivery of the social housing targets set out in Housing for All.

[1] A payment and availability (P and A) agreement covers the conditions under which the properties will be made available for the term of the agreement. This is signed between the LA and AHB

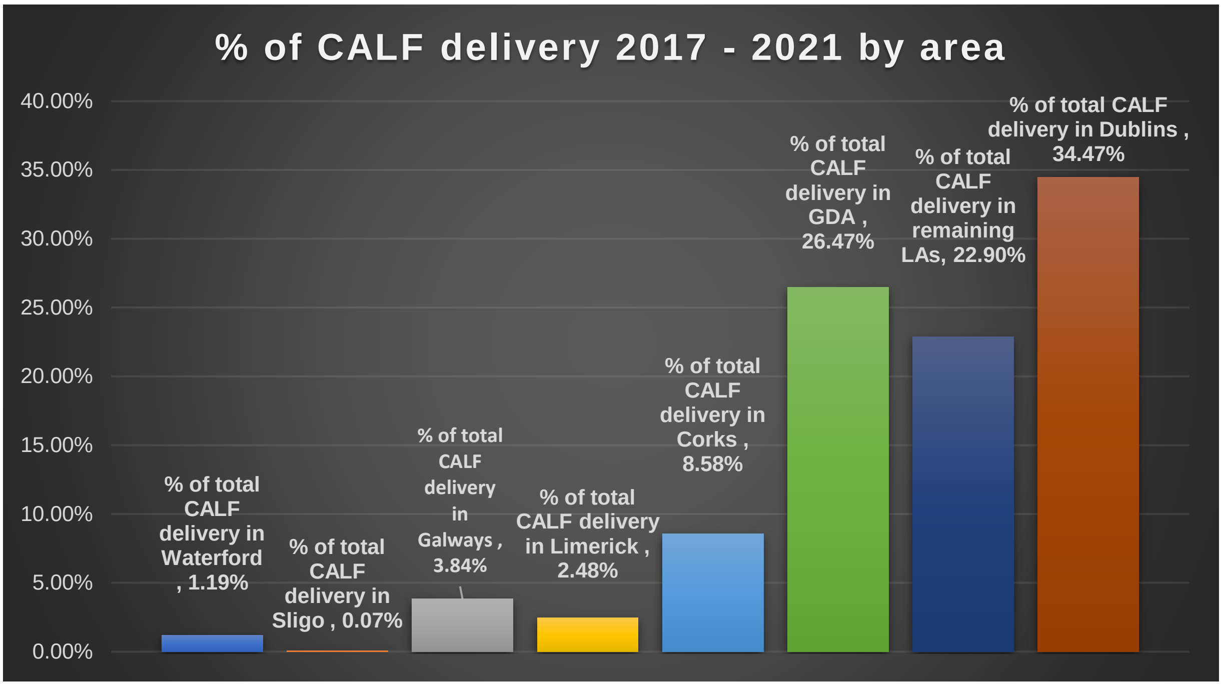
Delivery under P&A-CALF

Since 2011, Delivery under P&A-CALF has progressed year on year.

Table 1 Delivery under P&A-CALF by LA: 2017 – 2021

Local Authority	2017	2018	2019	2020	2021	Totals
Carlow	3	57	81	60	120	321
Cavan	0	11	8	12	22	53
Clare	47	33	52	41	24	197
Cork City	1*	139	220	165	42	578
Cork County	74*	30	62	212	25	392
DLR	18	41	82	44	139	324
Donegal	0	28	0	0	33	61
Dublin City	264	387	413	187	118	1369
Fingal	126	142	339	253	398	1258
Galway City	94	7	85	99	54	339
Galway County	31	10	0	26	28	95
Kerry	2	15	106	181	115	419
Kildare	108	135	262	139	302	946
Kilkenny	16	21	96	28	54	215
Laois	2	63	22	104	82	273
Leitrim	0	0	10	0	0	10
Limerick	21	36	10	66	147	280
Longford	7	0	0	0	0	7
Louth	105	156	321	61	234	888
Mayo	0	1	12	0	12	25
Meath	114	189	147	163	147	760
Monaghan	9	6	50	23	45	133
Offaly	0	30	9	2	28	69
Roscommon	0	37	16	0	0	53
Sligo	0	0	0	0	8	8
South Dublin	98	138	242	221	246	945
Tipperary	27	9	53	42	0	131
Waterford	0	0	40	69	26	135
Westmeath	8	0	8	51	71	138
Wexford	42	72	79	106	184	483
Wicklow	4	41	159	99	95	398
Totals	**1221**	**1834**	**2995**	**2454**	**2799**	**11,303**

