

# **Indecon's Assessment of the Feasibility of a Tenancy Deposit Protection Scheme in Ireland**

## **Indecon Review**

Submitted to

**The Department of the  
Environment, Community and  
Local Government/Housing  
Agency and the PRTB**

Prepared by

**Indecon International Economic  
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**Indecon**

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8<sup>th</sup> November 2012

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## **Glossary of Terms and Abbreviations**

ADR	Alternative Dispute Resolution. A system of dispute resolution offered by a deposit protection scheme operator.
Appraisal	The ex-ante analysis of a proposed investment project to determine its merits and acceptability in accordance with established decision making criteria.
BCR	Benefit-Cost Ratio. This measures the ratio of the present value of the benefits of a programme to the present value of the costs of operating this programme over a defined period.
CBA	Cost-Benefit Analysis. This technique enables comparison of the costs and benefits of a project or programme over a defined time period.
CSO	Central Statistics Office, Ireland.
DECLG	Department of the Environment, Community and Local Government.
Discount Rate	The Rate at which future values are discounted to the present.
ENPV	Economic Net Present Value. This measures the difference between the economic present value of the benefits of a programme and the economic present value of the costs of operating this programme over a defined period.
Feasibility Study	A study of a proposed project to indicate whether the proposal is attractive enough to justify more detailed preparation.
FNPV	Financial Net Present Value. This measures the difference between the financial present value of the benefits of a programme and the financial present value of the costs of operating this programme over a defined period.
MCA	Multi Criteria Analysis. A Multi-Criteria Analysis is a technique which enables scoring or assessment of alternative options using multiple criteria.
PRTB	The Private Residential Tenancies Board (PRTB) is an organisation set up by the Government of Ireland. Its main role is to provide a dispute resolution service for landlords and tenants. The PRTB is also responsible for tenancy registration and from September 2004 all landlords must register new tenancies with the board.

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## Executive Summary

### Introduction and Background

The review is submitted to the Department of Environment, Community and Local Government, the Housing Agency and the PRTB by Indecon International Economic Consultants. The review represents an independent financial and economic assessment of the feasibility of introducing a tenancy deposit protection scheme in Ireland.

The background to this assessment is that the Private Residential Tenancies Board (PRTB) was established in September 2004 and one of its key roles is to resolve disputes between landlords and tenants. The dispute resolution service it provides replaces the courts in relation to the majority of landlord and tenant disputes. The current Programme for Government includes a commitment to “*establish a tenancy deposit protection scheme to put an end to disputes regarding the return of deposits*”.<sup>1</sup> Indecon was commissioned by the Housing Agency to undertake this study with the objective of assessing the feasibility of introducing a deposit protection scheme which is to be linked to the current registration process. This assessment addresses a number of specific aspects, as follows:

- What type of scheme should be introduced in Ireland – security or insurance based?
- Who should manage and operate such a scheme – PRTB other statutory body or private company – and what are the advantages and disadvantages of possible approaches?
- How would such a scheme work in practice?
- What are the full costs associated with operating such a scheme, - to include staffing costs, legal costs, case processing costs, compliance costs, ICT costs?
- Would such a scheme be self-financing and, if so, over what time period? If not, what set of circumstances would be required to make it so?
- Will such a scheme eliminate disputes involving deposits?
- What is the estimated deposit fund from tenancies and what is the estimated income from such a fund, under high, medium and low interest scenarios?
- What number of staff would be required to operate such a scheme?
- What ICT structure and associated costs would be required to support such a scheme and how would this fit with the existing PRTB’s ICT infrastructure?
- Would the introduction of such a scheme require any other changes to legislation (for example to the Residential Tenancies Act) or to how the PRTB currently operates to make a Deposit Scheme viable?
- How might such a scheme be linked with existing regulation of the sector?
- How will such a Scheme address non-compliant landlords? Are any avoidance mechanisms likely to emerge and, if so, how can they be addressed?

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<sup>1</sup> Programme for Government, February 2011, Page 16.

## Context for a Deposit Protection Scheme

Before considering the potential approaches and financial and economic merits to introducing a deposit protection scheme in Ireland, it is important to understand the context in relation to the features of the Irish housing and private rented sector, and the nature of the challenge facing policymakers, in terms of the extent of tenancy deposit-related disputes. The review of the context for a deposit protection scheme indicates the following main observations:

- ❑ There have been significant increases over the last number of years in the number of private households and the share of private rented dwellings as a proportion of households in Ireland. This is especially evident with regard to the number of rented dwellings which has nearly doubled since 2002.
- ❑ Indecon considered the implications for the feasibility of any scheme if the share of the private rented sector as a percentage of total households remains at 18.5%. On this basis, our estimate suggests that by 2021 there will be 353,702 privately rented dwellings in Ireland. However, we also consider alternative scenarios around the share.
- ❑ For the purposes of this analysis, we assume that a deposit in the private rented sector equals one month's rent. Indecon's estimated weighted national average monthly deposit is of the order of €749.
- ❑ A key aspect in the context for a deposit protection scheme in Ireland is the extent to which tenants deposits are being unfairly retained by landlords. 0.31% of tenancies result in disputes concerning deposit retention coming to the PRTB.
- ❑ In 2011, determinations of the PRTB concluded that full refunds to the tenant were appropriate in 45% of disputes. If one combines the proportion of deposit-related disputes in which tenants were deemed to be partially or fully entitled to the return of their deposits, with the number of deposit-related disputes (803 in 2011), this suggests that in 626 cases tenants were entitled to return of deposits by landlords. This is a very small percentage of tenancies although this is likely to underestimate the overall levels as additional disputes may be handled by Threshold or by other agencies or not reported.

## Options for a Deposit Protection Scheme

This study identifies and evaluates a range of options, in terms of alternative approaches which could be pursued in introducing a scheme in Ireland.

Broadly, there are two principal alternative approaches to tenancy deposit protection, in terms of the types of formal, State regulated schemes that can be operated, namely:

- ❑ Custodial deposit protection scheme;
- ❑ Insurance-based deposit protection scheme.

In considering potential approaches to introducing and operating a tenancy deposit protection scheme in Ireland, among the key aspects that require consideration are as follows:

- ❑ The type of scheme: in terms of whether it would be structured along a custodial or insurance-based model;
- ❑ Management and operation of scheme: should a scheme be operated by a public body or a private company/organisation? What elements of a scheme could be outsourced versus managed and operated by a public body (e.g. scheme administration, dispute resolution, compliance enforcement)?
- ❑ Dispute resolution process: how should deposit-related disputes be resolved? Should this be undertaken using the existing PRTB dispute resolution system or an alternative dispute resolution framework (which may or may not require legislative change)?
- ❑ Enforcement: how should enforcement of compliance with scheme regulation be undertaken, and who should handle enforcement (public or private operator)?

While there is likely to be a wide range of possible variations on scheme approaches, for the purposes of this assessment Indecon has identified a set of eight alternative scheme options, which capture the key factors highlighted above and reflect the particular features of the context in Ireland. These options, which include four variants of a custodial deposit protection scheme and four alternative approaches for an insurance-based scheme, are summarised in the table below.

Description of Options for Evaluation	
Option	Summary Description
Custodial DPS Option 1	Custodial Deposit Protection Scheme in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Custodial DPS Option 2	Custodial DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Custodial DPS Option 3	Custodial DPS Scheme Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Custodial DPS Option 4	Custodial Option 3, with changes in Dispute Procedures and Lower Dispute Resolution Costs
Insurance DPS Option 1	Insurance-based DPS in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Insurance DPS Option 2	Insurance-based DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Insurance DPS Option 3	Insurance-based DPS Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Insurance DPS Option 4	Insurance Option 3, with changes in Disputes Procedures and Lower Dispute Resolution Costs
<b>Source: Indecon</b>	

The eight formal options examined involve variants on the application of the following broad models in relation to the type of scheme:

- ❑ Custodial deposit protection scheme: where tenancy deposits are transferred to a scheme, and these deposits form part of deposit pool, which in turn generates income to support the operation of the scheme through interest earned on this deposit pool. The deposit is returned by the scheme to the tenant at the end of the tenancy, unless there is a dispute, in which case the dispute is adjudicated and the adjudicated portion of the deposit is repaid to the tenant or paid to the landlord;
  
- ❑ Insurance-based deposit protection scheme: under which landlords (or agents) become members of a scheme and pay a membership fee plus a protection fee for each deposit registered/protected. If there is no dispute, the landlord/agent repays the deposit to the tenant at the end of the tenancy. If a dispute arises which the tenant and landlord/agent cannot resolve on their own, they can refer the dispute to the scheme, which then adjudicates on the dispute. The landlord/agent is required to lodge the disputed deposit with the scheme until the dispute is resolved. The adjudicated portion of the deposit is then repaid to the tenant.

Indecon has completed a detailed financial and economic appraisal of four variants around the above types of scheme, which each involve different approaches to management and operation of a scheme. In particular, we have examined options involving the management and operation of a scheme by PRTB or the outsourcing of some or all components of a scheme to an external provider.

In addition to the options involving formal schemes, there may be other potential policy initiatives to increase protection for tenants. One option would be for the Government to set up a fund which would be used to return deposits to tenants in cases where it was deemed that they were entitled to their deposits but where landlords had failed to comply with enforcement orders from the PRTB. This is considered further in our conclusions.

## Conclusions

A summary of Indecon's conclusions are presented in the table below.

Summary of Conclusions
1. If a formal deposit protection scheme was to be introduced, the best option would be a custodial scheme whereby the management and administration would be undertaken by a private sector provider.
2. A scheme would not be financially viable without Government subsidies or significant legislative changes in order to reduce deposit resolution costs.
3. A custodial scheme involving legislative changes and outsourcing would be likely to achieve financial viability.
4. Introducing a scheme would not be costless for society but appropriately structured with changed legislation could have marginal net benefits.
5. A deposit retention scheme would not eliminate disputes involving deposits but would increase tenant protection and have other benefits.
6. A scheme would need to be linked into existing PRTB registration system.
7. To be financially viable, in addition to changes in legislation, measures would be required to address non-compliant landlords.
8. There are likely to be significant economies of scale for an existing service provider in managing a scheme.
9. There are significant financial risks in any scheme and it would be essential to ensure these risks are borne by any provider and not by the exchequer.
10. Given the scale of the Irish market, it may be necessary to have only one or two scheme providers, although this is not ideal.
11. If a scheme is implemented, there are two options for Government: one to await introduction of legislation to reform resolution process or, two, to provide an exchequer subsidy to meet any shortfalls.
12. An alternative approach to enhance tenant protection would be to provide a fund to ensure tenants are not left at loss if landlords fail to comply with enforcements orders.

The key conclusions are discussed below:

1. If a formal tenancy deposit protection scheme was to be introduced, our analysis suggests the best option would be a custodial scheme. There would, in such a scenario, be benefits of the PRTB or some other statutory agency, tendering the management and administration of the scheme to a private service provider in order to minimise costs and to take account of economies of scale.
2. There would be significant costs involved in operating such a scheme including staffing costs, legal costs, case processing costs, compliance costs and ICT costs. While a scheme would generate income through the use of the deposits received, our analysis suggests it would not be financially viable without Government subsidies or significant legislative changes in order to reduce dispute resolution costs.
3. Our appraisal indicates that a custodial deposit protection scheme involving legislative change to enable a streamlined lower cost dispute resolution as per the UK and involving outsourcing of administration, dispute resolution and enforcement, would be likely to achieve financial viability. However, in the absence of radical reform of the dispute resolution framework and associated legislative change, a scheme would not be financially viable.
4. Introducing a deposit protection scheme would increase opportunity costs for landlords which would ultimately be reflected in rents and so it would be a mistake to see this as a costless policy option. However, appropriately structured with legislative changes on dispute resolution process, such a scheme could on balance have a marginally positive net benefit.
5. A deposit retention scheme would not eliminate disputes involving deposits but would ensure that in cases where such disputes were deemed to involve landlords unjustifiably retaining deposits that the tenants would receive their money back. It could therefore ensure tenant confidence and would result in increased protection for such tenants. It would also have the benefit in reducing social welfare dependent related exceptional payments, and would reduce PRTB costs. These have been taken account of in our analysis.
6. A deposit retention scheme would need to be linked into the existing PRTB registration system and legislation may be required to encourage PRTB to pass on tenancy information to a scheme operator. We would not see such a linkage with other regulations such as BER as appropriate.
7. To be viable, in addition to legislation to reduce dispute costs, measures may be required to address non-compliant landlords. A system whereby tenants would receive three months' rent free for non-compliance would enhance compliance rates. There would also be a need to ensure that on-line facilities were used to the maximum extent in terms of administration of any scheme.
8. There are likely to be significant economies of scale for an existing service provider in managing such a scheme operated by an existing operator internationally or related service provider in Ireland. There would be significant higher cost for a provider to build all of the systems required from scratch compared to modifying existing systems.

9. There are significant financial risks in operating any such scheme and the financial outturns would depend on cost containment, interest rates and compliance rates. In order to minimise exchequer risks, any scheme would have to be structured so that any potential financial losses would accrue to the scheme contractor and that such providers have the financial capability to absorb such losses.
10. In an Irish context, the small scale of the market is such that there would be significant economies if one or possibly two scheme operators were licensed to provide the service. This would however reduce the level of competition and options for landlords and would increase the impact of a scheme operator ceasing business.
11. Our analysis suggests that if a decision is made to introduce a formal deposit protection scheme, there are two clear options available to the Government as follows:
  - i. To await the introduction of legislation to provide for a lower cost resolution process;
  - ii. To provide an exchequer subsidy to meet the shortfall in the financial viability of a scheme.
12. An alternative approach might be to enhance tenant protection by providing a fund to ensure that where determinations have been made, and where landlords have failed to comply with PRTB enforcement orders, then the outstanding deposits would be paid to tenants. Given that there are only approximately 626 cases annually where PRTB have concluded that deposits should be returned and that we understand in most cases landlords may repay these deposits, the number of cases where a fund would be called on would be limited. The costs of such a measure could be funded by the exchequer partially from savings in social welfare deposit support or from a small levy via the household charge on landlords or other means and this would involve lower costs than operating a formal deposit retention scheme.

A summary of the likely financial viability of different options for a formal deposit protection scheme is presented in the table below. There are however significant uncertainties regarding these costs and the actual costs could only be determined following a tendering process and the operating experience over time. For that reason there are significant risks to the financial viability of any scheme.

Overall Performance of Scheme Options (based on Total Costs (Set-Up/Development Costs + Operating Costs))								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09

Source: Indecon analysis  
\* Based on Real Discount Rate = 5%

A summary of the likely costs and benefits ratios for different options are presented in the following table. As indicated above there may also be other options to enhance tenancy protection.

Costs-Benefit Analysis: Overall Performance of Scheme Options								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€8,258,147	-€6,913,019	-€5,676,316	€2,847,689	-€27,826,265	-€26,832,364	-€25,609,221	-€17,085,216
Benefit-Cost Ratio - X : 1	0.75	0.78	0.81	1.13	0.57	0.58	0.59	0.68
Source: Indecon analysis * Discount Rate = 5%								

### Conclusion

Indecon hopes this independent analysis will be useful in informing policy decisions and in understanding the costs and benefits, as well as the risks of different options.

# 1 Introduction and Background

## 1.1 Introduction

The review is submitted to the Department of Environment, Community and Local Government, the Housing Agency and the PRTB by Indecon International Economic Consultants. The review represents an independent financial and economic assessment of the feasibility of introducing a tenancy deposit protection scheme in Ireland.

## 1.2 Background

The background to this assessment is that the Private Residential Tenancies Board (PRTB) was established in September 2004 and one of its key roles is to resolve disputes between landlords and tenants. The dispute resolution service it provides replaces the courts in relation to the majority of landlord and tenant disputes. The current Programme for Government includes a commitment to “*establish a tenancy deposit protection scheme to put an end to disputes regarding the return of deposits*”.<sup>2</sup> Research commissioned by the PRTB in 2009<sup>3</sup> assessed the viability of introducing a deposit retention scheme in Ireland but did not undertake a statistical analysis of the cost and benefits of establishing such a scheme in Ireland. The Housing Agency on behalf of the Minister of State for Housing and Local Services commissioned this study with the objective of assessing the feasibility of introducing a deposit protection scheme which is to be linked to the current registration process.

### 1.2.1 Terms of reference

This assessment addresses a number of specific aspects, as follows:

- What type of scheme should be introduced in Ireland – security or insurance based?
- Who should manage and operate such a scheme – PRTB other statutory body or private company – and what are the advantages and disadvantages of possible approaches?
- How would such a scheme work in practice?
- What are the full costs associated with operating such a scheme, - to include staffing costs, legal costs, case processing costs, compliance costs, ICT costs?
- Would such a scheme be self-financing and, if so, over what time period? If not, what set of circumstances would be required to make it so?
- Will such a scheme eliminate disputes involving deposits?
- What is the estimated deposit fund from tenancies and what is the estimated income from such a fund, under high, medium and low interest scenarios?
- What number of staff would be required to operate such a scheme?
- What ICT structure and associated costs would be required to support such a scheme and how would this fit with the existing PRTB’s ICT infrastructure?

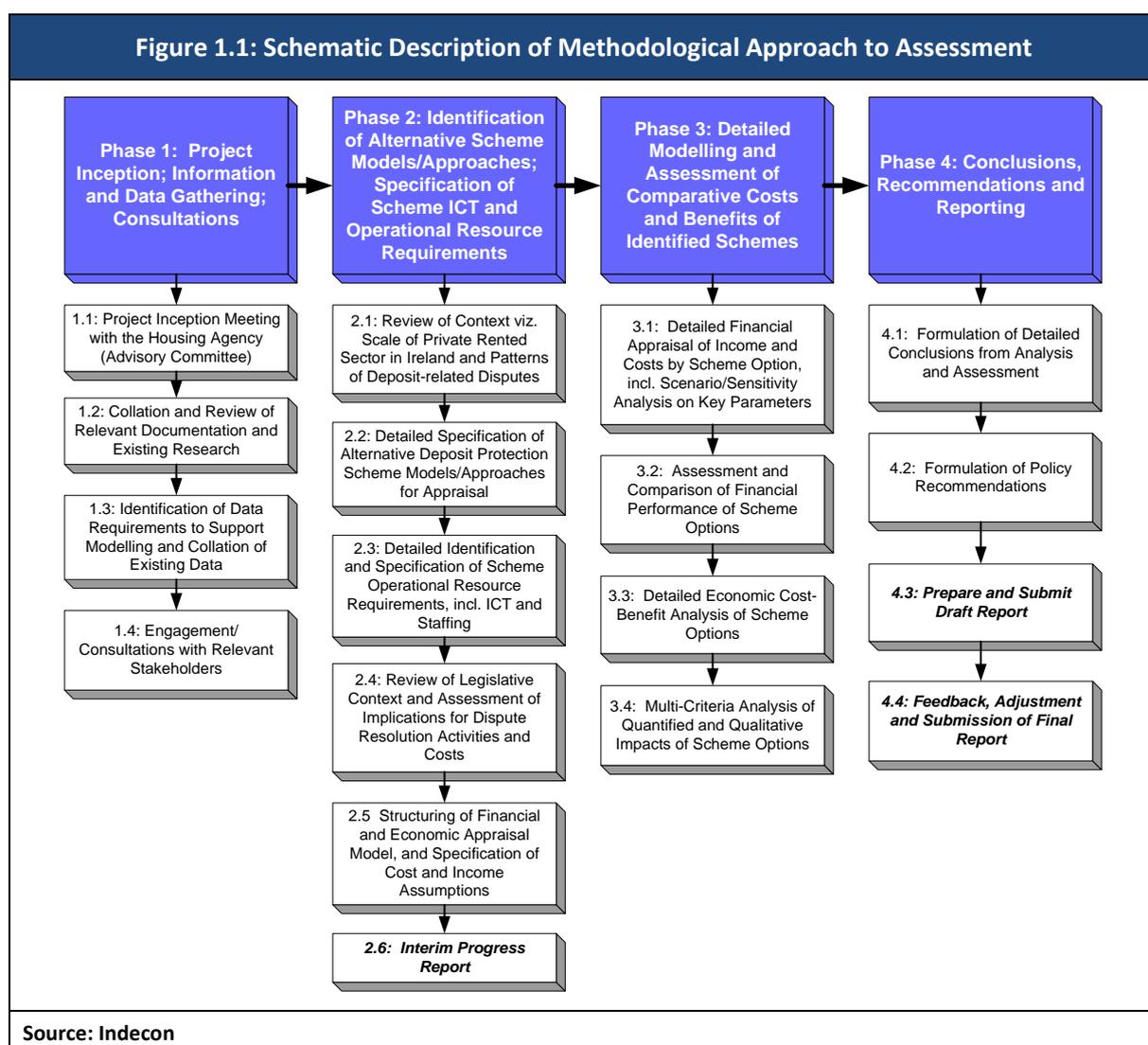
<sup>2</sup> Programme for Government, February 2011, Page 16.

<sup>3</sup> CMAdvice Ltd., 2009, *Investigation of the Viability of Establishing a Deposit Retention/Protection Scheme (s) In Ireland*.

- ❑ Would the introduction of such a scheme require any other changes to legislation (for example to the Residential Tenancies Act) or to how the PRTB currently operates to make a Deposit Scheme viable?
- ❑ How might such a scheme be linked with existing regulation of the sector?
- ❑ How will such a Scheme address non-compliant landlords? Are any avoidance mechanisms likely to emerge and, if so, how can they be addressed?

### 1.3 Methodological Approach

In addressing the above terms of reference a detailed and rigorous methodology was applied. A schematic description of the methodological approach to this assessment is presented in the figure overleaf. Specific elements are elaborated upon below.



*Consultation/engagement with relevant stakeholders*

The assessment was informed through a programme of engagement and consultation with a wide range of stakeholders. Specifically, the following stakeholders were consulted through a combination of invitation to provide written submissions and detailed engagement/discussions:

- Officials within the Department of the Environment, Community and Local Government and the Housing Agency;
- Chair, Board, Management and staff at the PRTB;
- Threshold;
- Focus Ireland;
- The Irish Property Owners Association;
- The Irish Auctioneers and Valuers Institute/ Society of Chartered Surveyors Ireland;
- Union of Students of Ireland;
- Money Advice and Budgeting Service (MABS);
- Mercy Law;
- Institute of Professional Auctioneers and Valuers;
- Irishlandlord.com;
- Sherry Fitzgerald;
- Homelocators;
- Existing deposit protection scheme operators, including Computershare/Deposit Protection Service (UK), The Disputes Service (TDS) (UK), My|Deposits (UK);
- Department for Communities and Local Government (UK);
- Scottish Government; and
- Vulcan Solutions (Ireland) (IT consultants to PRTB).

*Scheme options identification*

This assessment has identified a range of options for the introduction, development and operation of a deposit protection scheme in Ireland. This includes options involving the PRTB operating the scheme and also where some or all aspects of the operation of a scheme are outsourced to an external provider. The review is an independent analysis and assessment of the options.

*Data and research inputs*

The assumptions underlying the detailed analysis and modelling undertaken in this assessment have been informed by detailed data inputs from a range of sources, as follows:

- Central Statistics Office (CSO) data, including Census of Population data and Population and Labour Force Projections;
- Detailed PRTB data on numbers of tenancies registered, dispute volumes by type, hearings and tribunals;

- ❑ Detailed data on direct and indirect costs, and unit costs associated with tenancy registration and enforcement, dispute hearings and tribunals, and Determination Order enforcement activities;
- ❑ Threshold data on deposit retention-related queries received;
- ❑ Data from research and engagement with deposit scheme operators in other jurisdictions, including certain confidential details of current activities, costs and income, and estimates of investment requirements, staffing and operational costs of operating an outsourced scheme;
- ❑ Detailed independent estimates and costings for ICT requirements for a deposit protection scheme in Ireland, provided by Vulcan Solutions;
- ❑ Information provided by providers in UK and elsewhere; and
- ❑ Range of Irish and international research reports.

### *Financial appraisal*

In line with international best practice approaches, the assessment of the financial viability of alternative scheme approaches was informed through a detailed financial appraisal, involving the following methodological components:

- ❑ Analysis of cash-flow performance, in terms of the annual surplus or deficit in income compared with expenditures, under each scheme option; and
- ❑ Present value analysis of scheme cash-flows and calculation of performance metrics, including Net Present Value (NPV) and Benefit-Cost Ratio (BCR).

The financial appraisal was completed based on a range of detailed assumptions relating to key cost and income parameters. These parameters and related assumptions, and the resulting appraisal outputs, are presented in Section 5.2.

### *Economic appraisal*

The financial appraisal considers the financial viability of a deposit protection scheme from the perspective of the direct cash-flows to the scheme. However, to assess whether a deposit protection scheme is likely to have a net positive impact on a society as a whole, an economic Cost-Benefit Analysis (CBA) is undertaken. This builds in the outcomes from the financial appraisal by adding wider societal costs and benefits from the perspective of the tenant, landlord/agent and the PRTB. These parameters and related assumptions, and the resulting appraisal outputs for the CBA are presented in Section 5.3.

### *Multi-Criteria Analysis*

A financial appraisal and cost-benefit appraisal can only be undertaken on costs and benefits which are monetisable. To reflect consideration of both the monetary and the non-quantifiable or qualitative impacts of a deposit protection scheme, Indecon has also completed a Multi-Criteria Analysis on the alternative scheme approaches or options examined in this assessment. A Multi-Criteria Analysis is a technique which enables scoring or assessment of alternative options using multiple criteria. The outputs from the Multi-Criteria Analysis of the deposit protection scheme options are presented in Section 0.