*For info, a boundary change occurred in 2019 meaning 11 homes moved from Cork County to Cork City so Cork City homes goes from 1 to 12 and Cork County 74 to 63.



Ladyswell Square, Mulhuddart, Dublin 15 delivered by Clúid Housing

Table 2 **Percentage of Social Housing Delivery achieved by P&A-CALF from 2017 – 2021**

LA	Social Housing Delivery 2017 - 2021	P&A-CALF Delivery 2017 - 2021	% of overall social housing delivery achieved through P&A-CALF
Carlow	2,014	321	15.94%
Cavan	1,227	53	4.32%
Clare	2,891	197	6.81%
Cork City	6,072	578	9.52%
Cork County	7,412	392	5.29%
DLR	3,159	324	10.26%
Donegal	3,216	61	1.90%
Dublin City	20,871	1,369	6.56%
Fingal	8,113	1258	15.51%
Galway City	3,495	339	9.70%
Galway County	2,682	95	3.54%
Kerry	4,206	419	9.96%
Kildare	6,426	946	14.72%
Kilkenny	2,289	215	9.39%
Laois	2,330	273	11.72%
Leitrim	710	10	1.41%
Limerick	4,202	280	6.66%
Longford	1,240	7	0.56%
Louth	5,809	888	15.29%
Mayo	2,615	25	0.96%
Meath	5,302	760	14.33%
Monaghan	1,588	133	8.38%
Offaly	1,656	69	4.17%
Roscommon	1,281	53	4.14%
Sligo	1,566	8	0.51%
South Dublin	7,796	945	12.12%
Tipperary	3,962	131	3.31%
Waterford	4,675	135	2.89%
Westmeath	2,500	138	5.52%
Wexford	3,991	483	12.10%
Wicklow	3,697	398	10.77%
Total	**128,993**	**11,303**	**8.76%**

Maydenhayes Lawn, Donacarney, Co. Meath delivered by Clúid Housing

Housing for All

The Government's Housing plan to 2030, **'Housing for All - A New Housing Plan for Ireland'**, clearly outlines the governments overall objective that every citizen in the State should have access to good quality homes, to encompass the following;

- to purchase or rent at an affordable price
- built to a high standard and in the right place
- offering a high quality of life.

The government's vision for the housing system over the longer term is to achieve a steady supply of housing in the right locations with economic, social and environmental sustainability built into the system. It is estimated that Ireland will need an average of 33,000 new homes to be provided each year from 2021 to 2030.

The policy has four pathways to achieving its objectives:

- supporting home ownership and increasing affordability
- eradicating homelessness, increasing social housing delivery and supporting social inclusion
- increasing new housing supply
- addressing vacancy and efficient use of existing stock

The pathways contain actions to be taken by government departments, local authorities, State agencies and others. The pathways are supported by actions to enable a sustainable housing system.

New Dolphin Park, Rialto, Dublin 8 delivered by Fold Housing

Housing Delivery Action Plans and the Role of Approved Housing Bodies

Approved Housing Bodies operating in co-operation with and with the support of Local Authorities and for the specific purpose of providing social housing. They are not for profit organisations that are in the business of social housing provision which is outlined in their specific charters.

Under Housing for All, Local Authorities have produced a Housing Delivery Action Plan (HDAP) where they have set out how they will deliver on their social and affordable housing targets. Within each HDAP a set percentage of social housing output is to be delivered by the Approved Housing Body sector. The majority of Local Authorities have a 40% AHB delivery target with Dublin and Cork having a 50% target for AHB delivery. In carrying out this exercise, it has been established that there is a shortfall in what the Local Authority sector had envisaged for AHB delivery. This reflects some of the difficulties which certain Local Authorities have experienced under the current P&A-CALF model due to the low rent values not being able to support AHB projects and increases in both construction inflation and interest rates.

The strategic direction of Housing for All is clear that the Approved Housing Body sector is an integral part of the advancement of social housing delivery.

All funding provided to Approved Housing Bodies (AHBs) to support social housing is made available by the Department through Local Authorities who, as the statutory housing authorities, are the decision makers in relation to the suitability of a proposed social housing project. Local authorities are required to confirm that any social housing project, including those by AHBs, reflect housing need in the area in which it is proposed, that the properties comply with regulatory requirements and that the objectives of creating and maintaining sustainable communities are met.

Woodstown, Enniskerry Road, Stepaside delivered by Tuath Housing and Respond

Baunacloka Heights, Mungret, Co. Limerick delivered by Co-Operative Housing Ireland

Current P&A-CALF Funding Model

When first introduced in 2011, the policy intention that underpinned P&A-CALF funding is that it would be focussed primarily on the higher demand areas, most notably urban areas.

Applications for P&A-CALF funding are made by AHBs directly to the Department and normally consist of a completed LN008b application form and a financial model showing the capital cost, income and operational costs projected over the P&A term sought. For construction projects, a detailed construction estimate or a tender cost report are required, depending on whether the application is pre-or post-tender.

The Department forwards a copy of the application to the Housing Agency to review the financial aspects of the proposed project against an agreed set of assumptions and make a recommendation as to the appropriate level of P&A/CALF funding.

In their financial analysis, AHBs try to predict cost and income inflation over the P&A term requested which can be up to 30 years. For example, P&A payments are generally predicted to rise every year but the increase is applied every four years. Current agreements base P&A payment changes on the Harmonised Indices of Consumer Prices (HICP).

The maximum amount of CALF funding that the Department provides is 30% of the eligible Capital cost and the maximum initial P&A payment is 92% of the relevant local market rent, or 95% in the case of apartments where the 92%/30% combination indicates viability issues.

Coolroe, Ballincollig, Co. Cork delivered by Respond

For the P&A-CALF funding assessment, the Department has set a Debt Service Coverage Ratio (DSCR) as its decision metric. This is a measure of the projected annual surplus cash flow available to pay current debt obligations after operational costs have been paid. The DSCR is set so that it provides a measure of risk coverage to an AHB. The purpose of the assessment is only to determine the appropriate level of funding that the Department is willing to provide and it is not a viability assessment of a project. Viability assessment of any proposed project is a matter for each AHB.

The Housing Agency validates the eligible capital costs and assesses the funding requirements using its standard assessment model. This can involve some interaction with the AHB to confirm some details and, once completed, a recommendation is sent to the Department.

Therefore, in areas of the country where market rents are relatively lower, the maximum P&A amount was insufficient to generate enough income to allow the AHB borrow sufficient funds from the HFA or another lender and would indicate potential cash-flow deficits in certain years. This is what makes projects potentially unviable for an AHB.

Table 3 Example of an Unviable P&A-CALF Project

Notional project under P&A-CALF

	2 bed Apt.	**3 bed Apt.**
Monthly Market Rent	€850	€1,000
Acquisition Cost	€235,000	€285,000

This project would be approved for 30% CALF and 92% P&A. However, the DSCR level in the assessment is 93.95% which is too low to achieve a sufficient loan amount offer from a lender. In addition, there is a projected deficit of approximately €1.22m in the model after the CALF loan is repaid at the end of the P&A term. Given the projected deficit in this example, this project is likely to be considered unviable for an AHB concerned and therefore not proceed.

For AHBs, the viability of any project is a function of the loan costs, operational costs and income that can be generated from providing rental housing to tenants nominated by the Local Authority. This is a cost-based approach where the P&A funding is the primary source of income for AHBs. It is a payment that is made to the AHB each month for a term of up to 30 years. The maximum P&A amount available per home is capped at 92% of the market rent for comparable homes in the area. This amount is set at the start of the P&A agreement term and is reviewed typically every four years by reference to an inflation index and not the prevailing market rent.