## 1.4 Review Structure

The remainder of this review is structured as follows:

- ❑ Section 2 sets the context for the assessment and the rationale for a deposit protection scheme by reference to the features of the housing market and the private rented sector, in addition to examining the patterns of disputes and the extent of deposit-related queries and disputes currently handled by the PRTB and other organisations;
- ❑ Section 3 describes the types of deposit protection scheme and the key features of these schemes, in addition to considering how these schemes operate in practice. In addition, this section considers the current legislative context in Ireland and the implications of this for dispute resolution and other aspects of how a deposit protection scheme would operate;
- ❑ Section 4 specifies and describes a range of alternative options, in terms of alternative approaches which could be pursued in introducing a deposit protection scheme;
- ❑ Section 5 presents a detailed appraisal of the financial viability of, and economic rationale for a range of alternative approaches or options for a deposit protection scheme. This, *inter alia*, addresses the cost and income features of different approaches, including the requirements in relation to ICT and other scheme set-up/development costs, staffing and staff costs, and non-staff costs associated with scheme administration, dispute resolution and compliance enforcement; and
- ❑ Finally, Section 6 brings together the detailed analysis and appraisal work undertaken in the preceding sections of this review to deliver our overall conclusions, in addition to formulating a set of policy options.

## 1.5 Acknowledgements and Disclaimer

Indecon would like to acknowledge the contributions and inputs provided by a number of individuals and organisations to this review. We would particularly like to acknowledge the inputs of members of the project steering group, including Cian Ó Lionáin (Department of the Environment, Community and Local Government), David Silke (Housing Agency), Anne Marie Caulfield (PRTB) and Professor Eoin O’Sullivan (Trinity College, Dublin) for their valuable inputs and assistance throughout the course of this assignment. We also acknowledge the inputs of Aidan Culhane, Department of Environment, Community and Local Government and of Threshold.

We would also like to thank the Chair, board and senior staff within the PRTB for their valuable inputs. Thanks are also due to Carmel Diskin and Kathryn Ward, for assistance with data-related queries and the Tenancy Management System. Thanks are due to Deirdre Adamson, Janette Fogarty and to Roy Champ (PRTB) as well as Aaron Keane (Vulcan Solutions).

In addition, we would like to express our gratitude to Professor Martin Partington, Steve Harriott and Nick Hankey at The Disputes Service (UK), Eddie Hooker and Sean Hooker at My|Deposits (UK), and Kevin Firth and Trevor Watkins of Computershare/Deposit Protection Service (UK), in addition to Denise Holmes, Stephen White and Barry Stalker (Scottish Government), for their advice and inputs.

We would also like to thank a wide range of individuals and organisations who inputted to our review including Brendan Whelan, Bob Jordan (Threshold), Mike Allen (Focus Ireland), John Leahy (IrishLandlord.com), Peter Stafford (Society of Chartered Surveyors Ireland), Fintan McNamara (Institute of Professional Auctioneers and Valuers), Stephen A. Faughan (Irish Property Owners Association) and Adrian O'Donovan (NTMA).

Finally, we would like to thank Julian Sidoli del Ceno (Barrister), who provided independent inputs on legislative issues and acted as an external adviser on certain issues for Indecon.

The usual disclaimer applies and responsibility for the analysis and findings in this independent review is the sole responsibility of Indecon and many different and sometimes conflicting views were expressed to our team. Indecon would also highlight that there is inevitable uncertainty and risk on a range of issues influencing the costs and benefits of such a scheme. These include the number of tenancies, the number of tenancies with disputes concerning deposit retention, the marginal cost of various external providers and the profit expectations of such providers. Also relevant are future interest rates, government policy on social housing and IT and operational costs of different providers. As a result there are risks in the underlying estimates and some of the final figures would only be determined in the future taking account of the results of any competitive tendering process and future economic and housing developments. In the next section we present an overview of the context for any deposit protection scheme in Ireland.

## 2 Context for Deposit Protection Scheme

### 2.1 Introduction

In setting out the context for a deposit protection scheme in Ireland, it is important to be cognisant of the structure of the housing market in Ireland. Within this, of particular interest is that share of the housing market accounted for by the private rented sector and how the private rented sector is likely to change over time. This will influence the number of tenancies that might ultimately end up coming under the remit of a deposit protection scheme.

We also look at how rental prices have changed over the last number of years in order to estimate a weighted national average monthly rental figure. Finally, we examine the extent of private tenancy disputes in over the last four to five years.

### 2.2 Trends in Housing and Private Rental Activity in Ireland

In this section we utilise Census of Population data to outline the relevant demographic developments in Ireland in relation to population growth and the number of households in the State in privately rented accommodation.

#### 2.2.1 Demographic developments

Table 2.1 shows recent trends in population, households and rented dwellings in Ireland since 2002. As can be seen, there has been significant increases in the number of rented dwellings in Ireland, which have nearly doubled since 2002. These rented dwellings include private and local authority and voluntary sector premises.

Table 2.1: Households and Housing in Ireland – Demographic Developments				
Type	2002	2006	2011	% Change 2002 - 2011
Population	3,917,203	4,239,848	4,588,252	17.1%
Private Households	1,287,958	1,469,521	1,654,208	28.4%
All Rented Dwellings	229,665	301,306	449,352	95.7%

Source: CSO Census of Population 2002, 2006 and 2011

#### 2.2.2 Developments in privately rented households

Table 2.2 focuses on privately rented dwellings. The number of dwellings rented from private landlords since 2006 has more than doubled to 305,377. This may in part be influenced by uncertainty concerning future house prices, and perceptions of the availability of finance.

Type	2002	2006	2011	% Change 2002 - 2011
Private Households	1,287,958	1,469,521	1,654,208	28.4%
Rented from Private Landlord	141,459	145,317	305,377	115.9%
Rented from Private Landlord as % of Total Households	11.0%	9.9%	18.5%	68.1%

Source: CSO Census of Population 2002, 2006 and 2011

### 2.2.3 Registration of private tenancies

The legislation governing the private rented sector in Ireland, the Residential Tenancies Act 2004, requires tenancies to be registered with the Private Residential Tenancies Board (PRTB). The Act states that,

‘The Board shall, as soon as practicable after the establishment day, establish and maintain a register which shall be known as the “private residential tenancies register” and is in this Act referred to as the “register”.’(p.83)<sup>4</sup>

Table 2.3 outlines the number of registrations over time. The latest data from the PRTB indicates that there are currently 263,596 registered tenancies in Ireland.

These figures have increased every year since 2007, except for a marginal decline in 2010.

Year	No. of Registrations Per Year	Total Registrations	% Change in Total Registrations
2007	80,849	202,078	-
2008	85,904	206,054	2.0%
2009	95,969	234,582	13.8%
2010	101,888	231,818	-1.2%
2011	99,914	260,144	12.2%
2012	53,554	263,596	1.3%

Source: PRTB Annual Reports 2007 - 2010 and Data Provided by PRTB  
Notes: The figure reported for 2012 represents total registrations as at 31st August 2012

<sup>4</sup> <http://www.irishstatutebook.ie/pdf/2004/en.act.204.0027.pdf>

## 2.2.4 Future developments

In evaluating the number of tenancies that might fall within the remit of a deposit protection scheme we use CSO population projections in order to estimate population changes. We apply these projections to households and assume household size remains constant and that the share of the private rented sector as a percentage of total households remains at 18.5%. However, given the inevitable uncertainty on these issues we also consider a scenario whereby a lower percentage of private households is rented.

Type	2011	2016	2021	% Change 2011 - 2021
Population	4,588,252	4,975,959	5,314,325	15.8%
Private Households	1,654,208	1,793,989	1,915,980	15.8%
Rented from Private Landlord	305,377	331,181	353,702	15.8%
Rented from Private Landlord as % of Total Households	18.5%	18.5%	18.5%	-

Source: CSO Census of Population 2002, 2006 and 2011

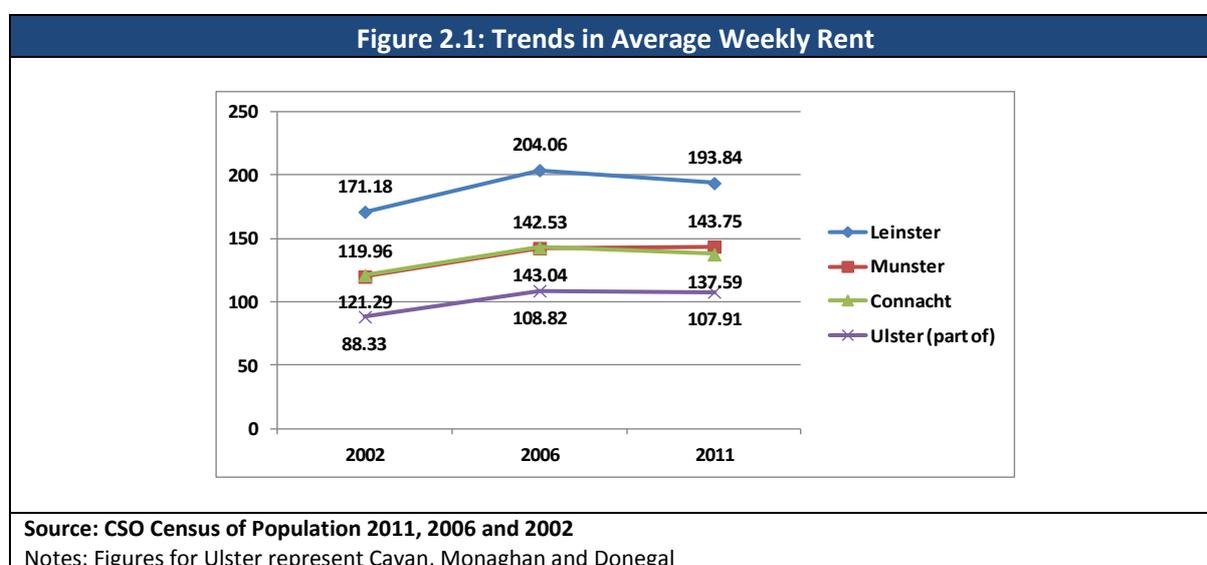
## 2.3 Developments in Rental Prices

Within the context of this study, an important issue in considering the financial feasibility of any scheme is the weighted average deposit level. This, and the number of tenancies that would be included in a scheme, determines (for a custodial scheme option) the potential overall deposit pool the income that could potentially be generated.

In order to estimate this, we analyse rent levels in Ireland and how they have changed over time.

### 2.3.1 Trends in Rents

Figure 2.5 below outlines how rents have changed in Ireland from 2002 to 2011. These figures highlight the differences across the country with rent levels higher in Leinster.



From 2002 to 2006, rents increased in all four provinces. Compared to 2006, rents have declined in Leinster, Connacht and Ulster while in Munster they have remained relatively stable.

### Weighted Average Rental Value

Table 2.5 shows the number of private rented dwellings, average rent, and the percentage share of the rental market on a per county basis.

<b>Table 2.5: Average Weekly Rent of Rented Private Dwellings in Permanent Housing</b>				
<b>Area</b>	<b>Private Rented Dwellings</b>	<b>Average Weekly Rent</b>	<b>Average Monthly Rent</b>	<b>% of Rental Market</b>
State	305,377	171.2	741.8	100%
Carlow	3,064	138.7	600.9	1%
Dublin	116,935	224.6	973.2	38%
Kildare	12,178	173.2	750.6	4%
Kilkenny	4,578	135.6	587.5	1%
Laois	3,695	122.5	531.0	1%
Longford	2,311	101.8	441.3	1%
Louth	6,524	141.1	611.4	2%
Meath	8,489	154.5	669.5	3%
Offaly	3,614	121.0	524.3	1%
Westmeath	5,542	126.2	546.9	2%
Wexford	7,603	130.3	564.8	2%
Wicklow	7,087	183.6	795.6	2%
Clare	6,056	125.0	541.6	2%
Cork	35,195	158.4	686.4	12%
Kerry	7,592	123.5	535.0	2%
Limerick	12,455	142.0	615.3	4%
North Tipperary	3,362	122.7	531.5	1%
South Tipperary	4,488	125.4	543.5	1%
Waterford	6,197	132.1	572.3	2%
Galway	18,446	155.5	673.9	6%
Leitrim	1,732	97.0	420.5	1%
Mayo	6,948	120.2	520.9	2%
Roscommon	3,077	113.0	489.8	1%
Sligo	4,061	122.8	532.0	1%
Cavan	3,893	107.6	466.4	1%
Donegal	7,424	105.8	458.5	2%
Monaghan	2,831	113.9	493.5	1%
<b>Weighted Average Monthly Rent</b>			<b>749.83</b>	

Source: CSO Census of Population 2011

Given regional disparities in the percentage of the total rental market in Ireland, it is necessary to estimate a weighted average rental value. Indecon estimates suggest a weighted monthly rent of approximately €749.

## 2.4 Developments in Deposit-related Disputes

### 2.4.1 Overview of PRTB Disputes

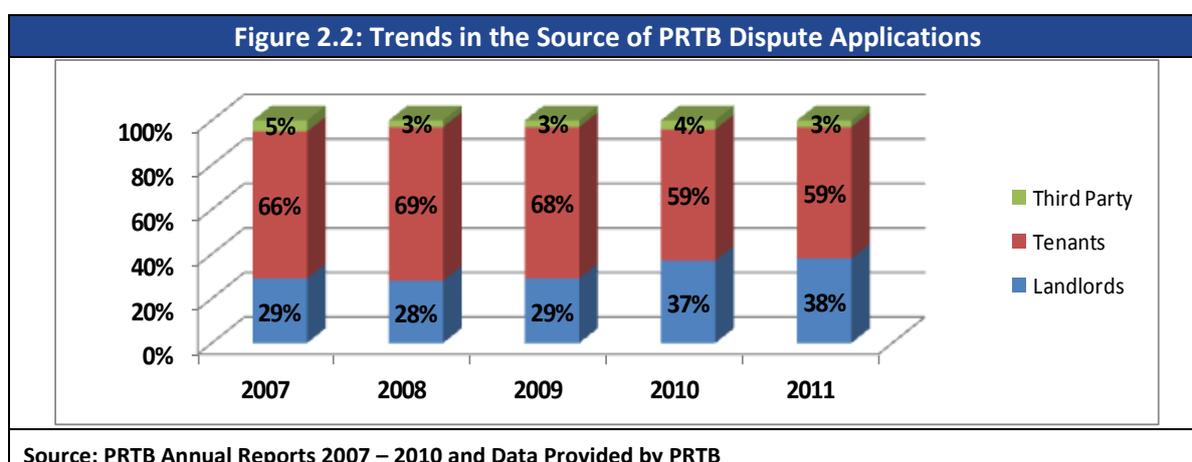
Table 2.6 presents an overview of disputes handles by PRTB over the last number of years. In 2011 there were 2,060 dispute applications handled by PRTB.

Year	Disputes Applications	Disputes Awaiting Hearing	Appeals for Holding of Tribunal	Tribunals Convened
2008	1,650	1,388	106	101
2009	1,859	730	261	176
2010	2,230	732	485	340
2011	2,060	962	306	179

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

### 2.4.2 The Source of Disputes

The statistics in Figure 2.2 indicate that applications by tenants represented 59% of disputes in 2011 and 41% were submitted by landlords or third parties.



### 2.4.3 PRTB Dispute Types

In 2011, 39% of dispute applications to PRTB represented disputes concerning deposit retention, 32% were accounted for by rent arrears and the balance by other disputes.

Dispute Type and Measure		2008	2009	2010	2011
Deposit Retention	Number of Disputes	710	948	959	803
	As % of Total Disputes	43.0%	51.0%	43.0%	39.0%
	As % of Registered Tenancies	0.34%	0.40%	0.41%	0.31%
Rent Arrears	Number of Disputes	314	428	691	659
	As % of Total Disputes	19.0%	23.0%	31.0%	32.0%
	As % of Registered Tenancies	0.15%	0.18%	0.30%	0.25%
Other	Number of Disputes	627	483	580	597
	As % of Total Disputes	38.0%	26.0%	26.0%	29.0%
	As % of Registered Tenancies	0.30%	0.21%	0.25%	0.23%

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

### 2.4.4 Deposit Related Dispute Applications

Table 2.8 outlines the trend in PRTB disputes and shows fluctuations in the number of deposit related disputes.

Year	No. of PRTB Registered Tenancies	Disputes Applications	
		All Disputes	Deposit Related Disputes
2007	202,078	1,500	525
2008	206,054	1,650	710
2009	234,582	1,859	948
2010	231,818	2,230	959
2011	260,144	2,060	803

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

The figures in table 2.9 show that while deposit related disputes make up a significant proportion of all disputes handled by PRTB, they represent a very small percentage of tenancies. The overall number of disputes handled by PRTB relative to tenancies has averaged 0.8% over the period 2007-2011. Deposit-related dispute applications have averaged 0.3% of tenancies.

Table 2.9: PRTB Dispute Applications as % of Tenancies Registered			
Year	All Disputes as % of Tenancies Registered	Deposit Related Disputes as % of Tenancies Registered	Deposit Related Disputes as % of Total Disputes
2007	0.74%	0.26%	35.0%
2008	0.80%	0.34%	43.0%
2009	0.79%	0.40%	51.0%
2010	0.96%	0.41%	43.0%
2011	0.79%	0.31%	39.0%
<b>Average – 2007-2011</b>	<b>0.8%</b>	<b>0.3%</b>	<b>42.2%</b>

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

#### 2.4.5 Trends in PRTB Tribunals

If a dispute is not settled at the first stage of the PRTB dispute process, then it may be referred to a tenancy tribunal. This consists of a three person panel that considers a case and makes a determination.

Table 2.10 outlines that the number of tribunals convened from 2008 to 2011 has remained relatively stable except for the increase in numbers 2010.

Table 2.10: Overview of PRTB Private Rental Tribunals			
Year	No of PRTB Registered Tenancies	Tribunals Convened	Disputes as a % of Tenancies
2008	206,054	101	0.05%
2009	234,582	176	0.08%
2010	231,818	340	0.15%
2011	260,144	179	0.07%

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

As can be seen from table 2.11, deposit related tribunals accounted for 41% of PRTB tribunals.

Table 2.11: Overview of PRTB Deposit Related Rental Tribunals				
Year	No of PRTB Registered Tenancies	Deposit Related Tribunals Convened	Deposit Related Tribunals as a % of Total Tribunals	Deposit Related Tribunals as a % of Tenancies
2010	231,818	159.8	47.0%	0.07%
2011	260,144	74.0	41.3%	0.03%

Source: PRTB Annual Reports 2007 – 2010 and Data Provided by PRTB

### 2.4.6 Determinations on Disputes

An issue in the context for a deposit protection scheme in Ireland is the extent to which tenants deposits are being unfairly retained by landlords. Table 2.12 outlines how the PRTB has determined the apportioning of deposits in disputes cases over time.

Year	Fully Refunded to Tenant	Partly Refunded to Tenant	Retained by Landlord
2007	27%	48%	25%
2008	51%	25%	24%
2009	35%	40%	25%
2010	42%	37%	21%
2011	45%	33%	22%

Source: PRTB Annual Reports 2007 – 2011

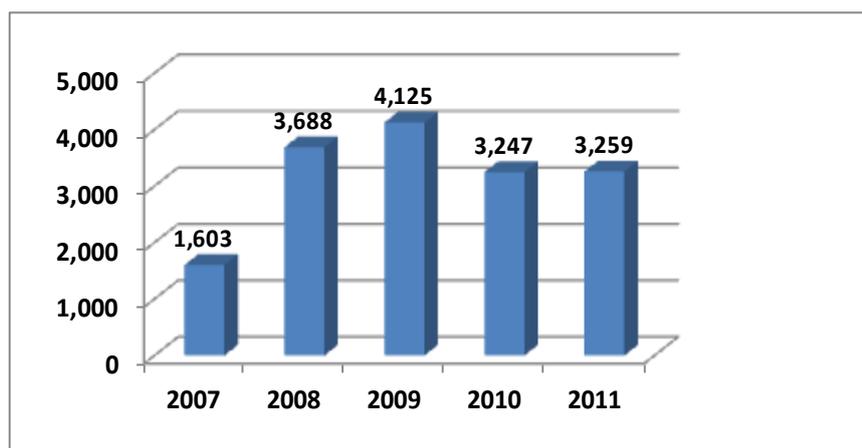
The results of PRTB determination has suggested that 27% – 51% of disputes deposits should be fully refunded to tenants and in the majority of cases, a deposit should be either fully or partially refunded. If one combines the proportion of deposit-related disputes in which tenants are judged to have their deposit partially or fully refunded (78% in total) with the number of deposit-related disputes reported to PRTB (803 in 2011), this suggests that in 626 cases tenants had their deposit withheld inappropriately by landlords.

### 2.4.7 Dispute Related Activities External to the PRTB

While the PRTB is the main vehicle for disputes related to the rental sector in Ireland, it is not the only avenue that tenants can use to progress disputes. Organisations such as Threshold, the Union of Student in Ireland (USI) and executive locators assist tenants with queries and information as to their rights and responsibilities. Threshold<sup>5</sup> provides advocacy and support services for those in difficulty in the housing sector and the number of queries handled is outlined in Figure 2.3.

<sup>5</sup> Threshold was founded in 1978. Threshold is a registered charity whose aim is to secure a right to housing, particularly for households experiencing problem of poverty and exclusion.

Figure 2.3: Overview of Threshold Advocacy Queries



Source: Threshold Data

Threshold also advises tenants of their rights with regard to disputes and in certain cases advocates for clients at PRTB disputes. The interventions and preventative work (in terms of disputes) that Threshold may result in a decrease in the number of disputes that end up with the PRTB. This also suggests that the 0.3% of tenancies which have a deposit related dispute which has been notified to the PRTB may underestimate the total of actual disputes. In our assessment of costs and benefits of a deposit retention scheme we therefore use a higher estimate of the number of disputes which would be impacted.

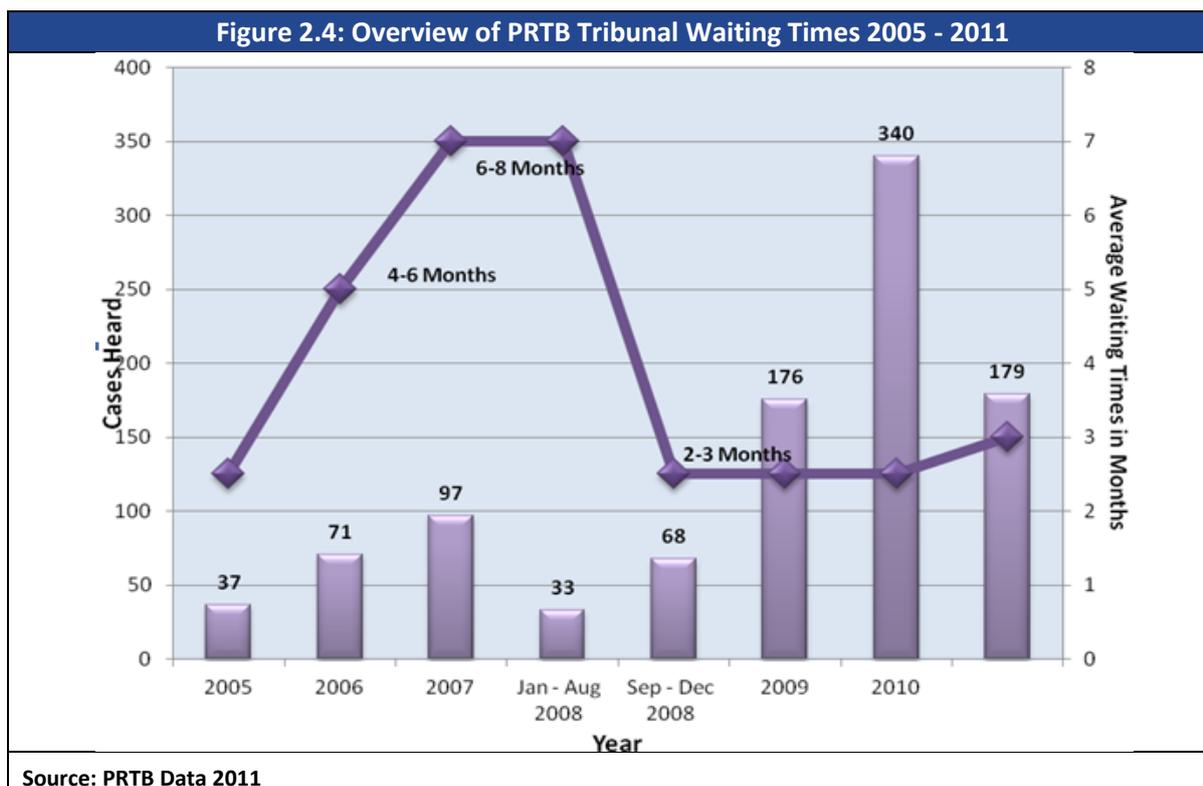
#### 2.4.8 Dispute Resolution Times

One issue relevant to the consideration of a deposit protection scheme is the length of time it takes to resolve disputes. The PRTB states on its website that as of September 2012:

‘The average case processing period for a dispute case (adjudication/mediation) from application to PRTB decision is currently 8 – 10 months.’<sup>6</sup>

Furthermore, tribunal waiting times are also a factor. Figures for these times are presented in Figure 2.4. While the waiting times for tribunals have decreased in recent years, it takes approximately three months to secure a hearing.

<sup>6</sup> <http://public.prtb.ie/disputes.htm>



There are a number of factors influencing the length of time landlords and tenants have to wait to have their disputes resolved. These range from the volume of disputes and the fact that the right of appeal must be ensured. In deposit protection schemes internationally, particularly in the UK, disputes are settled more quickly, albeit under different dispute resolution processes and under a different legislative context.

## 2.5 Summary of Findings

In this section we have outlined the context for a deposit protection scheme in Ireland. This has been influenced by a number of factors that have combined over the last number of years to highlight certain aspects of the private rental sector in Ireland. This includes significant growth in the population renting from private landlords over the last number of years. Moreover, we have outlined recent trend in rents and the extent of disputes between landlords and tenants, especially in relation to deposit disputes.

## 3 Features of a Deposit Protection Scheme

### 3.1 Introduction

Based on our review of international experience and our consideration of the Irish context, this section of the review outlines the various types of deposit protection schemes that could potentially be operated in Ireland. We highlight how these schemes differ and the implications of different schemes in terms of the legislative environment.

### 3.2 Types of Deposit Protection Scheme

There are two broad categories of deposit protection scheme evident internationally. The most common of these is a custodial (security) based scheme while less common is an insurance scheme option. Custodial schemes are evident in Australia (New South Wales and Queensland), New Zealand and the UK (one in England, three in Scotland). In the UK there are also two insurance based schemes.