The maximum P&A amount may be set at up to 95% for apartments which are subject to a management company service charge where there are viability issues with 30% CALF and 92% P&A.

The P&A income is assessed by the HFA and other funders when considering the loan amount that will be offered to AHBs as this is the primary indicator of the AHB's capacity to repay a loan. The lender examines the projected surplus income, which is the income available after the AHB has paid its operational costs.

The lender uses this as one of the key factors to determine the level of loan that it believes could likely be repaid by the project income.

Another key consideration is the loan to value ratio (LTV) that the lender is willing to provide. Typically, AHBs have been managing to achieve LTVs in excess of 80% with some evidence that 100% LTV has been achieved on projects with strong income metrics, although these are mainly funded by the HFA[2]. The CALF loan is used by AHBs to bridge the LTV gap. AHBs can seek approval from the Department for a CALF loan of up to 30% of the eligible capital cost which reduces the amount that the AHB needs to borrow from the HFA or another funder, thus addressing the lender's LTV restrictions.

The actual P&A and CALF amounts approved are determined by an assessment carried out by the Housing Agency using an agreed financial model with the decision based on a Debt Service Cover Ratio (DSCR) threshold. Where maximum P&A and CALF funding is not required the AHB can currently request an appropriate reduction in either the P&A or CALF amounts.

Table 4 Delivery under P&A-CALF 2017 - 2021

Year	P&A_CALF Delivery (Build, Part V and Acquisition)	P&A_CALF Delivery (Annual spend in €m)
2017	1,221	€55,679,402
2018	1,834	€120,883,086
2019	2,995	€150,621,085
2020	2,454	€190,703,193
2021	2,799	€238,044,097
Totals	**11,303**	**€755,930,864**

[2] The valuation used by the HFA is an EUV-SH valuation.

Table 5 P&A-CALF 2017 – 2021 Breakdown of spend between LPT and Exchequer

Year	2017	2018	2019	2020	2021
Exchequer	€49,841,060	€118,699,086	€139,399,077	€158,799,402	€220,350,000
LPT	€5,836,325	€2,181,981	€11,219,989	€31,901,771	€17,692,076
Total	**€55,679,402**	**€120,883,086**	**€150,621,085**	**€190,703,193**	**€238,044,097**

Johnstown Place, Cabinteely, Co. Dublin delivered by Clúid Housing

Examining the Options

Stakeholder Engagement

In December 2021, the Department of Housing, Local Government and Heritage invited submissions from the relevant stakeholders with respect to Action 4.10 under Housing for All, and invited further suggestions that could be made in respect of the P&A-CALF funding model. These submissions were made to the Housing Agency and subsequently reviewed by them and the DHLGH. A full list of the organisations that made submissions is attached at Appendix 1.

As key stakeholders, the Approved Housing Bodies via their representative bodies – ICSH[3], Housing Alliance[4] and Co-Operative Housing Ireland – were invited to make submissions, along with the Local Authority sector via the CCMA[5] (County and City Management Association).

The Housing Finance Agency[6], as the main lender into the AHB sector for social housing provision, was also invited to make a submission. In addition to this, a number of the larger Approved Housing Bodies also prepared made submissions for consideration, outside of their representative bodies.

Broadly speaking the submissions submitted can be divided into the following categories for consideration under this review:

- CALF Funding;
- Link to Market Rent and P&A;
- Increased Costs and Accelerated CALF;
- Application Process and Funding Drawdown;
- Operational Costs;
- Start-Up and Technical Costs;
- Other

[3] The Irish Council for Social Housing (ICSH) is the national social housing federation representing over 270 Approved Housing Bodies across Ireland.
[4] The Housing Alliance is a recently formed representative group comprised of Circle, Cooperative Housing Ireland, Clúid, Oaklee, Respond and Tuath.
[5] The County and City Management Association (CCMA) is the main representative body for local government management.
[6] The Housing Finance Agency (HFA) is a State-owned company that provides loan finance to local authorities and AHBs for housing and related purposes.