While in both schemes the tenants deposit is protected, the salient difference between custodial and insurance schemes is the manner in which the deposit is secured. In the insurance scheme, the landlord pays a fee to the scheme operator in order to protect the deposit. In the custodial option, the deposit is transferred to the scheme where it is ring-fenced in accordance with client money protection regulations and is pooled to earn interest income. This income is used to cover the costs of operating the scheme.

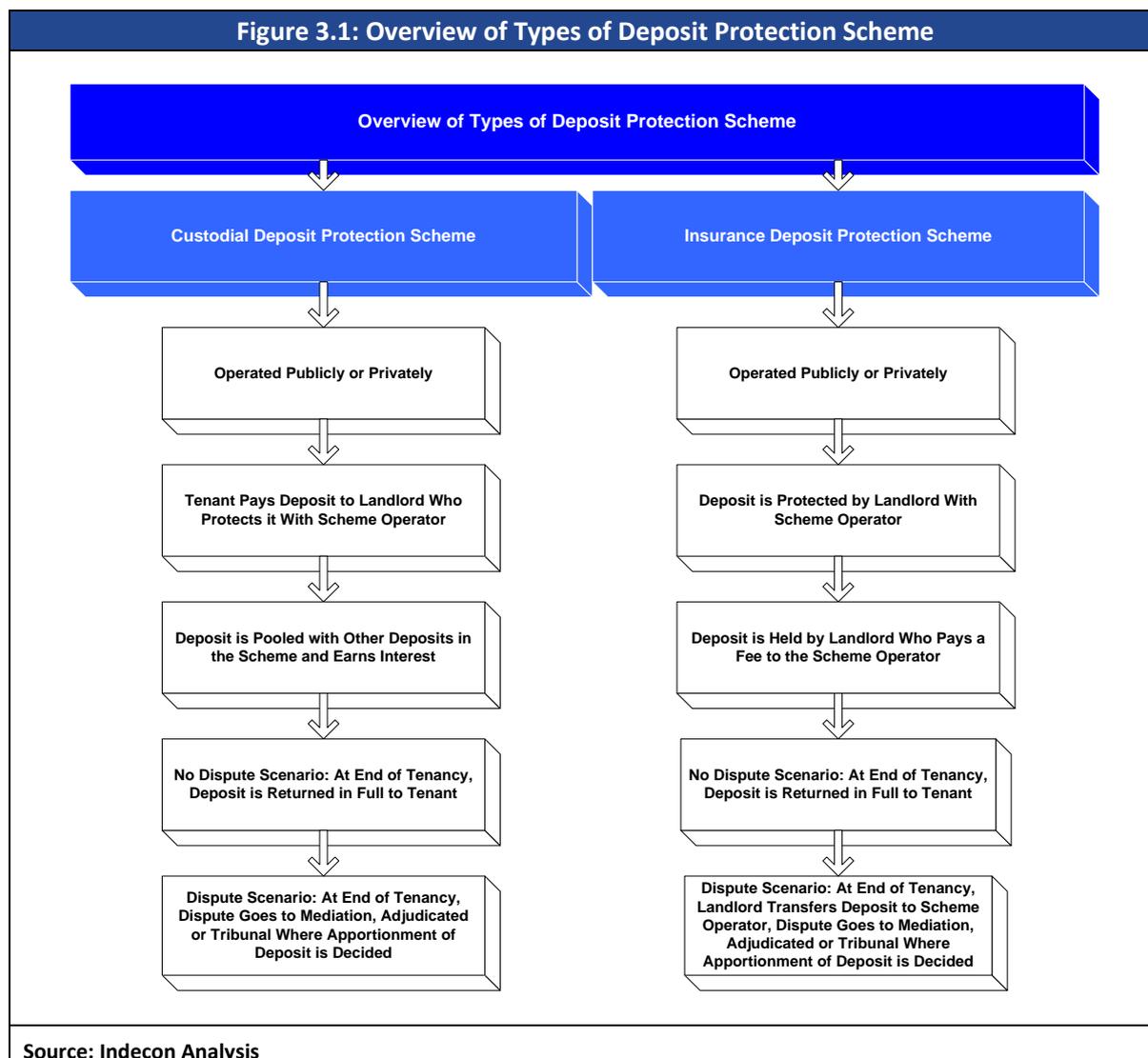
#### 3.2.1 Who Should Manage and Operate a Scheme?

Schemes also broadly differ in terms of operation. There are schemes that are operated publicly while others are competitively tendered to the private sector by national governments. The latter is in the UK where all deposit protection schemes are privately managed on behalf of the state. In England and Wales the schemes are licensed for five years with a two year add on at the discretion of the Department for Communities and Local Government (DCLG) while in Scotland, deposit protection schemes are licensed and reviewable annually. In countries like New Zealand and Australia, deposit protection scheme are operated by public bodies.

#### Advantages and Disadvantage of Possible Approaches

A potential advantage of a scheme(s) being operated publicly is the full integration with other aspects of the regulation of the private rented sector. This is however likely to result in higher administration costs.

A key difference of schemes internationally is the issue of whether they are insurance or custodial schemes. Figure 3.1 outlines the main features of both custodial and insurance based schemes.



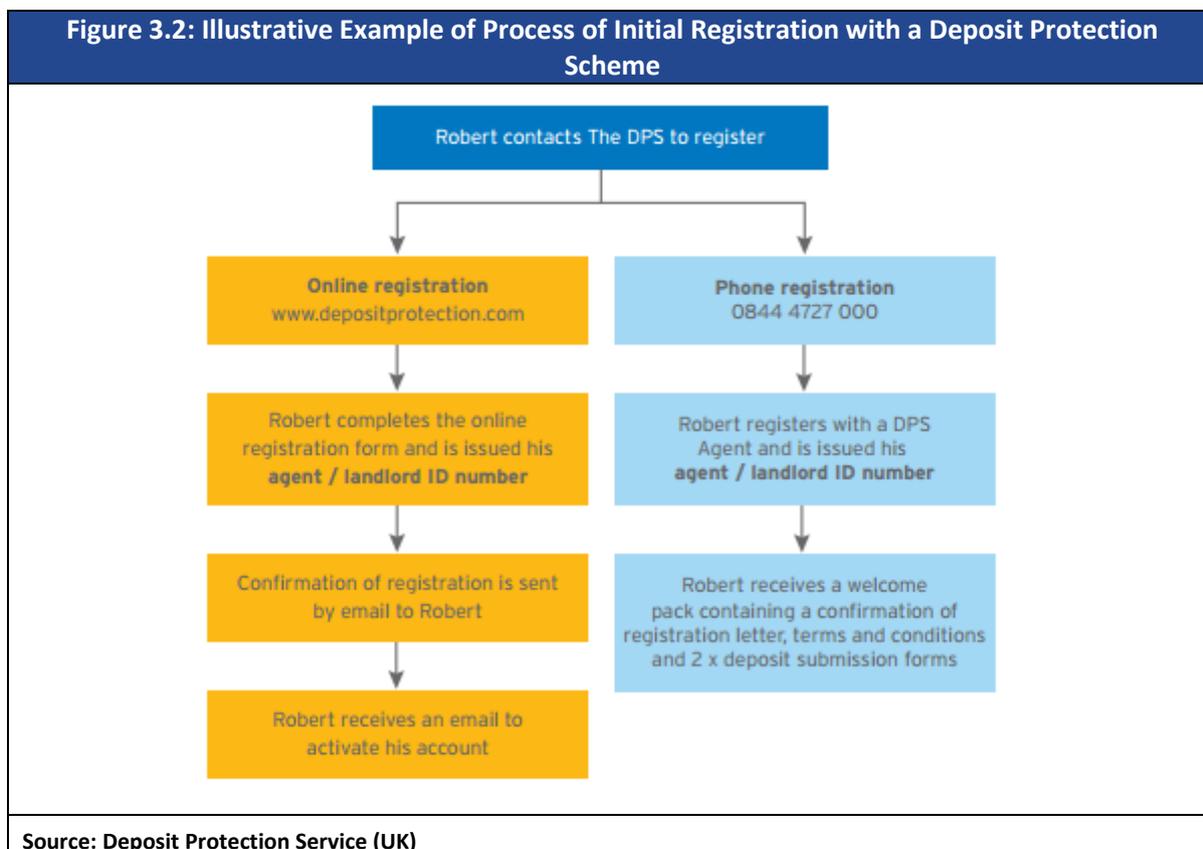
The above figure highlights that both types of deposit protection schemes have three broad stages where:

- ❑ Tenants and landlords register with the scheme;
- ❑ The deposit is protected; and
- ❑ The tenancy ends with either a dispute scenario or a no dispute scenario.

### 3.2.2 Registering with a Custodial Scheme

Figure 3.2 provides an illustrative example of the process of registering with a scheme. The illustration relates to custodial scheme registration.

The provision of a number of options for registering with a scheme is evident across schemes internationally. Facilitating as much of this process online as possible is key to ensuring maximum effectiveness for schemes in terms of costs. The use of online systems and investment in ICT facilitates the administration costs of operating a scheme to be minimised.



### 3.2.3 Registering with an Insurance Scheme

Registration with an insurance scheme is different from registering with a custodial scheme. While the landlord must provide many of the same details to the scheme as the custodial case, landlords typically become members of an insurance scheme and pay fees rather than transfer deposits.

In the UK, landlords are provided with a number of options for registering with insurance schemes in the UK.<sup>7</sup> As with custodial schemes, facilitating as much of this process online as possible is important to ensure maximum effectiveness for schemes in terms of costs.

<sup>7</sup> The UK is the only jurisdiction where insurance scheme are currently evident.

### 3.2.4 Protecting the Deposit with a Scheme

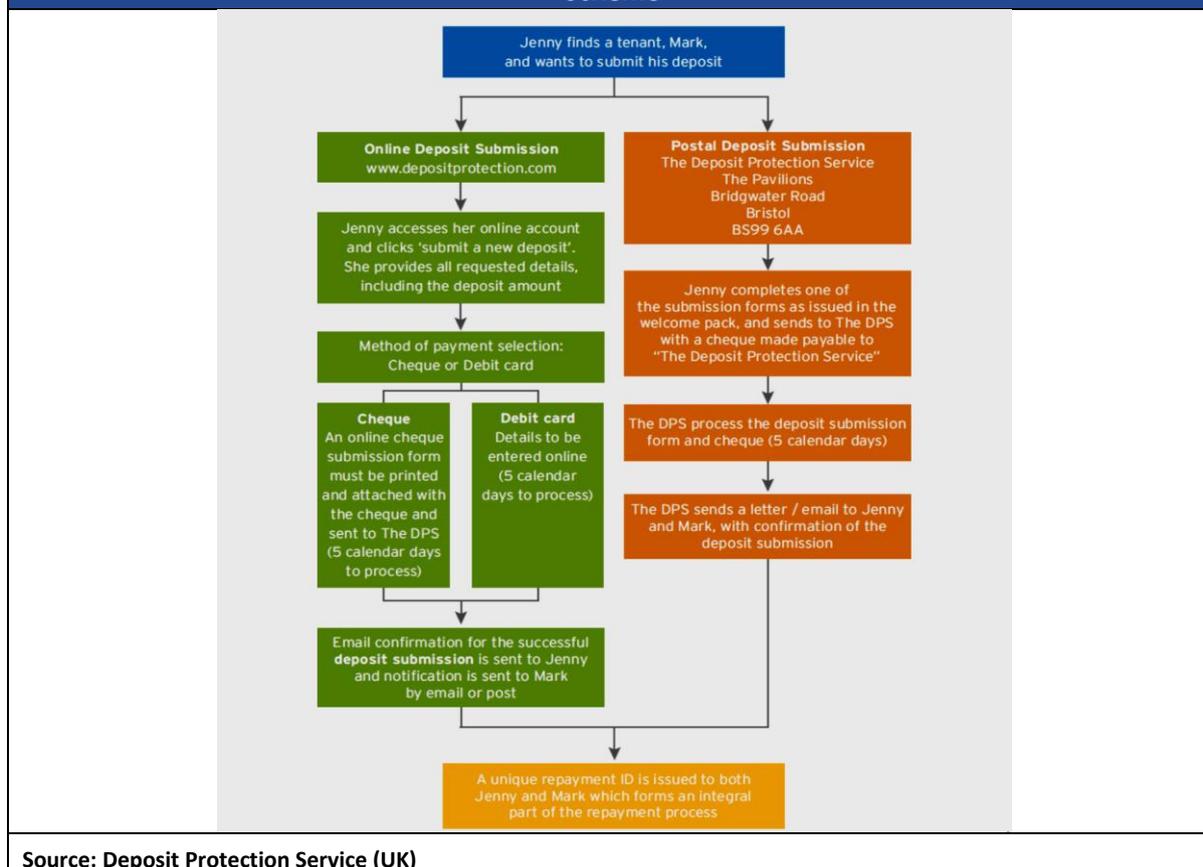
Figure 3.3 outlines the steps involved in submitting/registering a deposit with a custodial deposit protection scheme.

When protecting the deposit there are a variety of options for the user in term of submitting/registering a deposit.

As with initial registration, maximising the use of online submissions is a key issue for the scheme operators that Indecon consulted. This helps to achieve cost efficiencies through minimising staff-intensive, manual administration.

Using an online format can also speed up the registration process. In a situation where a registering tenant/landlord/agent makes an error while inputting information online, the system can automatically prompt the user to adjust a specific field in their registration/submission.

**Figure 3.3: Illustrative Example of Process of Protecting the Deposit with a Deposit Protection Scheme**



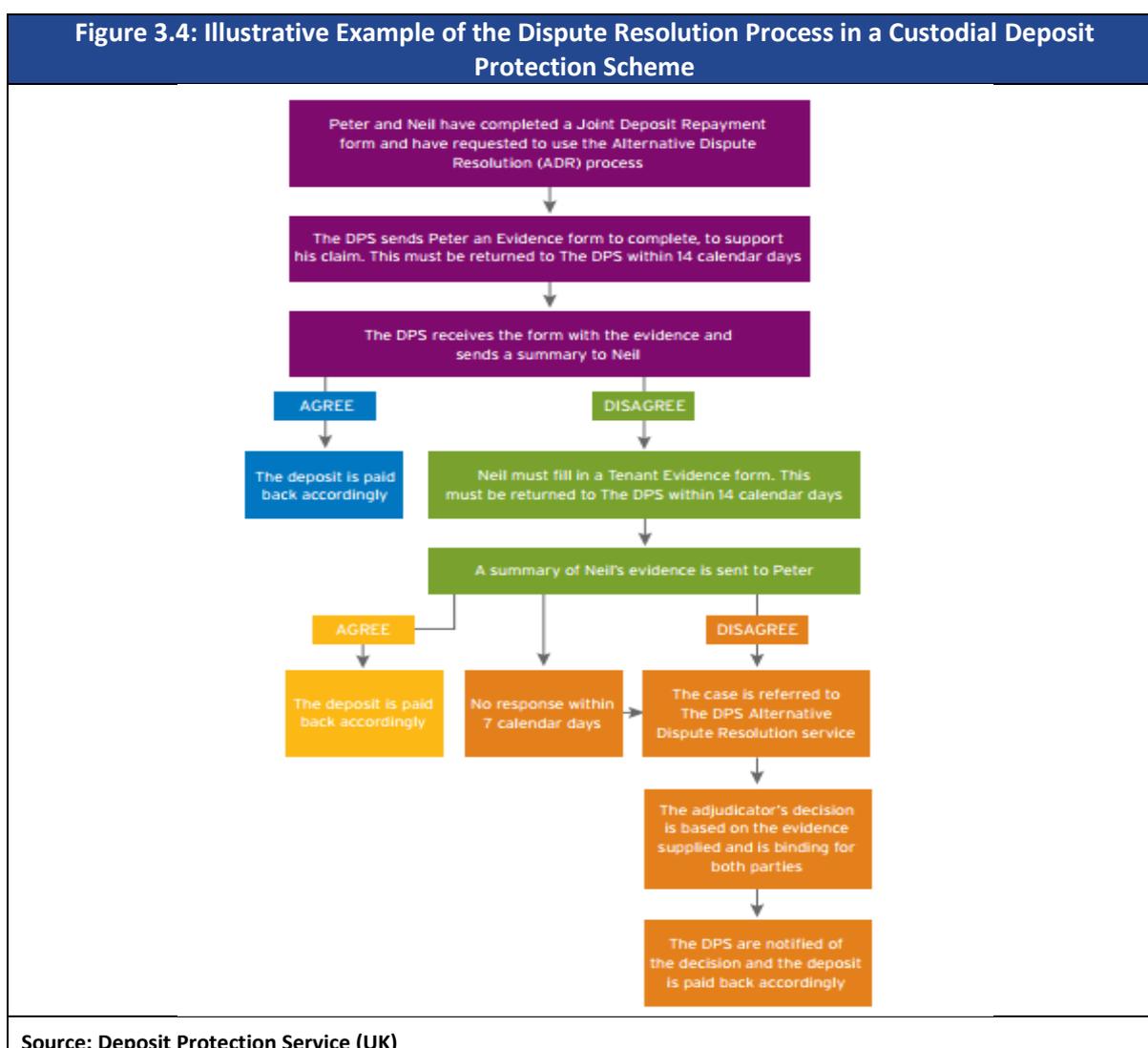
Source: Deposit Protection Service (UK)

### 3.2.5 Dispute Resolution Process

The third main stage in terms of the key features of a scheme is the end of a tenancy. There are two outcomes that are possible at the end of a tenancy:

- The tenancy ends without dispute and the deposit is returned to the tenant(s); or
- There is a dispute between the landlord and tenant regarding the apportioning of the deposit.

Figures 3.4 describe the steps involved in the dispute resolution process in the case of a custodial scheme and Figure 3.5 presents this for an insurance scheme. The figures also outline the potential outcome of a dispute depending on whether a tenant or landlord agree or disagree at different stages of the dispute. There is one difference in terms of custodial and insurance schemes in this regard. While the deposit is already with the scheme in the custodial option, if a dispute occurs in an insurance scheme, the landlord would have to transfer the disputed amount to the scheme for the dispute resolution process to be completed.



In figure 3.5 we present an illustrative example of the steps in a dispute process involving an insurance scheme and we also outline indicative number of days at which the different stages are operative.

Figure 3.5: Illustrative Example of the Dispute Resolution Process in an Insurance Deposit Protection Scheme	
Action	Day
• Dispute received (and deposit, if referred by landlord/agent)	1
• We acknowledge receipt of papers if requested	2
• We establish that we can deal with the dispute	2
• We inform the other party(ies) and copy the papers to them	3
• The other party(ies) send us their response to the dispute, agree that we can adjudicate, and pay us the disputed deposit if it has not already been sent to us	13
• We send all the papers to the adjudicator	16
• The adjudicator sends us their report	26
• We send the parties the adjudication decision	35
• We pay the deposit as stated in our decision	40

Source: The Disputes Service (UK)

### 3.3 Practical Aspects of Deposit Protection Schemes

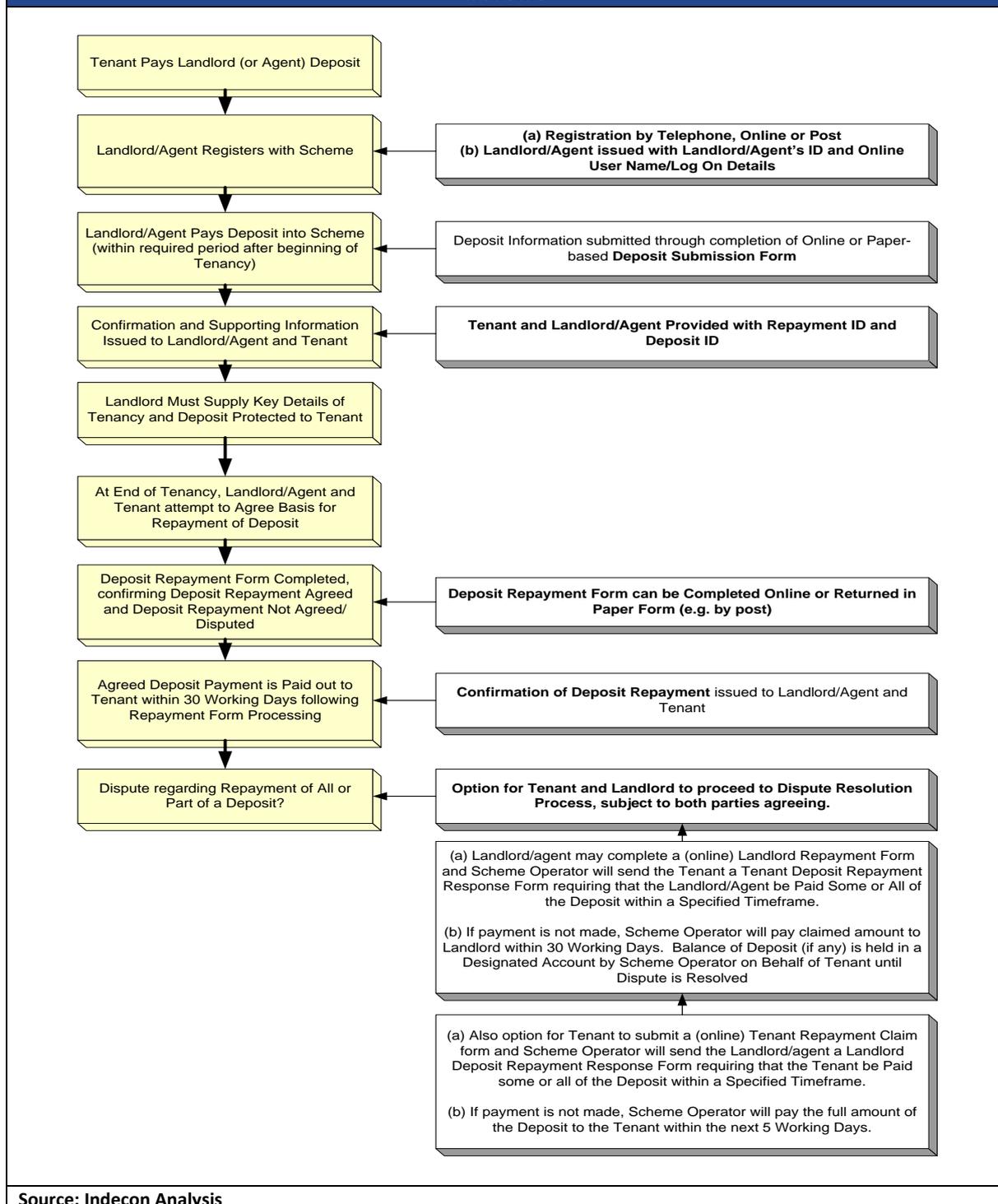
It is also helpful to consider how these schemes work in practice and the implications of differences for administration, dispute and compliance costs.

#### 3.3.1 Processes Involved in Deposit Protection Schemes

Figure 3.6 outlines the practical processes involved in both custodial and deposit protection schemes and Figure 3.7 presents this for insurance schemes. The different elements from the start of the tenancy where a deposit is paid from the tenant to the landlord to the completion of the tenancy where the deposit is returned with or without a dispute are presented.

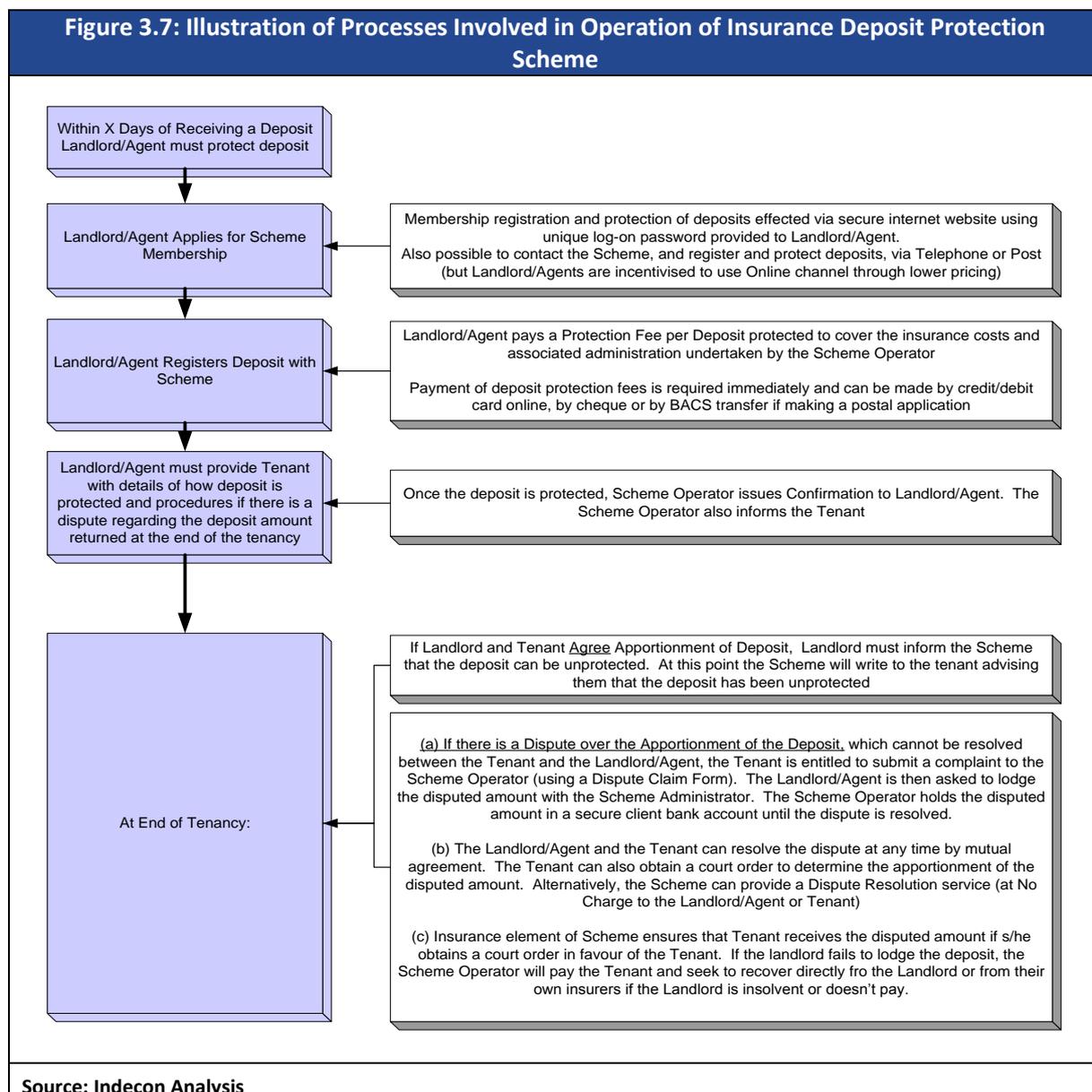
The particular processes involved in the operation of each deposit protection scheme have implications for the costs involved in operating these schemes.

**Figure 3.6: Illustration of the Processes Involved in Operation of Custodial Deposit Protection Scheme**



Source: Indecon Analysis

The processes involved in insurance schemes are outlined in Figure 3.7.



### Implications of Scheme Features

To allow for the processes outlined above and to minimise operational costs, any such scheme should be designed in such a way as to allow for an effective and user friendly experience. This in turn will potentially impact on the level of compliance and costs which will influence scheme viability.

Below we outline across a number of measures the implications of scheme design on the makeup of administration and cost structures.

## Scheme Set-Up

There are a number of detailed components of the ICT-related costs of setting up a deposit protection scheme. The key components are as follows:

### □ Tenancy Registration system

This aspect of ICT set-up is common across both types of scheme as registration with a scheme or schemes will be compulsory in order to increase compliances rates in the scheme. The more tenancies that register with a scheme, unit costs are likely to fall due to economies of scale and the level of fixed costs involved.

### □ Tenancy Deposit Registration system

The tenancy deposit registration system is a key issue of both custodial and insurance based schemes. The main difference between both schemes is the requirement for landlords in the custodial scheme to transfer the deposit to the scheme. However, an insurance scheme may need some level of functionality in relation to deposit transferral also. This is because where a dispute occurs and the landlord has to transfer the deposit to the scheme operator there should be a facility for the scheme to register this outcome.

### □ Scheme Website

International evidence suggests that a very well designed and user friendly website aids the administration of deposit protection schemes leading to reduced manual administration and its associated costs. A website can also be used as a vehicle for information and can inform users of their obligations and rights. In the case of both insured and custodial schemes, an effective web site is required that gives the tenants/landlord/agents as much information about the protected tenancies as possible. It should also hold useful information about the scheme and how to use it including case studies. Wizards should also be incorporated to guide users through the process as much as possible in the life of the tenancy online.

### □ National Contact/Call Centre

A national contact/call centre is likely to be required under either a custodial or insurance scheme. This feature is important in giving users a variety of contact options to interact with the scheme administrator be it by post, online or by telephone. A task management system is needed for the call centre to be able to log enquiries with office staff and ensure that they are answered.

### □ Accounting/Funds Reconciliation system

For a custodial scheme, all payments such as deposit transferral need to be reconciled with the tenant/landlord. For the insurance scheme, the fees paid by landlords and agents need to be reconciled. These components need to be integrated/linked to support effective and efficient operation of custodial and insurance deposit protections schemes. Investment in ICT infrastructure allows for as much online interaction as possible.

### Communication Channels

For a scheme to operate effectively, it would be appropriate to make available three channels/options for communication between the scheme operator, tenants and landlords/agents:

- ❑ Online via Scheme Website and e-mail communication;
- ❑ National Telephone Contact/Call Centre; and
- ❑ Paper-based Registration/Service.

Providing for as many communication channels as possible is also likely to impact on scheme compliance rates.

### Tenancy Registration

Well planned investment in ICT systems that allows for a simple, user friendly experience for the landlord and tenant registering is likely to influence compliance and registration rates and influence administration costs.

### Deposit Protection - Accounting/Funds Reconciliation system

All payments made into or out of a scheme must be reconciled with tenancies/deposits protected. Payments include deposits paid into a scheme by landlords or their agents under a custodial scheme or payments of membership and deposit protection fees by landlords/agents under an insurance-based scheme. It also includes repayments of deposits, or other transactions involving landlords/agents, tenants and the scheme operator. This requires specialised software to handle payments and reconcile transactions.

The accounting/funds reconciliation system must be designed to take account of the following features in both custodial and insurance schemes:

- ❑ Facilitate intra-day reconciliation of client payments, return of deposits etc.
- ❑ Real-time integration with tenancy deposit registration system and scheme website.
- ❑ System to facilitate payments securely online, by credit or debit card, system to facilitate payments via bank transfer to/from scheme operator designated account.
- ❑ Facilitate allocation of payments received to deposits manually or automatically. (Automatic allocation to occur only where the amount transferred exactly matches a deposit awaiting payment. If for any reason scheme operator is unable to create a match, then the deposited funds would be credited to landlord/agent account for the landlord/agent to allocate manually. If manual allocation is chosen the landlord must log-on to their scheme account to manually allocate the deposited funds to the relevant deposit.

## Disputes

Deposit protection schemes internationally vary in the form of dispute resolution process that is offered. There are four key considerations that are evident as outlined in Table 3.1:

- ❑ The type of hearing;
- ❑ The dispute process available;
- ❑ The grounds for appeal; and
- ❑ Dispute resolution innovations.

Table 3.1: Feature of Alternative Disputes Resolution Regimes Internationally				
	Hearing Type	Disputes Type	Grounds for Appeal	Dispute Resolution Innovations
<b>England and Wales</b>	Scheme ADR <i>or</i> Courts	Single Stage Dispute Process; Adjudication	No; Adjudication is Final	Paper Based Adjudications
<b>Scotland</b>	Scheme ADR <i>or</i> Courts	2 Stage Adjudication Dispute Process; Adjudication and Review of Adjudication	Yes; 2 <sup>nd</sup> Adjudicator can Review Case	Paper Based Adjudications
<b>New South Wales</b>	Scheme ADR <i>and</i> Courts	2 Stage Dispute Process; Adjudication and Tribunal	Yes; To Tenancy Tribunal	Paper Based and Telephone Adjudications
<b>New Zealand</b>	Scheme ADR <i>and</i> Courts	2 Stage Dispute Process; Mediation and Tribunal	Yes; To Tenancy Tribunal	Paper Based and Telephone Adjudications
<b>Ireland</b>	Scheme ADR <i>Only</i> (Quasi-judicial)	2 Stage Dispute Process; Adjudication and Tribunal	Yes; To Tenancy Tribunal	Paper Based Adjudications
<b>Source: Indecon Analysis</b>				

In relation to disputes, every scheme is different in some respect but there are some similarities across some schemes in different countries.

In Australia (New South Wales) and New Zealand, both offer custodial schemes only, and facilitate a multi stage dispute process. For example, in NSW and New Zealand, tenants and landlords can appeal to tribunal stage. Disputes in these jurisdictions can also be heard in a variety of ways, such as through telephone and face-to-face adjudication but schemes apply strict time restrictions on when a dispute can be lodged.

This is also the case for the operators of schemes in England and Wales, who represent a mixture of insurance and custodial schemes. A key difference between the UK and Ireland relates to the different legislative environment. In the UK, tenants and landlords can take a dispute to the Courts in the UK. However, if they make use of the ADR services provided by the scheme operator, they *waive their right of appeal to the Courts* and have to accept the judgement of the ADR process. The operators in England and Wales also restrict the type of disputes they hear to those disputes that are centred on the return of the deposit and there is a very streamlined ADR process.

In the schemes recently introduced in Scotland, the Government has required that parties to a dispute have the right to appeal. This has been facilitated through a review of the adjudicator's decision. This entails another adjudicator reviewing the case rather than in the disputes process.

The dispute system in the UK enables costs to be contained. Because dispute resolution costs represent a significant cost to deposit protection schemes, the process for disputes impacts on scheme financial viability.

In order to implement such a streamlined process, a disputes management system would be required that administers the workflow of the dispute process and requests for information from various parties, manages the allocation of adjudications, quality control, publication and payment of dispute in accordance with the adjudication.

### 3.3.2 Levels of Deposit Retention Disputes Internationally

Within this disputes framework, an important consideration for any new scheme will be the impact on dispute rates. The evidence from Indecon's analysis of disputes coming before the PRTB indicates that the retention of tenant deposits by landlords is the largest type of dispute in Ireland, however, these relate to a very small percentage of tenancies.

#### International Evidence

Previous research commissioned by the PRTB in 2009<sup>8</sup> suggests that 1% of tenancies in England, Wales and Australia are arbitrated on in relation to deposit retention issues. This is higher than in the case of Ireland.

Further evidence from the UK suggests that prior to the introduction of deposit protection schemes; deposit retention by landlords was reported in 40%<sup>9</sup> of cases.

The rate of disputes appears to be higher in New Zealand, but this may be influenced by the overall housing market and the system of housing support. In the Irish market the level of reported disputes to the PRTB may be impacted by rent supplement assisted tenancies and by the involvement of Threshold and other organisations.

The level of deposit related disputes is also likely to be influenced by the legislative framework. This may impact on compliance rates and on the official reporting of dispute rates.

#### Legislative Differences in Ireland

The level of disputes will, in part, be determined by the ease or otherwise of pursuing a dispute. This in turn is determined, in part, by the legislative context in each jurisdiction. As highlighted above, in Ireland, the PRTB acts as a quasi-judicial dispute resolution body and there is no appeal to the Courts for tenant/landlord disputes which means that the PRTB process must allow for an appeals mechanism. This is provided for by tenancy tribunals.

In the UK, where the legislative context is different there are rights of appeal in the case of deposit disputes within the ADR process offered by scheme operators.

<sup>8</sup> CMAAdvice (2009) 'Investigating the Viability of Establishing a Deposit Retention/Protection Scheme(s) in Ireland.

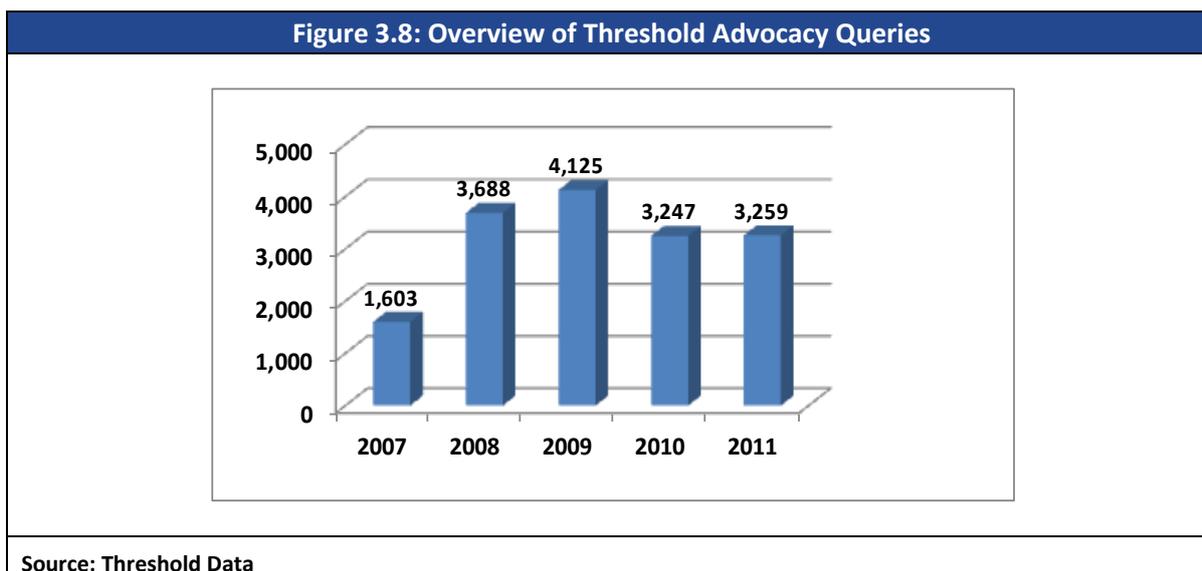
<sup>9</sup> National Association of Citizens Advice Bureau (1998) 'Unsafe Deposits'.

### The Impact of Non PRTB Disputes

In considering the context for a deposit protection scheme in Ireland, we highlighted that Threshold dealt with over 3,000 advocacy queries last year. While the exact number is unclear, it is likely that a proportion of these queries related to deposit retention by landlords.

While Threshold refer some tenants to the PRTB dispute process, Threshold's advocacy services also act as an important source of dispute reduction for some tenancies. If a deposit protection scheme is introduced in Ireland, some disputes that have not been reported to the PRTB may be dealt with by any new system, but this is only likely to be the case if there are legislative changes.

Figure 3.8 presents an overview of Threshold's queries.



### Scheme Avoidance

In the UK, the Department of Communities and Local Government have highlighted evidence of landlords making the decision not to take deposits. The legislation governing the rental sector in the UK does not make it compulsory for a deposit to be paid. As a result, in certain instances, it is suggested that landlords take two months' rent in advance rather than a deposit, thus technically avoiding the need to protect a deposit with a scheme. Other avoidance measures could include the taking of tenants' credit card details in an attempt to avoid entering a deposit protection scheme.

It is uncertain as to whether deposit retention schemes would increase or decrease the level of disputes. This was also noted in a previous study carried out by the PRTB which concluded that:

'It is not possible to assess whether the introduction of deposit protection schemes in England and Wales has increased or decreased the number of deposit retention disputes due to a lack of comparable data.'<sup>10</sup>

<sup>10</sup> CMAAdvice (2009) 'Investigating the Viability of Establishing a Deposit Retention/Protection Scheme(s) in Ireland.

### 3.3.3 What is the likelihood of getting back a deposit with scheme vs. without scheme?

Another consideration with the introduction of a deposit protection scheme is the impact on the likelihood of tenants getting their deposits back. While the evidence in this regard is limited, Table 3.2 below, adapted for an evaluation of deposit protection schemes in the UK<sup>11</sup>, provides some useful material.

Table 3.2: Trends in the Return of Tenants Deposits (%)					
	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010	2010 - 2011
Returned in Full	70.00%	67.00%	69.50%	70.50%	70.20%
Returned in Part	18.00%	23.00%	17.40%	15.80%	17.50%
Not Returned	12.00%	10.00%	13.00%	13.60%	12.30%

**Source: Adapted from TDS Evaluation of Deposit Protection Scheme in the UK.**  
Notes: The original table made use of English Housing Surveys from 2006 – 2010. Indecon have added 2011 to this analysis.

The data presented is from before (2006 – 2007) and after (2007 – Present) the deposit protection schemes were introduced in England and Wales. There are however a wide range of factors influencing the retention of deposits and it is difficult to isolate the impact of having a deposit retention scheme.

#### Compliance and Enforcement

The viability of any deposit protection scheme is influenced by the level of compliance that can be achieved in terms of the number of registrations.

There are a number of ways that compliance with a scheme(s) can be enhanced. Evidence from the UK suggests that tenants can influence the compliance rate in a scheme(s). In the recently introduced Safe Deposits custodial scheme in Scotland, when the tenant(s) pay the deposit to the landlord, scheme rules state that the landlord has a certain amount of time to register and transfer this deposit with the scheme. The ICT infrastructure has been designed in such a way that the tenant can then check if his/her deposit is protected. If it is the case that after the specified period of time the deposit is not protected, the legislation in Scotland allows for the tenant to apply to the Court for sanctions against the landlord.

This can result in the landlord paying the tenant up to three times the amount of the deposit and, in addition, may order the landlord to submit the deposit to an approved scheme (there are three in Scotland). These same penalties apply if the landlord fails to provide the tenant with the required information about their deposit. Again, there are time limits on when a case can be taken that generally run up to three months after the end of a tenancy.

<sup>11</sup> TDS (2012) 'Tenancy Deposit Protection; An evaluation of the scheme five years on'.

### 3.4 Summary of Findings and Implications

This section has brought together international evidence in terms of the main features and key processes involved in the functioning of custodial and insurance deposit protection schemes. It outlines best practice in deposit protection scheme processes based on the operation of schemes in other jurisdictions. We also highlight the implications of how other schemes are operated and how this might impact on choices for an Irish scheme(s).

There are two broad scheme options evident:

- Custodial deposit protection schemes; and
- Insurance-based deposit protection schemes.

Many of the features and processes that are required to operate a scheme are common across both options but the three main features of deposit protection schemes include:

- Initial registration with a scheme
- The protection of the deposit
- The end of a tenancy (whether through a dispute or not)

The international evidence suggests that if a scheme is introduced in Ireland a number of issues should be considered as follows:

- The need for sufficient investment in ICT in order to increase functionality including data storage space to accommodate evidence for disputes submitted online;
- The merits of providing multiple contact options in order to reach as much as the landlord/tenant population as possible via online contact if possible;
- The necessity for the reliability of service including the website which needs to be available 99.9% of the time;
- The need for best practice dispute resolution process which makes use of innovative adjudications (telephone and paper based) with constrained grounds for appeal if costs are to be minimised;
- The importance of designing scheme rules and ICT infrastructure to incentivise compliance.

## 4 Identification of Options

### 4.1 Introduction

In this section we consider a range of options, in terms of alternative approaches which could be pursued in introducing a scheme in Ireland. Specifically, a number of options and variants are identified, which are subsequently evaluated in Section 5 in terms their implications for scheme viability and also their wider costs and benefits for society.

### 4.2 Options for a Deposit Protection Scheme in Irish Context

The preceding section has shown that, broadly, there are two principle alternative approaches to tenancy deposit protection, namely:

- ❑ Custodial deposit protection scheme;
- ❑ Insurance-based deposit protection scheme.

There may also be other policy options not involving deposit retention which could be considered to enhance tenancy protection including the establishment of a fund to deal with the limited number of non-compliance cases of landlords who fail to repay deposits where a finding in favour of the tenant has been made.

In considering potential approaches to introducing and operating a formal tenancy deposit protection scheme in Ireland, among the aspects that merit consideration are as follows:

- ❑ The type of scheme: in terms of whether it would be structured along a custodial or insurance-based model;
- ❑ Management and operation of scheme: should a scheme be operated by a public body or a private company/organisation? What elements of a scheme could be outsourced versus managed and operated by a public body (e.g. scheme administration, dispute resolution, compliance enforcement)?
- ❑ Dispute resolution process: how should deposit-related disputes be resolved? Should this be undertaken using the existing PRTB dispute resolution system or an alternative dispute resolution framework (which is likely to require legislative change)?
- ❑ Enforcement: how should enforcement of compliance with scheme regulation be undertaken, and who should handle enforcement (public or private operator)?

While there is a range of possible variations on scheme approaches, for the purposes of this assessment Indecon has identified a set of eight scheme options, which capture the key factors and reflect the particular features of the context in Ireland. These options, which include four variants of a custodial deposit protection scheme and four alternative approaches for an insurance-based scheme, are summarised in table 4.1 and are elaborated upon in the subsequent paragraphs.

<b>Table 4.1: Description of Options for Evaluation</b>	
<b>Option</b>	<b>Summary Description</b>
Custodial DPS Option 1	Custodial Deposit Protection Scheme in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Custodial DPS Option 2	Custodial DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Custodial DPS Option 3	Custodial DPS Scheme Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Custodial DPS Option 4	Custodial Option 3, with changes in Dispute Procedures and Lower Dispute Resolution Costs
Insurance DPS Option 1	Insurance-based DPS in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Insurance DPS Option 2	Insurance-based DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Insurance DPS Option 3	Insurance-based DPS Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Insurance DPS Option 4	Insurance Option 3, with changes in Dispute Procedures and Lower Dispute Resolution Costs
<b>Source: Indecon</b>	

## 4.3 Description of Options

### 4.3.1 Custodial DPS Option 1

The first potential approach to introducing a deposit protection scheme in Ireland that we evaluate entails a custodial scheme, in which tenancy deposits are transferred to a scheme for the duration of each tenancy and then returned following negotiation/agreement between the tenant and the landlord. It is assumed under this option that the custodial scheme would be managed and operated by the PRTB.

Specifically, Custodial Option 1 would entail the PRTB managing and operating the following elements of a custodial scheme:

- ❑ Scheme administration, in terms of registration and repayment/ return of deposits. This would apply to new as well as existing tenancies;
- ❑ Dispute resolution, in relation to handling of any deposit-related disputes that would emerge between parties; and
- ❑ Enforcement of compliance, in relation to compliance with scheme registration requirements and determinations on deposit-related cases.

The rationale for evaluating this option as one of the range of alternative approaches is that the PRTB, as the statutory agency responsible for the registration of private tenancies and the resolution of deposit-related and other disputes between landlords and tenants, has knowledge in this area and could build upon existing structures to manage and operate a deposit protection scheme. Other possible advantages of a scheme which is fully managed and operated by the PRTB could include:

- ❑ Possible greater acceptability among tenants; and
- ❑ Would enable PRTB to build on its existing investments in ICT systems and other resources.

The key disadvantage of this approach relates to the costs which would be faced by PRTB in both set up and operational aspects of such a scheme and how these would be funded.

#### *ICT requirements*

To facilitate such an option, in relation to scheme set-up, the PRTB would need to invest in its existing ICT systems. In particular, it would be necessary to enhance the PRTB's Tenancy Management System (TMS) to facilitate the addition of a deposit registration module (i.e. as well as the existing tenancy registration). The experience of deposit protection scheme operators in other jurisdictions is that a cost-effective scheme requires a strong online presence/scheme website to which provides a user-friendly interface to landlords and tenants. The PRTB currently handles about 40% of tenancy registrations and about 50% of disputes online. To minimise the extent of additional staffing requirements for a deposit protection scheme, online capacity would need to be increased substantially (typically over 80% of scheme activity in the UK schemes, for example, is handled online) to enable greater automation and minimal manual handling. The system would also need to provide a national contact centre/call centre and a back-up paper-based service option for users.

#### *Dispute resolution*

In relation to dispute resolution, Custodial Option 1 (in addition to the other options identified) initially assumes that the present overall framework for dispute handling remains in place. Under Option 1, the PRTB would continue to handle deposit-related (as well and other) disputes, though there may be scope to realise some economies through increased usage of paper-based adjudications and other methods.

### *Enforcement*

Reflecting the small scale of the Irish private rental sector, it is assumed that registration of deposits with a deposit protection scheme would be compulsory rather than voluntary. The experience in other jurisdictions is that compulsory approach may be necessary to facilitate viability. This is also consistent with the compulsory nature of tenancy registration currently in place in Ireland. Reflecting this approach, there would be a requirement for enforcement activities to ensure that landlords (or their agents) comply with the legislation that would govern a deposit protection scheme and register deposits within a stipulated period and in accordance with the requirements. Under this option, registration-related enforcement activities would remain with the PRTB.

In addition to registration-related enforcement, the PRTB also issues Determination Orders made on foot of an adjudication in relation to a deposit-related dispute case, and these determinations often necessitate the issuing of warning letters and possible prosecutions (where landlords do not comply with a determination). It is assumed that under a scheme, however, there would no longer be a requirement for Determination Order-related enforcement activities and thus a scheme would realise savings in this area. This is because under a custodial scheme, deposits would be transferred to the scheme operator, who would therefore have control in relation to disbursement of these deposits following adjudication on a deposit-related dispute case. The estimated savings in Determination Order-related costs resulting from a scheme is considered further in Section 5.

### *Involvement of other state bodies*

It may also be feasible for state bodies other than the PRTB to manage and/or operate all or some elements of a deposit protection scheme. Options involving other public bodies have not been examined in detail in this assessment as we do not believe they would be appropriate, but these options could, for example, involve the PRTB working on a shared services basis with one or more state agencies that hold the types of ICT systems and call centre facilities that would be required to support a scheme, although some level of investment would likely be required to ensure integration of systems. Overall, given the PRTB's existing focus and expertise, and investment in its own ICT systems, it is considered unlikely that the management and operation of a deposit protection scheme by a state body other than the PRTB would be economically rational, as it could necessitate a duplication of infrastructure and the creation of additional integration and other costs.

#### **4.3.2 Custodial DPS Option 2**

Custodial Option 2 would be similar to Option 1, in that the PRTB would manage the deposit protection scheme and would also handle deposit-related (and other) dispute resolution as well as enforcement activities. However, under this option, the administrative aspect of operating a scheme, in terms of the registration and repayment/return of deposits, would be outsourced to an external, private sector operator. This could be undertaken through a contractual or licensing arrangement.

Most likely this would involve outsourcing to an existing scheme operator, as such an operator would be in a position to leverage their existing ICT and other infrastructure, as well as specialist expertise and staffing, to develop a 'bolt on' service in Ireland. It would be envisaged that under this approach, administration of a scheme could be achieved at a lower cost than under a scenario where this is undertaken by a new provider – who would have to invest substantially in developing new systems from scratch – as an existing provider would benefit from economies of scale in expanding its existing operations.

#### *ICT requirements*

To facilitate this option, there would be a requirement to integrate the ICT systems of the outsourced scheme administrator with those of the PRTB. This would reflect the need for consistency of tenancy data between the databases managed by the PRTB (tenancies registered on the TMS) and the scheme administrator. To ensure a user-friendly experience for landlords and tenants, this should involve a single user interface, so that landlords are not required to register tenancies with the PRTB and deposits separately with the scheme administrator, but can meet both requirements using one channel, ideally via a single website. Achieving integration of ICT systems and databases, and in particular integrating with the existing TMS, would require additional upfront investment on the part of the PRTB and the outsourced provider. This is discussed in relation to ICT costs under the appraisal of options presented in Section 5.

#### *Dispute resolution*

Under Custodial Option 2, it is envisaged that the outsourced scheme administrator would provide the initial channel for a tenant or landlord to raise a deposit-related dispute. However, this would then be referred to the PRTB, who would handle the dispute from this point on the basis of its normal procedures. As under Option 1, there would be scope for the PRTB to minimise the costs of dispute resolution within the existing legislative framework through greater utilisation of online and other negotiation options.