In addition to the submissions, DHLGH also met with the Housing Agency, representatives of the ICSH, Housing Alliance, certain Local Authorities and the Housing Finance Agency throughout 2022, with these meetings intensifying in Q3 and Q4 in recognition of the importance of progressing this action.

Table 6 Options Considered to improve Viability of P&A-CALF

	Option	Analysis
Option 1	Increase CALF loan amount beyond the existing 30% of Capital Funding	An increase in CALF beyond 30% will have three effects • increase gearing in the AHB • increase the amount to be paid back by the AHB • in certain cases create a deficit at the end of the P&A agreement term
Option 2	Increase the P&A Payment	This can be achieved by breaking the link to market rent which could ensure the model would work in all local authority areas.
Option 3	Provide the CALF loan as a grant	Aside from the significant increased costs to the State (circa €300m pa) this would not actually increase the borrowing capacity of the AHB since this is linked to the income from the property and not whether CALF is a loan or a grant. Increasing the CALF amount above 30% and providing it as a grant would lead to a significant surplus being delivered to the AHB sector.
Option 4	Reduce the CALF interest rate	If the CALF interest rate was reduced for existing projects, it would improve the projected surplus for an AHB at the end of the P&A term but would not increase the borrowing capacity for projects so would have no impact on viability.

Option 1 – Increase the Calf Loan Amount beyond the Existing 30% of Capital Funding

Consideration was given to increasing the CALF loan so that the balance of the loan funding required could be borrowed based on the P&A funding available. In the analysis for the example at Table 2 above, a CALF loan of 40% of the capital cost is required to achieve the assessment threshold DSCR level of 110%.

However, increasing the CALF loan will increase the amount that must be repaid by the AHB at the end of the P&A term. While the example above will achieve the DSCR threshold, it is projected to result in a deficit of €1.267m for the AHB after the CALF loan plus interest has been repaid.

Since lenders require surplus income to be demonstrated in a project as risk cover for their loans, that surplus income is paid by way of the P&A income and it is the surplus P&A income remaining at the end of the P&A term that is used to repay the CALF loan.

The issue with a deficit at the end of the P&A term is that the AHB will not have sufficient income from the properties to fund a loan repayment if it was to borrow to repay the outstanding of the CALF loan. It maybe that the AHB would need a new P&A agreement at that stage that would provide sufficient funding so that it could borrow a sufficient amount to repay the CALF loan deficit. In effect, the State would be transferring additional funding to the AHB to repay a loan owed to the State.

For this reason, increasing the CALF funding, beyond 30% of the overall capital funding, is not being recommended.

Barraduff, Killarney, Co. Kerry delivered by Co-Operative Housing Ireland

Option 2 – Increase the P&A Payment

The second consideration examined is to increase the level of P&A funding available on a project. This can be achieved by allowing either a higher percentage of the prevailing market rate or by removing the link to market rent and calculating the precise P&A amount required to achieve the assessment threshold DSCR.

As set out in the notional example at Table 2 above, 30% CALF and P&A payments of €892 and €1,050 per month for the one and two bed apartments respectively achieves a DSCR of 110%. These amounts are equivalent to 105% of the market rents.

However, the funding assessment model still indicates a projected deficit of €344,272 after the repayment of the CALF loan plus interest. This is not currently considered as part of the funding assessment but would likely cause concern for an AHB and they project would likely not proceed.

In order to eliminate the potential for a deficit after repaying the CALF loan plus interest, an initial P&A amount equivalent to 110% of the market rents would be required to achieve a projected break-even position at the end of the P&A term.

In this scenario, consideration was given to simply use an unrestricted cost-based funding approach to determine the level of P&A funding required rather than referring to the existing link with market rents.

The advantage of this approach would be that AHBs could deliver housing in any Local Authority where a need exists using the CALF funding model. The key decision is establishing that a sufficient need exists and that would need to be linked to the Local Authority's Housing Delivery Action Plan.