### **4.3.3 Custodial DPS Option 3**

The third custodial scheme option evaluated would entail full outsourcing of all aspects of the operation of a deposit protection scheme. The tendering process could be undertaken under the auspices of the PRTB, the Housing Agency or the Department of the Environment, Community and Local Government, and would involve licensing or contracting an external, private sector operator, who would handle scheme administration, dispute resolution and enforcement activities. The rationale for this option would be that outsourced provision of all three components of a scheme could realise greater economies through the exploitation of synergies between these elements, particularly where the scheme is operated by an existing scheme provider.

#### *Dispute resolution*

Under this option, the outsourced provider would, in addition to handing scheme administration, also manage the entire dispute resolution process in relation to deposit-related disputes. This would include dispute hearings and tribunals.

This option would require additional investment in staff and facilities to support these activities. However, it is also envisaged that an outsourced existing provider could realise efficiencies compared with the PRTB, by virtue of having existing dispute resolution systems in place which could be expanded to meet the requirements of a scheme in Ireland.

It is likely that outsourcing of deposit-related dispute resolution would, however, require enabling legislation to facilitate an extension or delegation of the PRTB's existing functions in this area to a third party.

#### *Enforcement activities*

Under the fully outsourced option for a custodial scheme, it is assumed that the outsourced provider would handle registration-related enforcement activities. This would relate to the issuing of warning letters as well as possible prosecutions taken against non-compliant landlords.

As in the case of dispute resolution above, the outsourcing of registration-related enforcement activities would most likely require enabling legislation to facilitate an extension or delegation of the PRTB's existing functions in this area.

#### *ICT requirements*

This option would also require additional investment in ICT infrastructure on the part of the outsourced provider to incorporate modules to facilitate dispute resolution and compliance-related enforcement activities. If this involved an existing scheme operator, these additional investment costs could be reduced, depending on the extent to which existing systems incorporated dispute resolution and enforcement functionality which could be leveraged within the context of the requirements for a scheme.

Unless a deposit protection scheme could operate under a revised legislative framework, a dispute resolution system which mirrors the PRTB's existing system would be required. However, this also indicates a potential disadvantage of this option in that there would be an effective duplication of elements of ICT and other infrastructure within the outsourced provider and the PRTB.

As under Option 2, this option would also necessitate investment to facilitate integration with the PRTB's TMS database so that deposit registration can be linked with tenancy registration.

### **4.3.4 Custodial DPS Option 4**

The fourth custodial scheme option evaluated resembles Option 3 in relation to scheme administration and enforcement activities. However, under this option it is assumed that dispute resolution costs would be reduced substantially.

### Dispute resolution

This would require legislative change to introduce a more streamlined dispute resolution framework for deposit-related disputes, to incorporate the following key aspects:

- ❑ The introduction of an Alternative Dispute Resolution (ADR) service for deposit-related disputes. This would be available free-of-charge to tenants/landlord/agents and would provide an alternative option to parties, which would be in addition to the option of going to court but with more limited rights of appeal (parties could choose to waive the right to go before the courts, but the outcome of the ADR process would be binding); and
- ❑ A streamlined process involving online negotiation between parties and the use of paper-based adjudication to reduce settlement times and the costs of resolving deposit-related cases.

### 4.3.5 Insurance DPS Option 1

Insurance Option 1 would involve the PRTB managing and operating all aspects of an insurance-based deposit protection scheme. Under this option, an insurance-based scheme would entail the following process:

- ❑ Landlords or agents would be legally required to register with a scheme and to protect tenancy deposits within a stipulated time period;
- ❑ The landlord would pay an upfront, once-off membership fee and would also be required to pay a fee per tenancy protected. An agent would pay an upfront fee in addition to an annual membership fee, as well as a fee per tenancy protected;
- ❑ If the landlord and the tenant agree the apportionment of a deposit, the landlord must inform the scheme that the deposit can be unprotected. The agreed division of the deposit would then take place and the tenant would be paid his/her agreed portion;
- ❑ If there is a dispute over the apportionment of the deposit, which cannot be resolved between the tenant and the landlord (or agent), a dispute would be lodged with the scheme. The landlord (or agent) would then be required to lodge the disputed amount of the deposit with the scheme until such time as the dispute is resolved;
- ❑ The tenant and the landlord/agent could resolve the dispute at any stage through mutual agreement. Alternatively, the tenant could make a formal dispute application with the PRTB, which would be resolved through the PRTB's normal dispute resolution procedures; and
- ❑ If the landlord fails to lodge the disputed amount of the deposit, the PRTB could seek to recover the amount directly from the landlord or make a claim on the scheme's insurance policy. The determined amount of the deposit would then be paid to the tenant.

### ICT requirements

To facilitate this option, in relation to scheme set-up, the PRTB would need to invest in its existing ICT systems. In particular, it would be necessary to enhance the PRTB's Tenancy Management System (TMS) to facilitate the addition of a deposit registration module (i.e. as well as the existing tenancy registration). To minimise the extent of additional staffing requirements for a deposit

protection scheme, online capacity would need to be increased substantially. The system would also need to provide a national contact centre/call centre and a back-up paper-based service option for users.

#### *Dispute resolution*

In relation to dispute resolution, Insurance Option 1 (in addition to the other options identified) initially assume that the present overall framework for dispute handling remains in place.

#### *Enforcement*

Similar to Custodial Option 1, it is assumed that registration of deposits with a deposit protection scheme would be compulsory. Under this option, registration-related enforcement activities would remain with the PRTB.

### **4.3.6 Insurance DPS Option 2**

Insurance Option 2 would be similar to Option 1, in that the PRTB would manage the deposit protection scheme and would also handle deposit-related (and other) dispute resolution as well as enforcement activities. However, under this option, the administrative aspect of operating a scheme, in terms of the registration, would be outsourced to an external, private sector operator.

#### *ICT requirements*

To facilitate this option, there would be a requirement to integrate the ICT systems of the outsourced scheme administrator with those of the PRTB. This would reflect the need for consistency of tenancy data between the databases managed by the PRTB (tenancies registered on the TMS) and the scheme administrator. The ICT requirements would be similar to the custodial option but with some modifications.

#### *Dispute resolution*

Under Insurance Option 2, it is envisaged that the outsourced scheme administrator would provide the initial channel for a tenant or landlord to raise a deposit-related dispute. However, this would then be referred to the PRTB, who would handle the dispute from this point on the basis of its normal procedures.

### **4.3.7 Insurance DPS Option 3**

The third insurance scheme option evaluated would entail full outsourcing of all aspects of the operation of a deposit protection scheme. This could be undertaken under the auspices of the PRTB, the Housing Agency or the Department of the Environment, Community and Local Government, and would involve licensing or contracting an external, private sector operator, who would handle scheme administration, dispute resolution and enforcement activities.

### *Dispute resolution*

Under this option, the outsourced provider would, in addition to handing scheme administration, also manage the entire dispute resolution process in relation to deposit-related disputes. This would include dispute hearings and tribunals.

### *Enforcement activities*

Under the fully outsourced option for an insurance scheme, it is assumed that the outsourced provider would handle registration-related enforcement activities. This would relate to the issuing of warning letters as well as possible prosecutions taken against non-compliant landlords. As in the case of dispute resolution above, the outsourcing of registration-related enforcement activities would most likely require enabling legislation to facilitate an extension or delegation of the PRTB's existing functions in this area.

### *ICT requirements*

This option would also require additional investment in ICT infrastructure on the part of the outsourced provider to incorporate modules to facilitate dispute resolution and compliance-related enforcement activities.

As under Option 2, this option would also necessitate investment to facilitate integration with the PRTB's TMS database so that deposit registration can be linked with tenancy registration.

## **4.3.8 Insurance DPS Option 4**

Insurance Option 4 resembles Option 3 in relation to scheme administration and enforcement activities. However, under this option it is assumed that dispute resolution costs would be reduced substantially.

### *Dispute resolution*

This would require legislative change to introduce a more streamlined dispute resolution framework for deposit-related disputes, to incorporate the following key aspects:

- ❑ The introduction of an Alternative Dispute Resolution (ADR) service for deposit-related disputes. This would be available free-of-charge to tenants/landlord/agents and would provide an alternative option to parties, which would be in addition to the option of going to court but with more limited rights of appeal (parties could choose to waive the right to go before the courts, but the outcome of the ADR process would be binding);
- ❑ A streamlined process involving online negotiation between parties and the use of paper-based adjudication to reduce settlement times and the costs of resolving deposit-related cases.

A more detailed consideration of the legislative, as well as financial, implications of this option is presented later in this section.

## 4.4 Legislative Implications of Different Scheme Options

Complexities in the Irish system are evident in relation to introducing a deposit protection scheme when compared to similar schemes in other jurisdictions. In other countries, scheme administrators are operating within a much different legal context than in Ireland. This is especially the case in the UK for example and we allude to the reasons for this below. Firstly, we outline how the legislative context in Ireland impacts on the operation of the work currently being carried out by the PRTB.

### 4.4.1 Current system in Ireland

The Residential Tenancies Act 2004 is the legislation governing the private rental sector in Ireland. Among other aspects, the ACT allowed for the establishment of a statutory Private Residential Tenancies Board (PRTB), a system of tenancy registration with the PRTB and provisions for a new dispute resolution service through the PRTB. The legislation bestows quasi-judicial powers on the PRTB in relation to dealing with disputes and in this respect; the PRTB replaced the Courts for all tenant/landlord disputes.

Other features of the Act include:

- ❑ Improved security of tenure through a system of 4-year tenancy cycles; and
- ❑ New tenancy termination procedures that involve longer notice periods linked to length of tenancy.

For the purposes of this assessment, the legislative context is especially important in its impact on the dispute resolution process.

Tenants and landlords who are registered with the PRTB must refer their disputes to the PRTB. The Act does not allow tenants and landlords to take a case to the Courts. Furthermore, because tenants cannot appeal to the Courts, the PRTB must offer rights to appeal in line with those rights as outlined in the Constitution. These factors combine to make the Irish system of rental dispute resolution more burdensome on the scheme administrator. Moreover, there are very strict time frames and procedures that the PRTB must follow in order to fulfil its remit under the Act.

Another important feature of the current legislative context in Ireland is the high cost associated with current disputes process. The multi stage PRTB disputes process involves mediation and adjudication as a first stage with the option of tenants and landlords to appeal to a tribunal hearing as a second stage. As we highlight in Section 5 of this assessment, these steps add significantly to the costs of the PRTB.

### 4.4.2 The Legislative Implications of Different Scheme Options

While the introduction of a scheme does not necessarily require the current Irish legislation to be changed, there may potentially be an argument for amending the current legislation in order to take advantage of; (i) best practice in scheme ADR internationally and; (ii) to assist a scheme to be financially viable.

In outlining the various scheme options above, Indecon has provided for scenarios where certain aspects of the schemes are outsourced. The implication derived from these options is that legislative change would be required for a number of reasons.

Specifically looking at the options where dispute resolution is outsourced, the PRTB would be required to delegate its authority to a new alternative dispute resolution (ADR) administrator. This would require legislative change because the quasi-judicial status of the PRTB would need to be maintained by any new operator. As the Act currently only allows for the PRTB to carry out this function, the legislation would need to be amended to allow another operator to manage the dispute process. This is particularly relevant to Custodial Options 2 and 3 and Insurance Options 2 and 3 where the outsourcing of disputes is evident.

Under Custodial Option 4 and Insurance Option 4, more fundamental legislative change would be needed to incorporate a dispute resolution process that is more streamlined and lower cost than the process currently in operation. Indecon's analysis of international ADR processes provides the rationale for the assumptions underlying a more streamlined dispute procedure.

Under the option considered of a more streamlined dispute procedure we assume the following:

- ❑ Scheme operator is required to offer free ADR.
- ❑ The scheme operators focus only on deposit related disputes.
- ❑ All adjudications are paper based.
- ❑ The tenant and the landlord do not attend hearings making dispute resolution much more cost efficient.
- ❑ There would be an option for tenants or landlords to pursue their case in the courts but if they instead proceed with the resolution process there would be no grounds for appealing an adjudicator's decision.

We assume, in both Option 4 scenarios outlined above, that applying these types of features would result in a reduction in the costs of dispute resolution in the Irish case. However, this would require significant legislative change.

#### 4.4.3 The Potential Outcome of Legislative Change

A process that is similar to that outlined above would reduce costs. It could also result in faster dispute resolution and a faster return of deposits to tenants.

The implications of the scheme options we have outlined above on the legislative context in the Irish case can thus be seen in two prominent ways; (i) where outsourcing is evident legislative amendments would potentially be required; and (ii) where our assumptions imply a more streamlined disputes process, very significant legislative change would be required.

## 4.5 Summary of Findings

This study identifies and evaluates a range of options, in terms of alternative approaches which could be pursued in introducing a scheme in Ireland.

Broadly, there are two principal alternative approaches to tenancy deposit protection, in terms of the types of formal, State regulated schemes that can be operated, namely:

- ❑ Custodial deposit protection scheme; and
- ❑ Insurance-based deposit protection scheme.

In considering potential approaches to introducing and operating a tenancy deposit protection scheme in Ireland, among the key aspects that require consideration are as follows:

- ❑ The type of scheme: in terms of whether it would be structured along a custodial or insurance-based model;
- ❑ Management and operation of scheme: should a scheme be operated by a public body or a private company/organisation? What elements of a scheme could be outsourced versus managed and operated by a public body (e.g. scheme administration, dispute resolution, compliance enforcement)?
- ❑ Dispute resolution process: how should deposit-related disputes be resolved? Should this be undertaken using the existing PRTB dispute resolution system or an alternative dispute resolution framework (which may or may not require legislative change)?
- ❑ Enforcement: how should enforcement of compliance with scheme regulation be undertaken, and who should handle enforcement (public or private operator)?

While there is likely to be a wide range of possible variations on scheme approaches, for the purposes of this assessment Indecon has identified a set of eight alternative scheme options, which capture the key factors highlighted above and reflect the particular features of the context in Ireland. These options, which include four variants of a custodial deposit protection scheme and four alternative approaches for an insurance-based scheme, are summarised in the table below.

Description of Options for Evaluation	
Option	Summary Description
Custodial DPS Option 1	Custodial Deposit Protection Scheme in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Custodial DPS Option 2	Custodial DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Custodial DPS Option 3	Custodial DPS Scheme Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Custodial DPS Option 4	Custodial Option 3, with changes in Dispute Procedures and Lower Dispute Resolution Costs
Insurance DPS Option 1	Insurance-based DPS in which PRTB Operates all Scheme Components (Scheme Administration, Dispute Resolution and Enforcement)
Insurance DPS Option 2	Insurance-based DPS Option 1 but with Scheme Administration Outsourced. PRTB continues to handle deposit-related disputes and enforcement issues
Insurance DPS Option 3	Insurance-based DPS Fully Outsourced to an Existing Provider (Admin, Disputes and Enforcement)
Insurance DPS Option 4	Insurance Option 3, with changes in Disputes Procedures and Lower Dispute Resolution Costs
<b>Source: Indecon</b>	

## 5 Appraisal of Options

### 5.1 Introduction

This section addresses financial and economic appraisal of a range of alternative options for a deposit protection scheme in Ireland. Specifically:

- ❑ The number of tenancies that would be protected under a scheme;
- ❑ The potential interest or other income generated by a scheme;
- ❑ The ICT structure and associated costs that would be required to set up and support a scheme, and how this would fit within the existing PRTB's infrastructure;
- ❑ The costs associated with operating a scheme, including staffing and staff costs, non-staff/overhead costs, dispute resolution costs and enforcement costs; and
- ❑ The financial viability of a scheme, including whether it would be self-financing.

It should, however, be noted that there are significant uncertainties regarding a number of variables which will influence the financial appraisal of different options.

### 5.2 Financial Appraisal

#### 5.2.1 Appraisal assumptions

To undertake a financial appraisal of the options for a deposit protection scheme we specify a detailed set of assumption governing the following aspects:

- ❑ The number of tenancies protected under a scheme, including the number of private tenancies and adjustments to reflect the planned transfer of Rent Supplement-assisted tenancies to the local authority sector and the extent of compliance among landlords/agents;
- ❑ The numbers of landlords and agents that could become members of an insurance-based deposit protection scheme;
- ❑ The nature of tenancies, including the average duration of tenancies protected;
- ❑ Assumptions driving the potential value of the pool of deposits protected under a custodial scheme and the interest income that could be generated on this pool, including the average deposit value and the structure and level of interest rates;
- ❑ Assumptions in relation to the structure of membership and deposit protection fees that would be payable by landlords/agents under an insurance-based scheme;
- ❑ The structure of scheme set-up/development costs, and assumptions governing the components of these costs, including ICT and other costs;
- ❑ The level of staffing requirements and staffing costs, and other costs associated with operating a scheme;
- ❑ The costs of Dispute Resolution for deposit-related disputes; and
- ❑ Enforcement Costs, relating to the costs of compliance enforcement.

### Assumptions governing number of tenancies protected under a scheme

The identification of the number of tenancies that will form the basis of a deposit protection scheme is presented in Table 5.1. We make use of CSO population and population growth forecasts as well as identifying private tenancies as a percentage of private households for 2011.

Table 5.1: Key Assumptions underlying Projected Number of Tenancies Protected – Population, Households and Privately rented Households								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Population</i>								
Population and Population Growth (CAGR - % by Period)								
2011 - 2016	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%	1.64%
2016 - 2021	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%
2021 - 2026	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
2026 - 2031	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Population - No. of Persons - 2011	4,588,252	4,588,252	4,588,252	4,588,252	4,588,252	4,588,252	4,588,252	4,588,252
<i>Households and Private Tenancies</i>								
No. of Private Households - 2011	1,654,208	1,654,208	1,654,208	1,654,208	1,654,208	1,654,208	1,654,208	1,654,208
Assume No. of Private Households grows in line with Overall Population*								
No. of Private Tenancies - 2011 (A)	305,377	305,377	305,377	305,377	305,377	305,377	305,377	305,377
Private Tenancies as % of Private Households - 2011	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
Assume Private Rented % remains Constant over Appraisal Period								
<b>Source: Indecon</b>								
* The number of households is assumed to grow in line with overall population, with average household size and dwelling vacancy rate remaining constant over model period								

Within the overall number of private rented tenancies, some tenancies that are assisted through the payment of rent supplement. In identifying the number of tenancies that would form the basis of a deposit protection scheme(s), Indecon was made aware that over the next number of years a proportion of these rent supplement tenancies are likely to transfer to the local authority sector and thus are assumed not to be available to a new scheme.

The table below outlines the assumptions that facilitate the removal of these tenancies from any such scheme. Rent supplement assisted tenancies can be broken down between two broad categories, long term and short term. It is assumed that long-term rent supplement tenancies will transfer to the local authority sector; these represent 77% of all rent supplement tenancies.

**Table 5.2: Key Assumptions underlying Projected Number of Tenancies Protected – Transfer of Rent Supplement Tenancies to Local Authority Sector**

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Transfer of Rent Supplement Tenancies into Local Authority Sector*</i>								
No. of Rent Supplement Tenancies - End-2011 (DSP)	96,800	96,800	96,800	96,800	96,800	96,800	96,800	96,800
Estimated No. of Rent Supplement Landlords	74,519	74,519	74,519	74,519	74,519	74,519	74,519	74,519
Long-term Rent Supplement Tenancies (transferring to Local Authorities) - % of Total Rent Supplement Tenancies	77%	77%	77%	77%	77%	77%	77%	77%
Assume that Long-term Rent Supplement Tenancies transfer to LA sector over a 4-year period, commencing in 2013, as per following phasing:								
2013	10%	10%	10%	10%	10%	10%	10%	10%
2014	20%	30%	30%	30%	30%	30%	30%	30%
2015	40%	70%	70%	70%	70%	70%	70%	70%
2016	30%	100%	100%	100%	100%	100%	100%	100%
<i>Short-term Rent Supplement Tenancies</i>								
Assume number of short-term Rent Supplement Tenancies remains constant over appraisal period	21,800	21,800	21,800	21,800	21,800	21,800	21,800	21,800
<b>Source: Indecon</b>								
* It is assumed that a proportion of Rent Supplement Tenancies will transfer into the Local Authority Housing Assistance Payment scheme and that these tenancies will no longer involve payment of deposits (which would be replaced by a State guarantee)								

The number of tenancies that would be likely to participate in a deposit protection scheme would be determined by the rate of compliance. In Table 5.3, we outline the current compliance rate in Ireland in terms of tenancies registered with the PRTB as a percentage of total private tenancies, namely 82%. We assume that the rate of compliance a new scheme will generate is approximately 80%. A potential concern is that the non-compliant landlords may be those who are of particular focus of such a scheme.

We take into account a variety of factors when estimating how the rate of compliance might change over time with a new scheme and in this regard our assumptions allow for a scheme ramp-up phase. This allows for tenancies to register with a scheme over a period of time.

Table 5.3: Key Assumptions underlying Projected Number of Tenancies Protected – Compliance Rates for Tenancy Registration								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Compliance (Rate of Registration of Tenancies Protected)</i>								
No. of Tenancies Registered with PRTB (end-August 2012)	263,596	263,596	263,596	263,596	263,596	263,596	263,596	263,596
Adjustment to reflect Non-Closure of Tenancies	5%	5%	5%	5%	5%	5%	5%	5%
No. of Tenancies Registered with PRTB - Adjusted (B)	250,416	250,416	250,416	250,416	250,416	250,416	250,416	250,416
Estimated Current Compliance Rate (= (B) / (A) )	82%	82%	82%	82%	82%	82%	82%	82%
Scenarios for Scheme Compliance Rates								
Build in scheme ramp-up period								
2014	50%	50%	50%	50%	50%	50%	50%	50%
2015	60%	60%	60%	60%	60%	60%	60%	60%
2016	70%	70%	70%	70%	70%	70%	70%	70%
2017	80%	80%	80%	80%	80%	80%	80%	80%
2018	80%	80%	80%	80%	80%	80%	80%	80%
2019	80%	80%	80%	80%	80%	80%	80%	80%
2020	80%	80%	80%	80%	80%	80%	80%	80%
2021	80%	80%	80%	80%	80%	80%	80%	80%
2022	80%	80%	80%	80%	80%	80%	80%	80%
2023	80%	80%	80%	80%	80%	80%	80%	80%
Source: Indecon								

**Assumptions re number of landlords/agents for insurance-based scheme**

An insurance based deposit protection scheme allows for landlords and agents to hold their tenants deposits for the term of the tenancy but they pay a fee to the scheme administrator to do so. This fee protects the deposit. In estimating the total scheme fees, Indecon presents the number of landlords and agents in Ireland.

<b>Table 5.4: Key Assumptions underlying Projected Number of Tenancies Protected – Number of Private Landlords/Agents (Insurance-based Scheme)</b>				
<b>Scheme Option</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
<i>No. of Private Landlords</i>				
PRTB ratio of Active Registered Tenancies to Active Registered Landlords - August 2012	1.299	1.299	1.299	1.299
Estimated Number of Landlords/Agents	203,928	203,928	203,928	203,928
Company/Agents as % of Total Landlords/Agents	2.9%	2.9%	2.9%	2.9%
Landlords as % of Total Landlords/Agents	97.1%	97.1%	97.1%	97.1%
<b>Source: Indecon</b>				

It is also important to calculate the ratio of active registered tenancies to active registered landlords so that for an insurance scenario, Indecon makes an adjustment for those landlords who are accounted for in rent supplement tenancies. The same adjustment for tenants and landlords must be made in this regard.

**Assumptions re nature of tenancies protected**

The table below outlines tenancy duration and the estimated annual turnover rate of tenancies that will be evident in a scheme(s). These measures are important in determining cash flows in a scheme. A higher turnover percentage also has implications for scheme administration as there are more transactions to deals with over the course of a year.

Indecon has assumed that the average duration of tenancies in Ireland is 15 months. Preliminary estimates of the average duration of tenancies developed by the PRTB suggest an average duration of about 18 months. Further analysis is underway within the PRTB. However, an important factor impacting on these estimates is that as landlords are not obliged to notify the PRTB when tenancies close and there is often a significant time lag between when a tenancy ends and when this is actually reported.

Table 5.5: Key Assumptions underlying Projected Number of Tenancies Protected – Nature of Tenancies Covered by Scheme								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Nature of Tenancies Covered by a Scheme</i>								
Assume that a scheme is required to protect existing as well as new tenancies								
<i>Average Duration of Tenancy Registered/Protected</i>								
Average Duration of Tenancy Registered/Protected - Months	15	15	15	15	15	15	15	15
Tenancy annual turnover rate - %	80%	80%	80%	80%	80%	80%	80%	80%
Source: Indecon								

### ***Assumptions re deposit pool and interest rates for custodial scheme***

Assumptions for the deposit pool and interest rates influence expected income in the custodial scheme options. This deposit pool is likely to be segmented according to various funding requirements. Firstly, a custodial scheme will be required to hold a percentage of the deposit pool in cash given that there will be a proportion of tenancies turning over at any one time. Indecon assumes that this would amount to 10% of the deposit pool.

This leaves 90% of the fund to be invested. From consultation with scheme operators internationally, Indecon estimates that the remaining fund will be invested in three separate ways as outlined in the table 5.6.

In the table, we also outline the weighted average monthly rent. Implicit in this figure is the assumption that the average deposit level equals one month rent.

<b>Table 5.6: Key Assumptions – Deposit Pool and Interest Income (Custodial Scheme Options)</b>				
Scheme Option	Custodial			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4
<i>Average Deposit Levels</i>				
Weighted Average Monthly Rent* (estimated from Census of Population (2011) data)	€749.83	€749.83	€749.83	€749.83
Deposit Pool = (Weighted Average Monthly Rent * Number of Tenancies Protected)				
<i>Interest Rates</i>				
Deposit Fund Held in Cash - %	10.00%	10.00%	10.00%	10.00%
Fund Earning Interest				
80% over 12 months earning interest @ annual equivalent rate of:	3.25%	3.25%	3.25%	3.25%
5% over 6 Months earning interest @ annual equivalent rate of:	2.40%	2.40%	2.40%	2.40%
5% over 3 months earning interest @ annual equivalent rate of:	2.30%	2.30%	2.30%	2.30%
<b>Source: Indecon</b>				
* Indecon assumes that the average deposit equals one month's rent.				

### **Assumptions re membership and tenancy protection fees under insurance-based scheme**

Our estimates for scheme fees are outlined in Table 5.7 and include these elements: once off joining fees, deposit protection fees and annual membership fees. These fees are estimates based on average of UK insurance scheme euro-equivalent 2012/13 fees per tenancy protected. The actual fees would be influenced by the level of competition and Irish risk experience.

<b>Table 5.7: Key Assumptions – Insurance-based Scheme Fee Assumptions</b>				
Scheme Option	Insurance			
	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Fee per Deposit Protected	€27.91	€27.91	€27.91	€27.91
Annual Membership Fee per Agent	€77.53	€77.53	€77.53	€77.53
Joining Fee (Once Off) per Landlord	€74.42	€74.42	€74.42	€74.42
<b>Source: Indecon</b>				
* Based on average of UK insurance scheme euro-equivalent 2012/13 fees per tenancy protected				

### **Assumptions re scheme set-up/development costs**

This section outlines assumptions on the various costs structures of the scheme options appraised. Having previously outlined how both custodial and insurance schemes are generally structured in terms of costs, here we present an indicative outline of the specific cost aspects of each scheme and variants of both custodial and insurance schemes. We begin by highlighting set-up costs.

The table below presents some indicative estimates of the initial costs of scheme set-up/development across the range of deposit protection scheme options appraised. Some options are more expensive than others given the extra administration that would be involved. This is determined by the level of required functionality of ICT systems to a large extent but account is also taken of variances in other set-up costs also. Until a specific scheme is designed and IT requirements are tendered, there is inevitable uncertainty on the likely costs but based on available evidence and our consultations the figures represent best assumptions at this stage.

<b>Table 5.8: Key Assumptions – Scheme Set-Up/Development Costs</b>								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>ICT Costs (ex VAT)</i>								
ICT System Analysis, Design, Build and Deploy	€876,645	€651,470	€812,394	€812,394	€938,952	€688,871	€859,033	€859,033
Hardware and Software	€106,500	€48,680	€68,230	€68,230	€106,500	€48,680	€68,230	€68,230
<i>Sub-total</i>	<i>€983,145</i>	<i>€700,150</i>	<i>€880,624</i>	<i>€880,624</i>	<i>€1,045,452</i>	<i>€737,551</i>	<i>€927,263</i>	<i>€927,263</i>
Call Centre Infrastructure	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000
<b>Total ICT Costs</b>	<b>€1,003,145</b>	<b>€720,150</b>	<b>€900,624</b>	<b>€900,624</b>	<b>€1,065,452</b>	<b>€757,551</b>	<b>€947,263</b>	<b>€947,263</b>
<i>Other Set-Up/Development Costs (ex VAT)</i>								
Accommodation - Fit-Out Costs	€156,053	€125,298	€125,298	€125,298	€131,449	€109,920	€109,920	€109,920
Marketing	€29,770	€29,770	€29,770	€29,770	€29,770	€29,770	€29,770	€29,770
Legal Fees	€74,424	€74,424	€74,424	€74,424	€74,424	€74,424	€74,424	€74,424
Call Centre Training	€44,654	€44,654	€44,654	€44,654	€44,654	€44,654	€44,654	€44,654
Travel	€22,327	€35,724	€44,654	€44,654	€22,327	€35,724	€44,654	€44,654
Other Set-Up Costs (Tender Preparation, Seminars etc.)	€89,309	€119,078	€119,078	€119,078	€89,309	€119,078	€119,078	€119,078
<i>Sub-total</i>	<i>€416,537</i>	<i>€428,947</i>	<i>€437,878</i>	<i>€437,878</i>	<i>€391,933</i>	<i>€413,570</i>	<i>€422,501</i>	<i>€422,501</i>
<b>Total Scheme Set-Up/Development Costs</b>	<b>€1,419,682</b>	<b>€1,149,098</b>	<b>€1,338,502</b>	<b>€1,338,502</b>	<b>€1,457,385</b>	<b>€1,171,121</b>	<b>€1,369,763</b>	<b>€1,369,763</b>
Accommodation - Fit-Out Costs - € per Sq Ft	€40	€40	€40	€40	€40	€40	€40	€40
Space per Staff FTE - Net Sq Ft per Person	80	80	80	80	80	80	80	80
Accommodation - Space required (@ 2018 staffing levels) - Sq Ft.	3901	3132	3132	3132	3286	2748	2748	2748
<b>Source: Indecon</b>								

**Assumptions re scheme administration costs: staffing requirements**

Differences in the nature of schemes and the volume of activity required to administer each scheme in relation to tenancies registered also have an impact in terms of staffing requirements. All things being equal, custodial schemes require more staff than insurance schemes.

Breaking down the level of staffing requirements by function, we can see from the table below that the main difference in staffing requirement between schemes is in the registration of tenancies and funds custody where the administrative burden is larger for the custodial scheme options, thus more staff are required.

Staff levels are also influenced by the number of tenancies a scheme supports as can be seen in the figures below.

<b>Table 5.9: Key Assumptions re Scheme Operating Costs – Scheme Administration Costs: Staffing Requirements under PRTB Scheme Options</b>				
<b>Function</b>	<b>Custodial*</b>		<b>Insurance*</b>	
	<b>150,000 Tenancies Protected</b>	<b>300,000 Tenancies Protected</b>	<b>150,000 Tenancies Protected</b>	<b>300,000 Tenancies Protected</b>
Registration	4.8	8.0	3.2	3.2
Funds Custody etc.	6.4	11.5	2.6	4.6
Call Centre	7.0	12.0	7.0	12.0
Scheme Website	1.0	1.5	1.0	1.0
Managing Director	1.0	1.0	1.0	1.0
Accounts Manager	1.0	1.0	1.0	1.0
Office & Admin	1.6	3.2	1.6	3.2
Dispute Resolution	7.0	11.7	7.0	11.7
Enforcement (Registration and DO Enforcement)	5.0	7.7	5.0	7.7
<b>Total</b>	<b>34.8</b>	<b>57.7</b>	<b>29.4</b>	<b>45.5</b>
<b>Total excluding Dispute Resolution and Enforcement</b>	<b>22.8</b>	<b>38.2</b>	<b>17.4</b>	<b>26.0</b>
<b>Source: Indecon Estimates</b>				
* PRTB options assume that 50% of activity is undertaken using Online channels				

These staffing requirements are significantly diminished under scenarios where scheme outsourcing is considered. The figures below outline staff requirements in this regard. The figures assume that 80% of the scheme administrators' activity is undertaken using online channels of communication where possible.

**Table 5.10: Key Assumptions re Scheme Operating Costs – Scheme Administration Costs: Staffing Requirements under Outsourced Scheme Options**

Function	Custodial*		Insurance*	
	150,000 Tenancies Protected	300,000 Tenancies Protected	150,000 Tenancies Protected	300,000 Tenancies Protected
Registration	3.0	5.0	2.0	2.0
Funds Custody etc.	4.0	7.2	1.6	2.9
Call Centre	5.0	7.5	5.0	7.5
Scheme Website	1.0	1.0	1.0	1.0
Managing Director	1.0	1.0	1.0	1.0
Accounts Manager	1.0	1.0	1.0	1.0
Office & Admin	1.0	2.0	1.0	2.0
Dispute Resolution	6.0	8.6	6.0	8.6
Enforcement (Registration and DO Enforcement)	3.5	5.0	3.5	5.0
<b>Total</b>	<b>25.5</b>	<b>38.3</b>	<b>22.1</b>	<b>30.9</b>
<b>Total excluding Dispute Resolution and Enforcement</b>	<b>16.0</b>	<b>24.7</b>	<b>12.6</b>	<b>17.4</b>

**Source: Indecon Estimates**

\* Outsourced options assume that 80% of activity is undertaken using Online channels

**Assumptions re scheme administration costs: staff and non-staff costs**

The second main category of costs we estimate are scheme administration costs. Evidence from international schemes suggests that increasing the viability of schemes of this nature relies on the use of online scheme management where possible and to the highest degree possible.

Thus an important assumption we draw upon here is the percentage of client activity handled online versus manually. This in turn influences the operating costs outlined in the table below.

In relation to non-staff administration costs, we take account of added bank charges that are likely to exist in the custodial scheme options.

**Table 5.11: Key Assumptions – Operating Costs: Scheme Administration (Staff and Non-Staff) Costs**

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Operating Costs: Scheme Administration</b>								
% of Client Activity handled Online	50%	80%	80%	80%	50%	80%	80%	80%
% of Client Activity handled Manually	50%	20%	20%	20%	50%	20%	20%	20%
<i>Average Staff Costs (Wages &amp; Salaries) - € per FTE</i>								
Registration	€19,050	€19,050	€19,050	€19,050	€19,050	€19,050	€19,050	€19,050
Funds Custody etc.	€25,000	€25,000	€25,000	€25,000	-	-	-	-
Call Centre	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000
Scheme Website	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000
Scheme Managing Director/CEO	€80,000	€80,000	€80,000	€80,000	€80,000	€80,000	€80,000	€80,000
Accounts Manager	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000	€25,000
Office & Admin	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000	€20,000
<i>Non-Staff Costs</i>								
Office Rent - Average Dublin Rental Value - € per Sq Ft inclusive of Rent, Rates and Service Charges	€25	€25	€25	€25	€25	€25	€25	€25
Space per Staff FTE - Net Sq Ft per Person	80	80	80	80	80	80	80	80
Bank Charges - % of Turnover of Deposit Pool (Custodial Scheme only)	0.21%	0.21%	0.21%	0.21%				
Annual IT Support (@12.5% of Total ICT costs inclusive of Call Centre)	€125,393	€90,019	€112,578	€112,578	€133,182	€94,694	€118,408	€118,408
Other Overhead Costs* - driven by Turnover of Tenancies Protected (Tenancies Protected * Tenancy Turnover Rate) and unit rate per tenancy of €:	€3.0	€2.9	€2.7	€2.7	€3.0	€2.9	€2.7	€2.7
<b>Source: Indecon</b>								
* 'Other Overhead' includes postage & printing, office supplies, utilities, marketing & publicity, call centre (non-staff costs) and other office admin costs								

**Assumptions re insurance costs under insurance-based scheme**

The scheme operator in the insurance scheme must take out an insurance policy in order to protect itself from landlords who do not forward the deposit to the operator in a scenario where there is a dispute at the end of a tenancy.

In this case, a number of things can happen including the scheme paying back the disputed deposit to the tenant and then attempting to recover this sum from the landlord. If it fails to do so, it can then claim this amount from its insurance provider and in some cases revoke the particular landlords' membership of the scheme, depending on the scheme's terms and conditions.

Indecon estimates that the insurance premium per tenancy for the insurance scheme could equate to 3% of the average deposit level, or €22.50. This, however, would be determined by the level of market competition and the subsequent risk experience of insurers.

<b>Table 5.12: Key Assumptions – Operating Costs: Insurance Costs (Protection Costs under Insurance-based Scheme)</b>				
<b>Scheme Option</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
Premium Per Tenancy for Insurance Scheme @ 3% of Average Deposit	€22.50	€22.50	€22.50	€22.50
<b>Source: Indecon</b>				

**Assumptions re Dispute Resolution Costs**

Previous research relating deposit protection schemes and Indecon's consultation process has highlighted dispute resolution costs as central to determining the viability of a deposit protection scheme. These costs are dependent on the nature of the dispute resolution regime.

The table overleaf highlights key ratios in terms of disputes and tenancies; and tribunals and tenancies. Making use of data from the PRTB, we also outline the unit costs of disputes and the latest dispute rates.

Table 5.13: Key Assumptions – Operating Costs: Dispute Resolution Costs

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Dispute Rates</i>								
Deposit-related Dispute Rate - Deposit-related Disputes Received as % of Tenancies Registered/Protected	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%
Deposit-related Disputes Heard as % of Deposit-related Disputes Received	72.5%	72.5%	72.50%	36.25%	72.5%	72.5%	72.50%	36.25%
Deposit-related Disputes to Tribunal as % Disputes Heard	20.70%	20.70%	20.70%	0.00%	20.70%	20.70%	20.70%	0.00%
<i>Threshold Deposit-related queries</i>								
Number of deposit-related queries handled - 2011	3,259							
Deposit-related queries referred to PRTB	129							
<i>Dispute Unit Costs</i>								
Unit Costs Per Dispute Heard	€1,386	€1,386	€1,247	€1,000	€1,386	€1,386	€1,247	€1,000
Unit Costs Per Tribunal	€3,345	€3,345	€3,011	€0	€3,345	€3,345	€3,011	€0
Source: Indecon								

We assume that deposit-related disputes received as a percentage of tenancies registered/protected is 1.15%.<sup>12</sup> This takes the current level of dispute applications made to the PRTB and adds a proportion of queries dealt with by organisations or are unreported that would potentially result in scheme disputes if a deposit protection scheme is introduced. Secondly, we assume that a certain proportion (72.50%) of the 1.15% is heard as some cases are resolved through mediation and do not need a formal dispute to be commenced. Finally, we assume that just over 1 in 5 of those disputes that *are* heard go to the final, tribunal stage.

<sup>12</sup> PRTB deposit related dispute rate for 2011 = 0.31%. To this we add 0.84% which is that percentage of Threshold queries that relate to deposit retention that could form part of total disputes in a deposit protection scheme. This is adjusted for that proportion of queries that Threshold already sends to the PRTB (129 in 2011). If tenants believe that a fund is available and it is easy to obtain payment, the level of dispute could increase. Our assumption on percentage is in line with UK experience.

Within the table we vary these key assumptions across both custodial and insurance options. For option 4 (both custodial and insurance) we assume that the proportion of deposit-related disputes that go to hearing falls by 50% (36.25% vs. 72.50%) in comparison to options 1, 2 and 3. In these scenarios, we assume that there are no tenancy tribunals and that all disputes are handled at mediation/adjudication stage. These assumptions apply to a situation where legislative adjustments make it possible to;

- Reduce the number of stages in the dispute resolution process; and
- Reduce dispute resolution costs through innovations in the dispute process.

### **Assumptions re Enforcement Costs**

Enforcement costs are determined by the assumptions outlined below. This data represents recent estimates for the PRTB. We use this data to inform our modelling of enforcement costs across different scheme scenarios. Our assumptions for custodial and insurance schemes in this table are constant across options. Indecon assumes that with the introduction of a deposit protection scheme, the costs of determination order enforcement as currently experienced by the PRTB would cease to be a significant issue for a scheme operator.

<b>Table 5.14: Key Assumptions – Operating Costs: Scheme Enforcement Costs</b>								
<b>Scheme Option</b>	<b>Custodial</b>				<b>Insurance</b>			
	<b>Custodial Option 1</b>	<b>Custodial Option 2</b>	<b>Custodial Option 3</b>	<b>Custodial Option 4</b>	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
<b>Enforcement Costs</b>								
Determination Orders as % of Tenancies Protected	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Registration Enforcement Orders as % of Tenancies Protected	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%	1.09%
Registration Enforcement Prosecutions as % of Tenancies Protected	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Unit Costs Per DO Enforcement	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388
Unit Costs of Enforcement (Warning Letters)	€32	€32	€29	€29	€32	€32	€29	€29
Unit Costs of Enforcement (Prosecutions)	€3,463	€3,463	€3,117	€3,117	€3,463	€3,463	€3,117	€3,117
<b>Source: Indecon</b>								

## 5.2.2 Estimated number of tenancies protected

This section brings together the assumptions outlined in the previous section into a set of structured output tables from Indecon's detailed financial modelling and appraisal.

The table below presents the projected population, number of private households, number of rented dwellings and percentage share of private households in rented dwellings from 2011 to 2023. The figures assume, as mentioned previously, that the percentage share of private households in rented dwellings remains constant over the appraisal period.

<b>Table 5.15: Population, Households and Private Tenancies</b>				
<b>Year</b>	<b>Population - State - No. of Persons</b>	<b>Number of Private Households</b>	<b>Number of Private Households in Rented Dwellings</b>	<b>% Share of Private Households in Rented Dwellings</b>
2011 - Actual	4,588,252	1,654,208	305,377	18.5%
2012	4,663,298	1,681,264	310,372	18.5%
2013	4,739,572	1,708,763	315,448	18.5%
2014	4,817,093	1,736,712	320,608	18.5%
2015	4,895,882	1,765,118	325,852	18.5%
2016	4,975,959	1,793,989	331,181	18.5%
2017	5,041,863	1,817,749	335,568	18.5%
2018	5,108,640	1,841,824	340,012	18.5%
2019	5,176,302	1,866,218	344,515	18.5%
2020	5,244,859	1,890,935	349,078	18.5%
2021	5,314,325	1,915,980	353,702	18.5%
2022	5,384,710	1,941,356	358,386	18.5%
2023	5,456,028	1,967,068	363,133	18.5%

Source: Indecon analysis based on CSO, Census of Population data

Table 5.16 brings together the assumptions outlined above in terms of rent supplement assisted tenancies that will not be in a scheme. Accounting for the assumed adjustments, we estimate figures for the adjusted potential number of private tenancies that could be registered under a deposit protection scheme.

This table allows us to view the profile of the long term rent supplement adjustment over time.

**Table 5.16: Private Tenancies adjusted to Reflect Transfer of Long-Term Rent Supplement Tenancies to Local Authority Sector**

Year	Number of Private Households in Rented Dwellings	Existing Overall Number of Rent Supplement Tenancies	Existing Number of Long-Term Rent Supplement Tenancies	Transfer of Long-Term Rent Supplement Tenancies	Adjusted Potential Number of Private Tenancies Registrable under a Deposit Protection Scheme
2011 - Actual	305,377	96,800	75,000		
2012	310,372				
2013	315,448			7,500	307,948
2014	320,608			15,000	298,108
2015	325,852			30,000	273,352
2016	331,181			22,500	256,182
2017	335,568				260,568
2018	340,012				265,012
2019	344,515				269,516
2020	349,078				274,079
2021	353,702				278,702
2022	358,386				283,387
2023	363,133				288,133

Source: Indecon analysis

We then apply Indecon's assumptions as they relate to scheme ramp up. Under our compliance rate assumptions, we estimate the number of tenancies that will form the basis for a deposit protection scheme in Ireland. We project these figures forward to 2023 as presented in the table below. We assume that the compliance rate remains the same across all scenarios and this is reflected in table 5.17.

**Table 5.17: Estimated Number of Private Residential Tenancies Registered under a Tenancy Deposit Protection Scheme**

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	149,054	149,054	149,054	149,054	149,054	149,054	149,054	149,054
2015	164,011	164,011	164,011	164,011	164,011	164,011	164,011	164,011
2016	179,327	179,327	179,327	179,327	179,327	179,327	179,327	179,327
2017	208,454	208,454	208,454	208,454	208,454	208,454	208,454	208,454
2018	212,010	212,010	212,010	212,010	212,010	212,010	212,010	212,010
2019	215,613	215,613	215,613	215,613	215,613	215,613	215,613	215,613
2020	219,263	219,263	219,263	219,263	219,263	219,263	219,263	219,263
2021	222,962	222,962	222,962	222,962	222,962	222,962	222,962	222,962
2022	226,709	226,709	226,709	226,709	226,709	226,709	226,709	226,709
2023	230,507	230,507	230,507	230,507	230,507	230,507	230,507	230,507

Source: Indecon

Taking account of the annual turnover of tenancies, Table 5.18 represents the number of new registration per year across scheme options.

Table 5.18: Private Residential Tenancies Registered under a Tenancy Deposit Protection Scheme - Estimated Annual Number of New Tenancy Registrations								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	119,243	119,243	119,243	119,243	119,243	119,243	119,243	119,243
2015	131,209	131,209	131,209	131,209	131,209	131,209	131,209	131,209
2016	143,462	143,462	143,462	143,462	143,462	143,462	143,462	143,462
2017	166,764	166,764	166,764	166,764	166,764	166,764	166,764	166,764
2018	169,608	169,608	169,608	169,608	169,608	169,608	169,608	169,608
2019	172,490	172,490	172,490	172,490	172,490	172,490	172,490	172,490
2020	175,410	175,410	175,410	175,410	175,410	175,410	175,410	175,410
2021	178,369	178,369	178,369	178,369	178,369	178,369	178,369	178,369
2022	181,367	181,367	181,367	181,367	181,367	181,367	181,367	181,367
2023	184,405	184,405	184,405	184,405	184,405	184,405	184,405	184,405

Source: Indecon

### 5.2.3 Projected number of landlords and agents under insurance-based scheme

This table presents the estimate number of landlords that will form the basis for a deposit protection scheme. We outline these figures in the context of an insurance scheme where landlords are charged fees in order to retain their tenants' deposit over the lifetime of a tenancy.

Table 5.19: Estimated Number of Private Landlords Registered under an Insurance-based Deposit Protection Scheme				
Year	Insurance			
	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2011				
2012				
2013				
2014	111,468	111,468	111,468	111,468
2015	122,654	122,654	122,654	122,654
2016	134,107	134,107	134,107	134,107
2017	155,890	155,890	155,890	155,890
2018	158,549	158,549	158,549	158,549
2019	161,243	161,243	161,243	161,243
2020	163,973	163,973	163,973	163,973
2021	166,739	166,739	166,739	166,739
2022	169,542	169,542	169,542	169,542
2023	172,381	172,381	172,381	172,381

Source: Indecon analysis

Indecon estimates that 2.9% of the landlord population in Ireland are made up of agents. The profile of these figures out to 2023 is presented in Table 5.20.

<b>Table 5.20: Estimated Number of Private Agents Registered under an Insurance-based Deposit Protection Scheme</b>				
<b>Year</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	3,277	3,277	3,277	3,277
2015	3,606	3,606	3,606	3,606
2016	3,943	3,943	3,943	3,943
2017	4,583	4,583	4,583	4,583
2018	4,661	4,661	4,661	4,661
2019	4,740	4,740	4,740	4,740
2020	4,821	4,821	4,821	4,821
2021	4,902	4,902	4,902	4,902
2022	4,984	4,984	4,984	4,984
2023	5,068	5,068	5,068	5,068

Source: Indecon analysis

#### 5.2.4 Estimated scheme income

##### **Projected Deposit Fund under a Custodial scheme**

Combining our estimate of the weighted average monthly rent level (deposit level) in Ireland with the number of tenancies that will come within the remit of a deposit protection scheme gives our estimates of the projected deposit fund under a range of custodial scheme options.

The figures indicate that the projected deposit fund will be over €111m in the first operational year of the scheme. This is forecast to rise to €172m by 2023.

<b>Table 5.21: Projected Deposit Fund under a Custodial Scheme</b>				
<b>Year</b>	<b>Custodial</b>			
	<b>Custodial Option 1</b>	<b>Custodial Option 2</b>	<b>Custodial Option 3</b>	<b>Custodial Option 4</b>
2014	€111,765,719	€111,765,719	€111,765,719	€111,765,719
2015	€122,981,143	€122,981,143	€122,981,143	€122,981,143
2016	€134,465,624	€134,465,624	€134,465,624	€134,465,624
2017	€156,306,213	€156,306,213	€156,306,213	€156,306,213
2018	€158,972,277	€158,972,277	€158,972,277	€158,972,277
2019	€161,673,651	€161,673,651	€161,673,651	€161,673,651
2020	€164,410,804	€164,410,804	€164,410,804	€164,410,804
2021	€167,184,208	€167,184,208	€167,184,208	€167,184,208
2022	€169,994,346	€169,994,346	€169,994,346	€169,994,346
2023	€172,841,701	€172,841,701	€172,841,701	€172,841,701

Source: Indecon analysis

Indecon assumes that 10% of this fund will be held in cash in order to manage the turnover of tenancies on an on-going basis. This fund is presented in Table 5.22.

Table 5.22: Projected Deposit Fund - Fund Held Liquid/in Cash				
Year	Custodial			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4
2014	€11,176,572	€11,176,572	€11,176,572	€11,176,572
2015	€12,298,114	€12,298,114	€12,298,114	€12,298,114
2016	€13,446,562	€13,446,562	€13,446,562	€13,446,562
2017	€15,630,621	€15,630,621	€15,630,621	€15,630,621
2018	€15,897,228	€15,897,228	€15,897,228	€15,897,228
2019	€16,167,365	€16,167,365	€16,167,365	€16,167,365
2020	€16,441,080	€16,441,080	€16,441,080	€16,441,080
2021	€16,718,421	€16,718,421	€16,718,421	€16,718,421
2022	€16,999,435	€16,999,435	€16,999,435	€16,999,435
2023	€17,284,170	€17,284,170	€17,284,170	€17,284,170

Source: Indecon analysis

### Estimated Interest Income under a Custodial Scheme

Applying the interest rate assumptions outlined above to the 90% of the fund that is not held in cash equates to the following total income figures for a custodial deposit protection scheme.

In 2014, a custodial deposit protection scheme in Ireland could potentially generate income of €3.16m.

Table 5.23: Projected Deposit Fund - Estimated Interest Income				
Year	Custodial			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4
2014	€3,168,558	€3,168,558	€3,168,558	€3,168,558
2015	€3,486,515	€3,486,515	€3,486,515	€3,486,515
2016	€3,812,100	€3,812,100	€3,812,100	€3,812,100
2017	€4,431,281	€4,431,281	€4,431,281	€4,431,281
2018	€4,506,864	€4,506,864	€4,506,864	€4,506,864
2019	€4,583,448	€4,583,448	€4,583,448	€4,583,448
2020	€4,661,046	€4,661,046	€4,661,046	€4,661,046
2021	€4,739,672	€4,739,672	€4,739,672	€4,739,672
2022	€4,819,340	€4,819,340	€4,819,340	€4,819,340
2023	€4,900,062	€4,900,062	€4,900,062	€4,900,062

Source: Indecon analysis

*Lower interest rate scenario*

We also ran an alternative scenario involving a lower assumed level of interest rates. Specifically, it is assumed that interest rates are one percentage point lower and this would result in a reduced potential stream of interest income under the same assumptions regarding the size of the deposit pool. The reduced interest income scenario is shown in the table below.