The risks associated with an unlimited P&A funding source are:

1. AHBs could, in theory, seek 0% CALF and a much higher P&A payment.
    - While this would eliminate the need for CALF funding, the P&A funding stream would likely increase significantly.
    - However, the AHB may need to seek a level of CALF loan to meet the main lender's LTV restrictions.
2. Impact on the Current Funding Budget.
    - If the AHBs sought the minimum CALF amount needed and were able to eliminate the need for CALF in some projects, there would be a resulting increase in the current funding spending on P&A payments.
    - If there was no CALF loan repayment at the end, the AHB would retain all surplus income generated and this approach would potentially encourage AHBs to reduce CALF to a minimum in all cases.

3. Demand Risk

   - While demand risk might be an issue for the AHB, it is important that local authorities are satisfied that there is a sufficiently strong demand in the low rent areas to reduce the instance of vacancy or slow turnover times.
   - Also, these should be additional requirements on the local authority to provide evidence of need which directly relate to their Housing Deliver Action Plans before CALF funding would be approved.

For the above reasons listed it is not recommended to increase the P&A availability figure in an unlimited way without limitations. Accordingly, limiting the initial P&A amount to a percentage of local market rent will be discontinued and a two-factor approach is recommended. This will involve the following;

- Set the P&A income to an initial amount that will achieve a DSCR that will enable the AHB to secure a sufficient loan amount. The DSCR will allow a level of headroom where other issues that might inhibit the loan capacity arise.

- Set the minimum CALF loan to 25% of the eligible capital cost with the option for amounts of up to 30% to be approved to counteract the risks outlined previously of an unlimited P&A model.

Bellingsmore, Hollywoodrath, Dublin 15 delivered by Tuath Housing

Option 3 –Provide the CALF Loan as a Grant

The Department considered if the availability of CALF as a grant would improve the viability of projects in lower rent areas. In fact, the way in which CALF funding is provided has no impact on the level of P&A payment required. This is because the amount of funding the AHB needs to borrow from the HFA or other lender has not changed and the lender will still seek sufficient debt service cover from the P&A income.

If CALF was provided as a grant and the level of P&A funding was increased to achieve the DSCR target, there would potentially be a significant surplus accrued by the AHB by the end of the P&A term. In the example in Table 3 above, the project with 105% of market rent, this would amount to approximately €1.652m. Again, the surplus will effectively be provided by the Department to the AHB in the form of P&A payments over the term of the agreement.

While this approach may provide AHBs with significant reserves over time and may eliminate the need for CALF funding, additional controls and assurances would be required as to how these surplus funds can be used. In effect, the State would be transferring additional funding to AHBs to potentially be retained until a point in the future when CALF funding is no longer available.

This is apparent from the example shown in option 2 above where the level of P&A would need to exceed to current market rent to achieve the target DSCR. So, on its own, converting the CALF loan to a grant would not appear viable for the AHB and it would still require the more than 92% of the market rent.

The decision on whether CALF is paid a loan or a grant is more relevant to the conversation around the capacity of the AHBs to borrow. If AHBs continue to use 100% debt funding to finance housing projects, it will continue to impact on their gearing ratios. The issue of converting CALF loan to a grant does not solve the immediate challenge for AHBs in low rent areas, or any other areas of social housing delivery.

Therefore, it is not recommended that the CALF Loan is converted to a grant going forward or retrospectively.

Option 4 - Reduce the CALF Interest Rate

Similar to consideration 2 above, changes to the CALF loan interest rate will not address the challenge for AHBs in low rent areas.

The current CALF interest rate is charged at 2% simple interest on the original capital amount advanced. For a CALF loan of €1,000,000 over a 30-year term, the interest charged each year would be €20,000 with a total repayment due at the end of €1,000,000 + (€20,000 x 30) = €1,600,000.

The repayment of CALF is made from surpluses accumulated over the term of the P&A agreement from the P&A payment. For many projects, the projected surplus at the end is more than sufficient to repay the CALF loan plus interest. However, there are projects where the projected surplus at the end of the term is insufficient to repay the CALF loan plus interest. This may be managed by AHBs who have many P&A agreements, some of which generate more significant surpluses as they chose lower percentages or 0% CALF.