<b>Table 5.24: Projected Deposit Fund - Estimated Interest Income: Lower Interest Rate Scenario</b>				
<b>Year</b>	<b>Custodial</b>			
	<b>Custodial Option 1</b>	<b>Custodial Option 2</b>	<b>Custodial Option 3</b>	<b>Custodial Option 4</b>
2014	€2,162,667	€2,162,667	€2,162,667	€2,162,667
2015	€2,379,685	€2,379,685	€2,379,685	€2,379,685
2016	€2,601,910	€2,601,910	€2,601,910	€2,601,910
2017	€3,024,525	€3,024,525	€3,024,525	€3,024,525
2018	€3,076,114	€3,076,114	€3,076,114	€3,076,114
2019	€3,128,385	€3,128,385	€3,128,385	€3,128,385
2020	€3,181,349	€3,181,349	€3,181,349	€3,181,349
2021	€3,235,014	€3,235,014	€3,235,014	€3,235,014
2022	€3,289,391	€3,289,391	€3,289,391	€3,289,391
2023	€3,344,487	€3,344,487	€3,344,487	€3,344,487

Source: Indecon analysis

**Estimated Fee Income under Insurance-based Scheme**

International evidence suggests that there are three levels of fees that can be applied in the case of an insurance deposit protection scheme: per deposit fees, membership fees and joining fees.

We estimate fees income from deposits protected under an insurance based scheme below by applying a per deposit fee to the number of tenancies that will form the basis for a deposit protection scheme as outlined previously.

<b>Table 5.25: Estimated Fees Income under an Insurance-based Deposit Protection Scheme - Tenancy Protection Fees (based on Per Tenancy Fee)</b>				
<b>Year</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	€3,327,957	€3,327,957	€3,327,957	€3,327,957
2015	€3,661,910	€3,661,910	€3,661,910	€3,661,910
2016	€4,003,874	€4,003,874	€4,003,874	€4,003,874
2017	€4,654,203	€4,654,203	€4,654,203	€4,654,203
2018	€4,733,589	€4,733,589	€4,733,589	€4,733,589
2019	€4,814,025	€4,814,025	€4,814,025	€4,814,025
2020	€4,895,527	€4,895,527	€4,895,527	€4,895,527
2021	€4,978,109	€4,978,109	€4,978,109	€4,978,109
2022	€5,061,784	€5,061,784	€5,061,784	€5,061,784
2023	€5,146,567	€5,146,567	€5,146,567	€5,146,567

Source: Indecon analysis

Secondly, the figures outlined in the table below represent the estimated income that could be generated from annual *agent* membership fees.

<b>Table 5.26: Estimated Fees Income under an Insurance-based Deposit Protection Scheme - Annual Agent Membership Fee Income</b>				
<b>Year</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	€254,059	€254,059	€254,059	€254,059
2015	€279,553	€279,553	€279,553	€279,553
2016	€305,659	€305,659	€305,659	€305,659
2017	€355,305	€355,305	€355,305	€355,305
2018	€361,366	€361,366	€361,366	€361,366
2019	€367,506	€367,506	€367,506	€367,506
2020	€373,728	€373,728	€373,728	€373,728
2021	€380,033	€380,033	€380,033	€380,033
2022	€386,420	€386,420	€386,420	€386,420
2023	€392,893	€392,893	€392,893	€392,893

Source: Indecon analysis

Thirdly, if once-off joining fees are applied to landlords in the scheme, the following income streams are likely to be evident.

<b>Table 5.27: Estimated Fees Income under an Insurance-based Deposit Protection Scheme - Landlord (Once Off) Joining Fee Income</b>				
<b>Year</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	€8,295,896	€8,295,896	€8,295,896	€8,295,896
2015	€832,473	€832,473	€832,473	€832,473
2016	€852,444	€852,444	€852,444	€852,444
2017	€1,621,134	€1,621,134	€1,621,134	€1,621,134
2018	€197,891	€197,891	€197,891	€197,891
2019	€200,512	€200,512	€200,512	€200,512
2020	€203,167	€203,167	€203,167	€203,167
2021	€205,858	€205,858	€205,858	€205,858
2022	€208,585	€208,585	€208,585	€208,585
2023	€211,347	€211,347	€211,347	€211,347

Source: Indecon analysis

Applying these three strands of potential income give total income under the insurance scheme scenarios as outlined below. The high level of income in the first year represents the initial inflow of landlords to the scheme while thereafter scheme income is likely to be €4.7m in 2014 rising to €5.75m in 2023.

<b>Table 5.28: Estimated Fees Income under an Insurance-based Deposit Protection Scheme – Total Fee Income</b>				
<b>Year</b>	<b>Insurance</b>			
	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	€11,877,912	€11,877,912	€11,877,912	€11,877,912
2015	€4,773,936	€4,773,936	€4,773,936	€4,773,936
2016	€5,161,977	€5,161,977	€5,161,977	€5,161,977
2017	€6,630,643	€6,630,643	€6,630,643	€6,630,643
2018	€5,292,845	€5,292,845	€5,292,845	€5,292,845
2019	€5,382,043	€5,382,043	€5,382,043	€5,382,043
2020	€5,472,423	€5,472,423	€5,472,423	€5,472,423
2021	€5,563,999	€5,563,999	€5,563,999	€5,563,999
2022	€5,656,789	€5,656,789	€5,656,789	€5,656,789
2023	€5,750,807	€5,750,807	€5,750,807	€5,750,807

Source: Indecon analysis

### **Scheme total income**

Table 5.29 restates scheme income across all scenarios and options. Taking into account the current interest rate environment and Indecon's assumptions of insurance scheme fees, insurance schemes are likely to raise more income than the custodial options but this is dependent on insurance schemes securing the same level of compliance.

<b>Table 5.29: Estimated Scheme Income – Total Income</b>								
<b>Year</b>	<b>Custodial</b>				<b>Insurance</b>			
	<b>Custodial Option 1</b>	<b>Custodial Option 2</b>	<b>Custodial Option 3</b>	<b>Custodial Option 4</b>	<b>Insurance Option 1</b>	<b>Insurance Option 2</b>	<b>Insurance Option 3</b>	<b>Insurance Option 4</b>
2014	€3,168,558	€3,168,558	€3,168,558	€3,168,558	€11,877,912	€11,877,912	€11,877,912	€11,877,912
2015	€3,486,515	€3,486,515	€3,486,515	€3,486,515	€4,773,936	€4,773,936	€4,773,936	€4,773,936
2016	€3,812,100	€3,812,100	€3,812,100	€3,812,100	€5,161,977	€5,161,977	€5,161,977	€5,161,977
2017	€4,431,281	€4,431,281	€4,431,281	€4,431,281	€6,630,643	€6,630,643	€6,630,643	€6,630,643
2018	€4,506,864	€4,506,864	€4,506,864	€4,506,864	€5,292,845	€5,292,845	€5,292,845	€5,292,845
2019	€4,583,448	€4,583,448	€4,583,448	€4,583,448	€5,382,043	€5,382,043	€5,382,043	€5,382,043
2020	€4,661,046	€4,661,046	€4,661,046	€4,661,046	€5,472,423	€5,472,423	€5,472,423	€5,472,423
2021	€4,739,672	€4,739,672	€4,739,672	€4,739,672	€5,563,999	€5,563,999	€5,563,999	€5,563,999
2022	€4,819,340	€4,819,340	€4,819,340	€4,819,340	€5,656,789	€5,656,789	€5,656,789	€5,656,789
2023	€4,900,062	€4,900,062	€4,900,062	€4,900,062	€5,750,807	€5,750,807	€5,750,807	€5,750,807

Source: Indecon analysis

### 5.2.5 Estimated scheme set-up/development costs

The level of income that can be generated across variants of both custodial and insurance deposit protection schemes, as highlighted above, remains constant. However, the same cannot be said for the cost structure of the various scheme options.

Evident within the cost structures of each scheme option are differences in scheme requirements such as ICT infrastructure etc and difference in relation to the ability of the scheme operator to harness existing operating infrastructures. For this reason, there exists more variety in the level of costs than there is in income streams.

The first aspects of costs we outline are set-up costs which are accounted for predominantly by ICT costs.

#### ICT Costs

Given the nature of these costs, the burden falls before the first operational year of the scheme. This is because the scheme cannot operate effectively until this infrastructure is in place. There are also ICT costs evident in 2017. These costs represent ICT upgrade costs that will be required to maintain an efficient, up-to-date ICT system.

We outline these costs by category in the series of tables below from 5.30 to 5.33. These figures are informed through consultation with existing UK operators in addition to bottom up modelling of costs provided by Vulcan Solutions.

Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€876,645	€651,470	€812,394	€812,394	€938,952	€688,871	€859,033	€859,033
2014	€0	€0	€0	€0	€0	€0	€0	€0
2015	€0	€0	€0	€0	€0	€0	€0	€0
2016	€0	€0	€0	€0	€0	€0	€0	€0
2017	€0	€0	€0	€0	€0	€0	€0	€0
2018	€0	€0	€0	€0	€0	€0	€0	€0
2019	€0	€0	€0	€0	€0	€0	€0	€0
2020	€0	€0	€0	€0	€0	€0	€0	€0
2021	€0	€0	€0	€0	€0	€0	€0	€0
2022	€0	€0	€0	€0	€0	€0	€0	€0
2023	€0	€0	€0	€0	€0	€0	€0	€0

Source: Indecon analysis

ICT costs will vary dependent on the particular scheme option. In Options 2, 3 and 4 for both insurance and custodial scheme scenarios, the outsourcing of certain aspects of the scheme leads to lower costs.

Costs are reduced in these cases because the new operator only experiences the cost of bolting on a scheme to their existing ICT infrastructure. Moreover, making use of existing knowledge in the operation of such schemes reduces costs further. Economies of scale could also potentially add to the reduction of costs.

Table 5.31: Estimated Scheme Set-Up Costs – ICT Costs: ICT Hardware and Software								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€106,500	€48,680	€68,230	€68,230	€106,500	€48,680	€68,230	€68,230
2014	€0	€0	€0	€0	€0	€0	€0	€0
2015	€0	€0	€0	€0	€0	€0	€0	€0
2016	€0	€0	€0	€0	€0	€0	€0	€0
2017	€106,500	€48,680	€68,230	€68,230	€106,500	€48,680	€68,230	€68,230
2018	€0	€0	€0	€0	€0	€0	€0	€0
2019	€0	€0	€0	€0	€0	€0	€0	€0
2020	€0	€0	€0	€0	€0	€0	€0	€0
2021	€0	€0	€0	€0	€0	€0	€0	€0
2022	€0	€0	€0	€0	€0	€0	€0	€0
2023	€0	€0	€0	€0	€0	€0	€0	€0

Source: Indecon analysis

The estimated call centre initial ICT setup costs are estimated to be a minimum of €20,000. However, this may underestimate overall costs and to the extent to which this is the case, the financial viability would be impacted.

The overall estimated scheme ICT costs are presented in Table 5.32.

Table 5.32: Estimated Scheme Set-Up Costs - ICT Costs: Total ICT Set-Up Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,003,145	€720,150	€900,624	€900,624	€1,065,452	€757,551	€947,263	€947,263
2014	€0	€0	€0	€0	€0	€0	€0	€0
2015	€0	€0	€0	€0	€0	€0	€0	€0
2016	€0	€0	€0	€0	€0	€0	€0	€0
2017	€106,500	€48,680	€68,230	€68,230	€106,500	€48,680	€68,230	€68,230
2018	€0	€0	€0	€0	€0	€0	€0	€0
2019	€0	€0	€0	€0	€0	€0	€0	€0
2020	€0	€0	€0	€0	€0	€0	€0	€0
2021	€0	€0	€0	€0	€0	€0	€0	€0
2022	€0	€0	€0	€0	€0	€0	€0	€0
2023	€0	€0	€0	€0	€0	€0	€0	€0

Source: Indecon analysis

### Other Set-Up/Development Costs

'Other' set-up/development costs represent a combination of accommodation fit-out costs, marketing, legal, call centre training, travel and other costs such as seminars etc. These costs, similar to ICT costs, are borne in the year before the first operational year of the scheme.

Table 5.33: Estimated Scheme Set-Up Costs - Other Set-Up/Development Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2011								
2012								
2013	€416,537	€428,947	€426,611	€426,611	€391,933	€413,570	€411,233	€411,233
2014	€0	€0	€0	€0	€0	€0	€0	€0
2015	€0	€0	€0	€0	€0	€0	€0	€0
2016	€0	€0	€0	€0	€0	€0	€0	€0
2017	€0	€0	€0	€0	€0	€0	€0	€0
2018	€0	€0	€0	€0	€0	€0	€0	€0
2019	€0	€0	€0	€0	€0	€0	€0	€0
2020	€0	€0	€0	€0	€0	€0	€0	€0
2021	€0	€0	€0	€0	€0	€0	€0	€0
2022	€0	€0	€0	€0	€0	€0	€0	€0
2023	€0	€0	€0	€0	€0	€0	€0	€0
Source: Indecon analysis								

### Total Set-Up/Development Costs

Table 5.34 present total set-up/development costs. The figures below bring together both ICT and other set up costs across the range of different scheme options. Both Option 1 scenarios are the most expensive in relation to set-up costs given that they are publicly operated and may not be able to harness existing infrastructures in the way that private providers could.

Table 5.34: Estimated Scheme Set-Up Costs - Total Scheme Set-Up/Development Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,419,682	€1,149,098	€1,327,234	€1,327,234	€1,457,385	€1,171,121	€1,358,496	€1,358,496
2014	€0	€0	€0	€0	€0	€0	€0	€0
2015	€0	€0	€0	€0	€0	€0	€0	€0
2016	€0	€0	€0	€0	€0	€0	€0	€0
2017	€106,500	€48,680	€68,230	€68,230	€106,500	€48,680	€68,230	€68,230
2018	€0	€0	€0	€0	€0	€0	€0	€0
2019	€0	€0	€0	€0	€0	€0	€0	€0
2020	€0	€0	€0	€0	€0	€0	€0	€0
2021	€0	€0	€0	€0	€0	€0	€0	€0
2022	€0	€0	€0	€0	€0	€0	€0	€0
2023	€0	€0	€0	€0	€0	€0	€0	€0
Source: Indecon analysis								

### 5.2.6 Scheme Administration Costs

Scheme administration costs come on stream in 2014, the anticipated first operational year of the scheme. Again, these costs vary across scheme options where outsourcing is evident. All things being equal, insurance scheme options are more costly to administer than custodial schemes.

We begin this analysis by outlining the requirements for administrative staff across scheme options followed by costs.

#### *Administration Staffing Numbers and Costs*

Table 5.35 indicates that the administration of custodial schemes is more labour intensive, with a publicly run option the most labour intensive option. Indeed, both publicly run options are more labour intensive and as a result, the staff numbers are higher in both Option 1 scenarios.

Table 5.35: Estimated Scheme Operating Costs - Total Staffing Requirements for Scheme Administration - Full-Time Equivalents								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2011								
2012								
2013								
2014	22.7	15.9	15.9	15.9	17.3	12.5	12.5	12.5
2015	24.8	17.4	17.4	17.4	18.9	13.7	13.7	13.7
2016	27.1	18.9	18.9	18.9	20.6	14.9	14.9	14.9
2017	31.3	21.8	21.8	21.8	23.7	17.1	17.1	17.1
2018	31.8	22.2	22.2	22.2	24.1	17.4	17.4	17.4
2019	32.3	22.6	22.6	22.6	24.5	17.7	17.7	17.7
2020	32.9	22.9	22.9	22.9	24.9	18.0	18.0	18.0
2021	33.4	23.3	23.3	23.3	25.3	18.2	18.2	18.2
2022	33.9	23.7	23.7	23.7	25.7	18.5	18.5	18.5
2023	34.5	24.0	24.0	24.0	26.1	18.8	18.8	18.8

Source: Indecon analysis

In table 5.36 estimated staff costs are presented.

Table 5.36: Estimated Scheme Operating Costs - Staffing Costs - Total Staffing Costs for Scheme Administration								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€549,949	€404,582	€404,582	€404,582	€360,671	€286,283	€286,283	€286,283
2015	€597,158	€437,204	€437,204	€437,204	€388,886	€307,034	€307,034	€307,034
2016	€645,500	€470,608	€470,608	€470,608	€417,778	€328,282	€328,282	€328,282
2017	€737,433	€534,135	€534,135	€534,135	€472,724	€368,691	€368,691	€368,691
2018	€748,655	€541,889	€541,889	€541,889	€479,431	€373,624	€373,624	€373,624
2019	€760,026	€549,746	€549,746	€549,746	€486,227	€378,622	€378,622	€378,622
2020	€771,548	€557,708	€557,708	€557,708	€493,113	€383,686	€383,686	€383,686
2021	€783,222	€565,775	€565,775	€565,775	€500,090	€388,818	€388,818	€388,818
2022	€795,050	€573,948	€573,948	€573,948	€507,160	€394,017	€394,017	€394,017
2023	€807,036	€582,230	€582,230	€582,230	€514,323	€399,285	€399,285	€399,285

Source: Indecon analysis

*Non-staff costs of scheme administration*

The non-staff costs of scheme administration are outlined in Table 5.37. These costs are seen rising over time as more and more tenancies are covered under a scheme. A key feature of this table is the significantly higher costs in relation to the insurance scheme. This is because of the costs of insurance that is evident in these options.

Table 5.37: Estimated Scheme Operating Costs - Total Non-Staff Costs for Scheme Administration								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€768,422	€695,939	€693,570	€693,570	€3,926,038	€3,856,208	€3,854,994	€3,854,994
2015	€823,161	€748,884	€744,719	€744,719	€4,298,398	€4,226,773	€4,223,764	€4,223,764
2016	€879,214	€803,098	€797,096	€797,096	€4,679,691	€4,606,228	€4,601,381	€4,601,381
2017	€985,811	€906,200	€896,703	€896,703	€5,404,814	€5,327,856	€5,319,513	€5,319,513
2018	€998,824	€918,786	€908,862	€908,862	€5,493,329	€5,415,945	€5,407,175	€5,407,175
2019	€1,012,008	€931,538	€921,182	€921,182	€5,583,017	€5,505,200	€5,495,998	€5,495,998
2020	€1,025,367	€944,459	€933,665	€933,665	€5,673,892	€5,595,637	€5,585,998	€5,585,998
2021	€1,038,904	€957,552	€946,313	€946,313	€5,765,971	€5,687,272	€5,677,189	€5,677,189
2022	€1,052,619	€970,817	€959,129	€959,129	€5,859,270	€5,780,121	€5,769,588	€5,769,588
2023	€1,066,516	€984,259	€972,115	€972,115	€5,953,804	€5,874,200	€5,863,211	€5,863,211

Source: Indecon analysis

*Total costs of scheme administration*

Total scheme administration costs, outlined below, work out to be substantially less in the custodial case. This is predominantly influenced by the cost of insurance which are only evident in the insurance scheme options.

Table 5.32: Estimated Scheme Operating Costs - Total Costs for Scheme Administration								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€1,318,372	€1,100,521	€1,098,152	€1,098,152	€4,286,709	€4,142,491	€4,141,277	€4,141,277
2015	€1,420,320	€1,186,087	€1,181,923	€1,181,923	€4,687,284	€4,533,807	€4,530,797	€4,530,797
2016	€1,524,714	€1,273,706	€1,267,704	€1,267,704	€5,097,469	€4,934,510	€4,929,663	€4,929,663
2017	€1,723,244	€1,440,335	€1,430,837	€1,430,837	€5,877,538	€5,696,547	€5,688,205	€5,688,205
2018	€1,747,479	€1,460,675	€1,450,751	€1,450,751	€5,972,760	€5,789,569	€5,780,799	€5,780,799
2019	€1,772,034	€1,481,285	€1,470,928	€1,470,928	€6,069,244	€5,883,822	€5,874,620	€5,874,620
2020	€1,796,915	€1,502,167	€1,491,373	€1,491,373	€6,167,005	€5,979,324	€5,969,684	€5,969,684
2021	€1,822,125	€1,523,326	€1,512,088	€1,512,088	€6,266,061	€6,076,090	€6,066,006	€6,066,006
2022	€1,847,670	€1,544,766	€1,533,078	€1,533,078	€6,366,429	€6,174,138	€6,163,605	€6,163,605
2023	€1,873,552	€1,566,489	€1,554,345	€1,554,345	€6,468,127	€6,273,485	€6,262,496	€6,262,496

Source: Indecon analysis

## 5.2.7 Dispute resolution costs

Based on the assumption outlined above in terms of the dispute resolution procedure, dispute rates and unit costs, the figures below represent Indecon's estimates of the potential dispute resolution costs across scheme options. Dispute resolution is the largest operational costs aspect of a deposit protection scheme. These figures are presented across different scheme scenarios up to 2023.

While these costs are broadly similar across Options 1, 2 and 3, Option 4 here is by far the cheapest option. As outlined previously in this analysis, option 4 represents a scenario where significant legislative change allows for a restructuring of the current PRTB disputes process and the introduction of innovative dispute processes that are evident internationally.

Table 5.33: Estimated Scheme Operating Costs - Dispute Resolution Costs - Dispute Hearing and Adjudication Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€1,722,434	€1,722,434	€1,550,190	€621,369	€1,722,434	€1,722,434	€1,550,190	€621,369
2015	€1,895,276	€1,895,276	€1,705,748	€683,721	€1,895,276	€1,895,276	€1,705,748	€683,721
2016	€2,072,265	€2,072,265	€1,865,038	€747,570	€2,072,265	€2,072,265	€1,865,038	€747,570
2017	€2,408,852	€2,408,852	€2,167,967	€868,994	€2,408,852	€2,408,852	€2,167,967	€868,994
2018	€2,449,939	€2,449,939	€2,204,945	€883,816	€2,449,939	€2,449,939	€2,204,945	€883,816
2019	€2,491,570	€2,491,570	€2,242,413	€898,835	€2,491,570	€2,491,570	€2,242,413	€898,835
2020	€2,533,753	€2,533,753	€2,280,378	€914,052	€2,533,753	€2,533,753	€2,280,378	€914,052
2021	€2,576,494	€2,576,494	€2,318,845	€929,471	€2,576,494	€2,576,494	€2,318,845	€929,471
2022	€2,619,802	€2,619,802	€2,357,821	€945,094	€2,619,802	€2,619,802	€2,357,821	€945,094
2023	€2,663,682	€2,663,682	€2,397,314	€960,924	€2,663,682	€2,663,682	€2,397,314	€960,924

Source: Indecon analysis

There are no dispute tribunal costs under the assumptions outlined in Option 4 (both insurance and custodial). This again is because of a change in legislation assumed in this option that allows for the reduction in the number stages in the deposit disputes process. Thus, there are no tribunals in this case.

Table 5.34: Estimated Scheme Operating Costs - Dispute Resolution Costs - Dispute Tribunal Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€860,490	€860,490	€774,441	€0	€860,490	€860,490	€774,441	€0
2015	€946,838	€946,838	€852,154	€0	€946,838	€946,838	€852,154	€0
2016	€1,035,258	€1,035,258	€931,732	€0	€1,035,258	€1,035,258	€931,732	€0
2017	€1,203,409	€1,203,409	€1,083,068	€0	€1,203,409	€1,203,409	€1,083,068	€0
2018	€1,223,936	€1,223,936	€1,101,542	€0	€1,223,936	€1,223,936	€1,101,542	€0
2019	€1,244,734	€1,244,734	€1,120,260	€0	€1,244,734	€1,244,734	€1,120,260	€0
2020	€1,265,807	€1,265,807	€1,139,226	€0	€1,265,807	€1,265,807	€1,139,226	€0
2021	€1,287,160	€1,287,160	€1,158,444	€0	€1,287,160	€1,287,160	€1,158,444	€0
2022	€1,308,795	€1,308,795	€1,177,916	€0	€1,308,795	€1,308,795	€1,177,916	€0
2023	€1,330,717	€1,330,717	€1,197,645	€0	€1,330,717	€1,330,717	€1,197,645	€0

Source: Indecon analysis

The table below incorporates the assumptions outlined in relation to all scheme dispute resolution costs. As highlighted above, Option 4 (both the custodial and insurance) reflects the impact of assumed changes in legislation which facilitate lower dispute resolution costs. As a result, total dispute resolution costs are much lower in both Option 4 scenarios.

Table 5.35: Estimated Scheme Operating Costs - Dispute Resolution Costs - Total Dispute Resolution Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€2,582,924	€2,582,924	€2,324,631	€621,369	€2,582,924	€2,582,924	€2,324,631	€621,369
2015	€2,842,114	€2,842,114	€2,557,903	€683,721	€2,842,114	€2,842,114	€2,557,903	€683,721
2016	€3,107,522	€3,107,522	€2,796,770	€747,570	€3,107,522	€3,107,522	€2,796,770	€747,570
2017	€3,612,262	€3,612,262	€3,251,035	€868,994	€3,612,262	€3,612,262	€3,251,035	€868,994
2018	€3,673,875	€3,673,875	€3,306,487	€883,816	€3,673,875	€3,673,875	€3,306,487	€883,816
2019	€3,736,304	€3,736,304	€3,362,674	€898,835	€3,736,304	€3,736,304	€3,362,674	€898,835
2020	€3,799,560	€3,799,560	€3,419,604	€914,052	€3,799,560	€3,799,560	€3,419,604	€914,052
2021	€3,863,654	€3,863,654	€3,477,288	€929,471	€3,863,654	€3,863,654	€3,477,288	€929,471
2022	€3,928,597	€3,928,597	€3,535,737	€945,094	€3,928,597	€3,928,597	€3,535,737	€945,094
2023	€3,994,399	€3,994,399	€3,594,960	€960,924	€3,994,399	€3,994,399	€3,594,960	€960,924

Source: Indecon analysis

## 5.2.8 Enforcement costs

The costs of enforcement in terms of registration enforcement are outlined in Table 5.43. While these costs are based on current PRTB unit costs, going forward, these costs will be a function of actual compliance with the scheme(s).