If the CALF loan interest rate was to be changed for existing projects, it will improve the projected surplus available to AHBs at the end of the P&A term.

Carrs Lane, Malahide, Co. Dublin delivered by Respond


Bishop's Avenue, Cork City delivered by Tuath Housing

Recommendation 1

It is recommended that the initial Payment and Availability (P&A) amount be established on a cost basis and to discontinue the existing linkage to a percentage of market rent.

The recommendation to provide an initial P&A amount which is not linked to a percentage of market rent has certain risk factors associated with it. Careful consideration of removing the link to market rent was necessary as there are potential implications for a number of areas, including the extent to which a risk of insufficient finance at the end of the P&A term may arise.

In order to mitigate the risks, the Department has considered that a DSCR of, where it is deemed to be necessary, up to 1.2 will require AHBs to maintain cost controls while also providing a level of risk cover to mitigate viability issues faced by AHBs. In addition to this, the minimum CALF percentage for each project will be set at 25% with the option for amounts of up to 30% CALF to be approved.

Impact of Removing Link with Market Rent

The removal of the existing link with market rent will allow Approved Housing Bodies to determine an initial level of Payment and Availability income which will address the viability concerns of a project. It is important to note at this point that a Payment and Availability payment is different to a lease payment. To that end, the removal of the link to market rent, will in effect have no bearing on the private market sector. Payment and Availability amounts will be calculated at a level that are sufficient to meet lenders requirements. While the tenancy will be registered with the Residential Tenancy Board, the level of Payment and Availability agreed is not published and will not influence the level of prevailing market rents.

Requirement for a DSCR Limit

As market rent will no longer be a limiting factor on the P&A amount it is deemed essential that cost control and oversight is maintained from a value for money perspective. To that end, the Department considers that a debt-service cover ratio (DSCR) of, where it is deemed to be necessary, up to a maximum of 1.2 would be an appropriate level for implementation.

This revised approach will ensure that any further construction inflationary and interest rate changes can be accommodated within the P&A-CALF Funding model without compromising viability. It is also envisaged that this revised approach will provide the AHB sector with a level of confidence that social housing construction projects will be adequately financed and viable in all local authority areas.

Impact of setting a minimum floor of 25% CALF funding

Currently, AHBs are free to request the percentage of CALF required although the final decision in this respect rests with the Department upon recommendation from the Housing Agency, who carry out the financial assessment.

Removing the P&A income limit could enable projects to deliver without any CALF funding but significantly increase the level of demand for P&A funding with the consequential effects on the current budget. Lower CALF amounts tend to result in larger surpluses projected to accumulate to the AHB over and above what is considered appropriate from a risk cover perspective.

Recommendation 2

It is recommended that an internal Departmental working group be established to explore the issue of gearing within the Approved Housing Body sector and recommend solutions.

From ongoing engagement with the AHB sector and from those submissions received in the course of this review, and from the Savills report commissioned by the Housing Alliance, it is clear that the level of gearing with individual AHBs is a serious issue of concern. While it is acknowledged that CALF borrowings directly impact the level of gearing, it is felt that this particular topic has wider policy implications than solely confined to the P&A-CALF Funding model and accordingly, this issue should be considered in the wider context of AHB policy. Therefore, it is recommended that a working group, be established to explore the issue of gearing for the AHB sector and to recommend possible approaches and solutions.

Jackson's Hill, Tullamore, Co. Offaly delivered by Clúid Housing

Recommendation 3

It is recommended that the CALF Loan remains as a repayable loan and that specific operational procedures are developed and issued which guide the sector regarding its repayment at the end of the loan term.

The Department received a number of submissions which raised the issue of CALF loan versus CALF as a grant. In summary the majority of submissions received requested to

- Convert future CALF loans to a non-repayable grant;
- Convert existing and future CALF loans to a non-repayable grant.

In order to consider the financial impact of these requests, it was necessary to consider the level of funding that has been provided to date under the CALF funding model. In excess of €890m has been administered across 33 Approved Housing Bodies, in the form of a CALF loan since its inception. It should be noted that almost 84% of this funding has been approved for four Approved Housing Bodies. In excess of €250m has been committed, year on year to 2026, under Housing for All.

This in essence means that an additional €1bn will be administered into the Approved Housing Bodies in the form of CALF loans.

Loughlion Green, Kildare delivered by Co-Operative Housing Ireland

As outlined earlier, the decision on whether CALF is paid as a loan or a grant is more relevant to the conversation around the capacity of the AHBs to borrow. If AHBs continue to use 100% debt funding to finance housing projects, it will continue to impact on their gearing ratios.
The issue of converting the CALF loan to a grant does not solve the immediate challenge for AHBs in low rent areas, or any other areas of social housing delivery.

The scale of funding administered to date under the CALF funding stream is nearing €1bn with another €1bn to be allocated up to 2026. Were this to transition from a loan to a grant, the State would be allocating approximately €2bn to the AHB sector, as well as the sector benefitting from a significant level of surplus over the lifetime of the loans from P&A payments.

It is therefore recommended that CALF is not converted to a grant on the basis of the cost to the State.

Upon receipt of submissions under this CALF, and in terms of the wider interaction with the sector, it has become evident that the lack of specific operational procedures in relation to the repayment of CALF, have assisted to give an impression that the AHB sector will somehow not be asked or called upon to repay the CALF loan at the end of its term.

Therefore, in order to give clear guidance to the sector and clarify the position, it is recommended that written operational procedures are published which give specific guidance and instructions to set out the procedure regarding the AHB sector to repay CALF loans. This will need to be very carefully co-ordinated with AHBs, the Local Authority sector and the Department of Public Expenditure and Reform.

Finnstown, Lucan, Co. Dublin delivered by Respond

Recommendation 4

It is recommended that options are explored in terms of the early repayment of the CALF loan, subject to agreement with the Housing Finance Agency

Prior to initial application under the P&A-CALF scheme the Department has a number of key criteria in order for an AHB to be eligible for CALF funding. One such criteria is the ability of the AHB to finance the project.

- The AHB must be able to demonstrate access to private finance either by being approved for lending from the HFA or from another financial institution(s) or investors.
- The continued availability of P&A and CALF funding is entirely dependent on AHBs having access to loan finance to deliver on the targets set out under current and future housing strategies.

The HFA currently provides the majority of the loan funding to AHBs and, therefore, plays a critical role in the delivery of housing by the sector. AHBs are supported to engage with private lenders, however the extent of this engagement, while growing, is limited. The cost of finance is typically in excess of what the HFA can provide and requires additional funding from the State to meet more stringent loan covenants.

At the inception of the P&A-CALF funding model, it was necessary to structure the arrangements in a certain way to ensure the viability of social housing developments. However, acknowledging the current level of maturity of this funding model, the position of the sector in the context of the level of development needed under Housing for All and the possible wish of the State to recycle its funding at an earlier point, it is now appropriate that we consider whether it is possible to restructure the current arrangements to allow for the earlier repayment of the CALF loan. An earlier repayment of the CALF loan will also assist those AHBs which are having difficulties with high gearing levels. It is acknowledged that in view of the conditions within the HFA master loan agreements that engagement and agreement will be required with the HFA when considering eventual options.

Recommendation 5.

It is recommended that there is an explicit link between applications for financial support under P&A-CALF and the HDAP of a Local Authority.

Recommendation 6.

It is recommended that the definition of when a project is considered to have delivered under P&A-CALF is revised. The proposed change is that a unit will be considered completed once the sale has taken place and the utility connections are in place.

Lakeview, Carrickmacross Co. Monaghan delivered by North and East Housing Association

Appendix A – List of Stakeholder Submissions

The CCMA (County and City Management Association)

CHI (Cooperative Housing Ireland)

Clúid Housing

The HFA (Housing Finance Agency)

The Housing Alliance

The ICSH (Irish Council for Social Housing)

Scarlet Street, Tooting Meadows, Drogheda delivered by NEHA gov.ie/housing

The Department of
Housing, Local Government and Heritage

Rialtas na hÉireann
Government of Ireland