Table 5.36: Estimated Scheme Operating Costs - Enforcement Costs - Registration Enforcement Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€206,842	€206,842	€186,158	€186,158	€206,842	€206,842	€186,158	€186,158
2015	€227,598	€227,598	€204,838	€204,838	€227,598	€227,598	€204,838	€204,838
2016	€248,852	€248,852	€223,967	€223,967	€248,852	€248,852	€223,967	€223,967
2017	€289,272	€289,272	€260,345	€260,345	€289,272	€289,272	€260,345	€260,345
2018	€294,206	€294,206	€264,786	€264,786	€294,206	€294,206	€264,786	€264,786
2019	€299,206	€299,206	€269,285	€269,285	€299,206	€299,206	€269,285	€269,285
2020	€304,271	€304,271	€273,844	€273,844	€304,271	€304,271	€273,844	€273,844
2021	€309,404	€309,404	€278,463	€278,463	€309,404	€309,404	€278,463	€278,463
2022	€314,604	€314,604	€283,144	€283,144	€314,604	€314,604	€283,144	€283,144
2023	€319,874	€319,874	€287,887	€287,887	€319,874	€319,874	€287,887	€287,887

Source: Indecon analysis

## 5.2.9 Overall scheme operating costs

The total scheme operating costs of each deposit protection scheme scenario are presented in Table 5.46. The most expensive options in terms of total operating cost are the insurance schemes.

Custodial Option 4 is the most cost efficient scheme option followed by Custodial Option 3. Option 4 represents the case where dispute resolution costs are significantly reduced as a result of legislative change.

Table 5.37: Estimated Scheme Operating Costs - Total Operating Costs (Scheme Administration + Dispute Resolution + Enforcement Costs)								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€4,108,137	€3,890,287	€3,608,941	€1,905,678	€7,076,475	€6,932,257	€6,652,066	€4,948,803
2015	€4,490,032	€4,255,799	€3,944,664	€2,070,483	€7,756,996	€7,603,519	€7,293,538	€5,419,357
2016	€4,881,088	€4,630,080	€4,288,441	€2,239,241	€8,453,844	€8,290,885	€7,950,400	€5,901,200
2017	€5,624,778	€5,341,869	€4,942,218	€2,560,176	€9,779,072	€9,598,081	€9,199,585	€6,817,544
2018	€5,715,560	€5,428,756	€5,022,024	€2,599,353	€9,940,841	€9,757,650	€9,352,072	€6,929,401
2019	€5,807,544	€5,516,794	€5,102,887	€2,639,048	€10,104,753	€9,919,332	€9,506,579	€7,042,740
2020	€5,900,746	€5,605,998	€5,184,821	€2,679,269	€10,270,836	€10,083,155	€9,663,132	€7,157,580
2021	€5,995,183	€5,696,384	€5,267,840	€2,720,023	€10,439,119	€10,249,148	€9,821,758	€7,273,941
2022	€6,090,871	€5,787,967	€5,351,959	€2,761,316	€10,609,631	€10,417,339	€9,982,486	€7,391,843
2023	€6,187,825	€5,880,763	€5,437,191	€2,803,156	€10,782,400	€10,587,758	€10,145,342	€7,511,307

Source: Indecon analysis

### 5.2.10 Scheme total (capital plus operating) costs

The figures below factor in set-up/development costs to give total cost figures for each option. The impact of differences in operating costs here are evident in the final total costs numbers.

Custodial Option 4 represents the most cost efficient option over the period outlined. While the set up costs in 2013 are broadly similar to the other options, thereafter, Custodial Option 1 is a much cheaper option. This is due to the assumption of significantly reduced dispute resolution costs versus Options 1, 2 and 3.

Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,419,682	€1,149,098	€1,327,234	€1,327,234	€1,457,385	€1,171,121	€1,358,496	€1,358,496
2014	€4,108,137	€3,890,287	€3,608,941	€1,905,678	€7,076,475	€6,932,257	€6,652,066	€4,948,803
2015	€4,490,032	€4,255,799	€3,944,664	€2,070,483	€7,756,996	€7,603,519	€7,293,538	€5,419,357
2016	€4,881,088	€4,630,080	€4,288,441	€2,239,241	€8,453,844	€8,290,885	€7,950,400	€5,901,200
2017	€5,731,278	€5,390,549	€5,010,448	€2,628,406	€9,885,572	€9,646,761	€9,267,815	€6,885,774
2018	€5,715,560	€5,428,756	€5,022,024	€2,599,353	€9,940,841	€9,757,650	€9,352,072	€6,929,401
2019	€5,807,544	€5,516,794	€5,102,887	€2,639,048	€10,104,753	€9,919,332	€9,506,579	€7,042,740
2020	€5,900,746	€5,605,998	€5,184,821	€2,679,269	€10,270,836	€10,083,155	€9,663,132	€7,157,580
2021	€5,995,183	€5,696,384	€5,267,840	€2,720,023	€10,439,119	€10,249,148	€9,821,758	€7,273,941
2022	€6,090,871	€5,787,967	€5,351,959	€2,761,316	€10,609,631	€10,417,339	€9,982,486	€7,391,843
2023	€6,187,825	€5,880,763	€5,437,191	€2,803,156	€10,782,400	€10,587,758	€10,145,342	€7,511,307

Source: Indecon analysis

### 5.2.11 Scheme financial viability

Overall scheme financial viability is assessed through consideration of the following aspects:

- Scheme cash-flow performance, in terms of the annual surplus or deficit in income compared with expenditures;
- Present value analysis of scheme cash-flows and calculation of performance metrics, including Net Present Value (NPV) and Benefit-Cost Ratio (BCR).

#### ***Scheme contract period***

The financial viability of scheme options is appraised over a five-year period. This timeframe is based on the assumption that a scheme, if outsourced to a private sector provider would entail a contractual period of five years of scheme operation (excluding the start-up investment period). We also assume that a deposit protection scheme, if introduced by the Government, would not be tendered until the second half of 2013 and would not commence operations until 2014. Our modelling therefore assumes that scheme set-up would occur in late 2013, while operating costs and revenues would commence at the beginning of 2014.

### Scheme cash flow performance

The table below integrates the income and cost analysis presented above to calculate the annual cash surplus/deficit across the scheme options. This indicates that under the financial appraisal only one option attains a break-even outcome in terms of annual net cash-flows, namely Custodial Option 4. This reflects the lower costs under this option relative to income during the operating phase. This means that unless there is a direct exchequer subsidy a deposit protection scheme would not be financially viable without legislative change.

Table 5.39: Scheme Performance – Annual Surplus ( - Deficit) over 5-year Contract Period								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	-€1,419,682	-€1,149,098	-€1,327,234	-€1,327,234	-€1,457,385	-€1,171,121	-€1,358,496	-€1,358,496
2014	-€939,579	-€721,729	-€440,383	€1,262,880	€4,801,437	€4,945,655	€5,225,846	€6,929,109
2015	-€1,003,517	-€769,284	-€458,148	€1,416,033	-€2,983,060	-€2,829,583	-€2,519,602	-€645,421
2016	-€1,068,988	-€817,980	-€476,340	€1,572,860	-€3,291,867	-€3,128,908	-€2,788,423	-€739,223
2017	-€1,299,997	-€959,267	-€579,166	€1,802,875	-€3,254,928	-€3,016,118	-€2,637,172	-€255,131
2018	-€1,208,696	-€921,892	-€515,160	€1,907,511	-€4,647,996	-€4,464,805	-€4,059,227	-€1,636,556
2019	-€1,224,096	-€933,346	-€519,439	€1,944,400	-€4,722,710	-€4,537,288	-€4,124,536	-€1,660,697
2020	-€1,239,700	-€944,952	-€523,774	€1,981,777	-€4,798,414	-€4,610,732	-€4,190,709	-€1,685,157
2021	-€1,255,511	-€956,712	-€528,168	€2,019,650	-€4,875,120	-€4,685,148	-€4,257,759	-€1,709,942
2022	-€1,271,531	-€968,627	-€532,619	€2,058,024	-€4,952,842	-€4,760,550	-€4,325,697	-€1,735,054
2023	-€1,287,763	-€980,700	-€537,129	€2,096,906	-€5,031,593	-€4,836,951	-€4,394,535	-€1,760,500

Source: Indecon analysis

### Present value analysis on estimated scheme cash-flows

The table below presents total income over the scheme contract period. Income levels for custodial options are constant across options. The same is the case for the insurance based schemes. Based on the fee rates assumed relative to interest rates, the insurance-based options return a higher overall income level than the custodial scheme options.

Table 5.40: Estimated Scheme Income - Total Income - Present Value in 2012 assuming 5-year Contract Period								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€2,873,976	€2,873,976	€2,873,976	€2,873,976	€10,773,616	€10,773,616	€10,773,616	€10,773,616
2015	€3,011,783	€3,011,783	€3,011,783	€3,011,783	€4,123,906	€4,123,906	€4,123,906	€4,123,906
2016	€3,136,224	€3,136,224	€3,136,224	€3,136,224	€4,246,771	€4,246,771	€4,246,771	€4,246,771
2017	€3,472,025	€3,472,025	€3,472,025	€3,472,025	€5,195,282	€5,195,282	€5,195,282	€5,195,282
2018	€3,363,091	€3,363,091	€3,363,091	€3,363,091	€3,949,602	€3,949,602	€3,949,602	€3,949,602
<b>Total</b>	<b>€15,857,099</b>	<b>€15,857,099</b>	<b>€15,857,099</b>	<b>€15,857,099</b>	<b>€28,289,178</b>	<b>€28,289,178</b>	<b>€28,289,178</b>	<b>€28,289,178</b>

Source: Indecon analysis  
\* Based on Real Discount Rate = 5%

The present value of estimated total scheme costs is indicated in the table below. The insurance-based options exhibit higher overall costs, primarily reflecting the higher non-staff administration costs resulting from the requirement to pay insurance protection costs under an insurance-based scheme.

<b>Table 5.41: Estimated Scheme Costs - Total Costs (Set-Up/Development Costs + Operating Costs) - Present Value in 2012 assuming 5-year Contract Period</b>								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,352,078	€1,094,379	€1,264,033	€1,264,033	€1,387,985	€1,115,353	€1,293,806	€1,293,806
2014	€3,726,202	€3,528,605	€3,273,416	€1,728,506	€6,418,571	€6,287,762	€6,033,620	€4,488,710
2015	€3,878,658	€3,676,320	€3,407,549	€1,788,561	€6,700,785	€6,568,206	€6,300,433	€4,681,445
2016	€4,015,683	€3,809,179	€3,528,111	€1,842,229	€6,954,998	€6,820,932	€6,540,814	€4,854,932
2017	€4,490,607	€4,223,636	€3,925,817	€2,059,425	€7,745,604	€7,558,490	€7,261,576	€5,395,184
2018	€4,265,039	€4,051,021	€3,747,511	€1,939,677	€7,418,009	€7,281,308	€6,978,660	€5,170,826
<b>Total</b>	<b>€21,728,267</b>	<b>€20,383,139</b>	<b>€19,146,436</b>	<b>€10,622,431</b>	<b>€36,625,952</b>	<b>€35,632,050</b>	<b>€34,408,908</b>	<b>€25,884,902</b>

Source: Indecon analysis  
\* Based on Real Discount Rate = 5%

The table below compares the costs and benefits quantified above to summarise the overall relative performance of scheme options, based on calculated Net Present Values and Benefit-Cost Ratios.

<b>Table 5.42: Overall Performance of Scheme Options (based on Total Costs (Set-Up/Development Costs + Operating Costs))</b>								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09

Source: Indecon analysis  
\* Based on Real Discount Rate = 5%

Based on the assumptions applied, the detailed financial appraisal indicates that two of the scheme options examined return a positive overall return, namely Custodial Option 4 and Insurance Option 4, with the former option showing the most positive outcome with a BCR of 1.49:1. Both of these options assume full outsourcing of all aspects of a deposit protection scheme (i.e. scheme administration, dispute resolution and enforcement activities), but most importantly, relative to Custodial and Insurance Option 3, these options are also predicated on lower dispute resolution costs. As discussed in Section 4, this outcome would necessitate legislation to introduce a more streamlined and cost-effective dispute resolution framework for deposit-related disputes in Ireland. In the absence of this, the schemes would not be financially viable without exchequer subsidy.

The analysis also suggests that a custodial deposit protection scheme is more likely to be financially viable although there are risks involved. While Insurance Option 4 shows a positive overall return, this is more marginal, with a BCR of 1.09:1. This reflects the higher administration costs (primarily insurance protection costs) associated with an insurance-based scheme.

#### ***Alternative scenarios and sensitivities***

It is also instructive to assess the robustness of the above financial appraisal outcomes to alternative assumptions governing the key parameters underlying the appraisal. The following scenarios and sensitivities are examined:

- ❑ % Share of Private Households in Rented Dwellings – scenario based % share being 5 percentage points lower than under base case;
- ❑ Scheme compliance rates, in relation to the proportion of private tenancies that are registered and protected under a deposit protection scheme – % compliance rates +/-10 percentage points compared to base case scenario;
- ❑ Interest rates under a custodial scheme – interest rates +/- 1 percentage point compared with base case scenario;
- ❑ Dispute rates – deposit-related disputes received as % of tenancies protected at 0.5% and 2%;
- ❑ Insurance scheme landlord/agent membership and deposit protection fees – fees rates at +/- 10% compared with base case scenario;
- ❑ Higher operational and capital costs scenario: in which operational costs for Custodial and Insurance Options 1, 2 and 3 are 25% above the base case, and capital costs for Custodial and Insurance Options 1 and 2 are 50% higher than in the base case.

Each of these scenarios/sensitivities is described below and these are important given the extent of uncertainty regarding many of the underlying analysis.

#### *Share of Private Households in Rented Dwellings*

The table overleaf presents the results of an alternative scenario based on the assumed proportion of private households in rented dwellings being five percentage points below the 18.5% level assumed in the base case scenario. The analysis indicates that Custodial Option 4 would remain positive, although with a lower BCR of 1.26, while Insurance Option 4 would become more marginal, with a BCR of 1.02 under this scenario. Outcomes are less sensitive under alternative assumptions for the privately rented proportion of households that might be predicted, as the resulting impact on tenancies protected under a deposit protection scheme affects cost as well as income variables, thereby reducing the net impact of the lower rented share.

Table 5.43: Overall Performance of Scheme Options – Alternative Scenario re Share of Private Households in Rented Dwellings: % Share -5 Percentage Points compared to Base Case Scenario								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Base Case Scenario</b>								
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09
<b>% Share of Private Households in Rented Dwellings 5 % points below Base Case**</b>								
Net Present Value in 2012*	-€5,595,179	-€4,279,664	-€3,534,437	€2,169,705	-€7,050,243	-€6,085,953	-€5,354,287	€349,855
Benefit-Cost Ratio - X : 1	0.65	0.71	0.75	1.26	0.73	0.76	0.78	1.02
Source: Indecon analysis * Based on Real Discount Rate = 5% ** Under this alternative scenario, the financial model assumes that staff numbers and costs, in addition to non-staff overhead costs such as accommodation remain fixed/do not vary with the number of tenancies protected.								

#### Scheme compliance rates

The table below presents the results of alternative scenarios for scheme compliance rates, based on assuming that compliance rates are either ten percentage points above or below the profile assumed in the base case scenario presented above.

Table 5.44: Overall Performance of Scheme Options – Alternative Compliance Rate Scenarios: % Compliance Rates +/-10 Percentage Points compared to Base Case Scenario								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Base Case Scenario</b>								
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09
<b>% Compliance Rates +10 percentage points compared to Base Case Scenario**</b>								
Net Present Value in 2012*	-€5,996,341	-€4,637,783	-€3,178,174	€6,624,763	-€9,183,289	-€8,175,957	-€6,729,908	€3,073,029
Benefit-Cost Ratio - X : 1	0.75	0.80	0.85	1.57	0.78	0.80	0.83	1.11
<b>% Compliance Rates -10 percentage points compared to Base Case Scenario**</b>								
Net Present Value in 2012*	-€5,745,995	-€4,414,298	-€3,400,501	€3,844,573	-€7,490,259	-€6,509,788	-€5,509,551	€1,735,522
Benefit-Cost Ratio - X : 1	0.70	0.75	0.80	1.40	0.76	0.79	0.81	1.08
Source: Indecon analysis * Based on Real Discount Rate = 5% ** Under these alternative scenarios, the financial model assumes that staff numbers and costs, in addition to non-staff overhead costs such as accommodation remain fixed/do not vary with the number of tenancies protected.								



### Interest rates under a custodial scheme

The table below presents the outcomes from an alternative set of financial appraisals based on assuming higher and lower interest rates available on the deposit pool within a custodial scheme. A custodial scheme would be quite sensitive to the level of interest rates available on a deposit pool. If interest rates were 1% point lower than in the base case, this could threaten the viability even of the fully outsourced and lower cost Custodial Option 4. This analysis suggests that any further reduction in interest rates could be a significant risk for a scheme.

<b>Table 5.45: Overall Performance of Scheme Options – Alternative Interest Rate Scenarios for Custodial Scheme Options: Interest Rates +/- 1 Percentage Point compared with Base Case Scenario</b>				
Scenarios	Custodial			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4
<b>Base Case Scenario</b>				
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49
<b>Interest Rates +1% Point relative to Base Case Scenario</b>				
Net Present Value in 2012*	-€837,168	€507,960	€1,744,663	€10,268,668
Benefit-Cost Ratio - X : 1	0.96	1.02	1.09	1.97
<b>Interest Rates -1% Point relative to Base Case Scenario</b>				
Net Present Value in 2012*	-€10,905,168	-€9,560,040	-€8,323,337	€200,668
Benefit-Cost Ratio - X : 1	0.50	0.53	0.57	1.02
<b>Source: Indecon analysis</b>				
* Based on Real Discount Rate = 5%				

### Scheme dispute rates

In the table below an alternative set of scenarios are examined involving varying assumptions regarding the overall rate of deposit-related disputes raised by tenants or landlords/agents if a deposit protection scheme were in place.

Table 5.46: Overall Performance of Scheme Options – Alternative Dispute Rate Scenarios: Deposit-related Disputes Received as % of Tenancies Protected at 0.5% and 2%								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Base Case Scenario</b>								
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09
<b>Disputes Received as % of Tenancies Protected at 0.5%</b>								
Net Present Value in 2012*	€1,434,992	€2,780,119	€3,286,207	€6,992,296	-€1,030,614	-€36,713	€455,814	€4,161,903
Benefit-Cost Ratio - X : 1	1.10	1.21	1.26	1.79	0.96	1.00	1.02	1.17
<b>Disputes Received as % of Tenancies Protected at 2%</b>								
Net Present Value in 2012*	-€15,425,377	-€14,080,249	-€11,888,125	€2,936,232	-€17,890,983	-€16,897,081	-€14,718,518	€105,839
Benefit-Cost Ratio - X : 1	0.51	0.53	0.57	1.23	0.61	0.63	0.66	1.00
Source: Indecon analysis								
* Based on Real Discount Rate = 5%								

### *Insurance scheme membership and tenancy protection fees*

The income stream under an insurance-based scheme is a function of both the number and annual turnover of tenancies registered, as well as the level of fees charged to landlords/agents. The financial model is based on a fee structure for an insurance-based scheme which assumes three components, namely a once-off membership fee charged to landlords, an annual membership fee charged to agents, and a protection fee per deposit registered/protected, which is charged to landlords and agents.

<b>Table 5.47: Overall Performance of Scheme Options – Alternative Membership and Tenancy Protection Fees Scenario: Fees Rates at +/- 10% compared with Base Case Scenario</b>				
Scenario	Insurance			
	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Base Case Scenario</b>				
Net Present Value in 2012*	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.77	0.79	0.82	1.09
<b>Fee Rates +10% relative to Base Case</b>				
Net Present Value in 2012*	-€5,508,647	-€4,514,745	-€3,291,602	€5,232,403
Benefit-Cost Ratio - X : 1	0.85	0.87	0.90	1.20
<b>Fee Rates -10% relative to Base Case</b>				
Net Present Value in 2012*	-€11,170,625	-€10,176,724	-€8,953,581	-€429,576
Benefit-Cost Ratio - X : 1	0.70	0.71	0.74	0.98
<b>Source: Indecon analysis</b>				
* Based on Real Discount Rate = 5%				

#### *Higher operational and capital costs scenario*

In the table overleaf we present the results of an alternative scenario in which we assume that operational costs under Custodial or Insurance Options 1, 2 and 3 are 25% higher than in the base case scenario, and where total scheme capital/set-up costs under Options 1 and 2 are 50% above their level in the base case. If scheme costs were at these higher levels, this would push Options 1, 2 and 3 under both the custodial and insurance-based scheme alternatives further into negative territory. If Option 4 was considered, the results would be determined on the basis of a competitive tender and would be known in advance, although there are risks that expectations would not be realised as happens in the UK.

**Table 5.48: Overall Performance of Scheme Options – Alternative Scenario re Scheme Costs: Higher Capital and Operational Costs compared to Base Case Scenario**

Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Base Case Scenario</b>								
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09
<b>Operational Costs under Options 1, 2 and 3 = 25% above base case, and Capital Costs under Options 1 and 2 = 50% higher than in the base case</b>								
Net Present Value in 2012*	-€11,662,116	-€9,904,955	-€7,746,573	€5,234,668	-€17,861,120	-€16,539,259	-€14,385,140	€2,404,276
Benefit-Cost Ratio - X : 1	0.58	0.62	0.67	1.49	0.61	0.63	0.66	1.09
<b>Source: Indecon analysis</b>								
* Based on Real Discount Rate = 5%								

### 5.3 Cost-Benefit Appraisal

This section looks beyond an appraisal purely on the basis of scheme finances and factors into the equation the wider social and economic costs and benefits that could potentially arise with the introduction of a deposit protection scheme in Ireland. These measures are outlined in the table below under both quantified and non-quantified cost and benefit headings. Indecon has identified, among other factors, the value of deposits returned to tenants as a result of a scheme as one of the main quantifiable economic benefits of a deposit protection scheme, while on the costs side, we quantify the opportunity cost to landlords of loss of access to tenancy deposits (under a custodial scheme) or the requirement to pay membership and tenancy protection fees (under an insurance-based scheme). We also outline certain potential non-quantified costs and benefits also. The costs of operating any scheme would also result in a resource cost to society and this could ultimately be reflected in higher rents.

**Table 5.49: Analysis of Wider Costs and Benefits of a Deposit Protection Scheme to Society and the Exchequer – Summary of Components of Benefits and Costs**

<b>Wider <u>Benefits</u> of a Deposit Protection Scheme to Society</b>	<b>Wider <u>Costs</u> of a Deposit Protection Scheme to Society</b>
<i>Quantified Benefits</i>	<i>Quantified Costs</i>
Value of Deposits Returned to Tenants	Opportunity Cost to Landlords of Loss of Access to Deposit Funds and Costs of Fee Payments
Savings in Supplementary Welfare Allowance/Exceptional Needs Payments for Tenancy Deposits	
Savings in PRTB Compliance Enforcement Costs	
<i>Non-Quantified Benefits</i>	<i>Non-Quantified Costs</i>
Provision of Certainty/Security to Tenants	Ease of Administration for Landlords
Access to Efficient and Effective Dispute Resolution System	
<b>Source: Indecon</b>	

### 5.3.1 Assumptions

The assumptions underlying the costs and benefits in Table 5.54 are outlined in the series of tables that follows, beginning with an outline of the rationale for an increase in the value of deposits returned to tenants after the introduction of a deposit protection scheme.

#### *Value of Return of Deposits to Tenants*

The return of the tenancy deposit in a scenario where a dispute occurs is outlined in the tables below using PRTB data. Indecon assumes based on current PRTB figures that under a scheme the equivalent of 62% of deposits would be due to be refunded to the tenant following a dispute.

<b>Table 5.50: Assumptions Underlying Cost-Benefit Analysis of Costs and Benefits of a Deposit Protection Scheme to Society and the Exchequer – Value of Return of Deposits to Tenants</b>								
Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Benefits</b>								
<i>Return of Deposits to Tenants</i>								
Deposit-related Dispute Rate - % of Tenancies Registered under Scheme	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%
Value of disputed deposits = Deposit-related Dispute Rate * No. of Tenancies Registered under Scheme * Average Deposit Value								
<i>As per current (2011) PRTB disputes data, assume following determinations/outcomes:</i>								
% of Deposit-related Disputes with Deposit Refunded in Full to Tenant	45%	45%	45%	45%	45%	45%	45%	45%
% of Deposit-related Disputes with Deposit Partially Refunded to Tenant	33%	33%	33%	33%	33%	33%	33%	33%
For Disputes with Deposit Partially Refunded to Tenant, assume 50% of average deposit value. Adjusted %:	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
<b>Source: Indecon</b>								

### *Savings in Supplementary Welfare Allowance/Exceptional Needs Payments for Tenancy Deposits*

Welfare officers in the Department of Social Protection (DSP) have discretion to make exceptional needs payments to tenants in order to help fund costs that tenants may not be able to meet from their own resources. These costs must however be unforeseen and exceptional. Many of these payments related to tenancy deposits which are usually returned at the end of a tenancy however there has been a proportion of this expenditure that has not been returned to the DSP over time. Indecon highlights that the 2012 estimated exceptional needs payments may be €2.58m based on the €860,000 paid over the period Jan – April 2012. However, these expenditures do not relate to compensation for landlords not returning the deposits as the evidence suggests that only a very small percentage of deposits are not returned. However, in a scenario of a deposit protection scheme there may be some reduction in these payments compared to the existing position. We are assuming that a cost saving of €200,000 per annum could arise. Table 5.57 below incorporates the assumptions outlined in relation to determination order compliance enforcement costs that are currently experienced by the PRTB. With the introduction of a deposit protection scheme, these costs are eliminated for reasons previously outlined in Section 4. The fact that the PRTB no longer experiences these costs represents a societal economic benefit.

**Table 5.51: Assumptions Underlying Cost-Benefit Analysis of Costs and Benefits of a Deposit Protection Scheme to Society and the Exchequer – Savings in PRTB Compliance Enforcement Costs**

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<i>Savings in PRTB Determination Order-related Compliance Enforcement Costs</i>								
Determination Orders as % of Tenancies Protected	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Unit Costs Per DO Enforcement	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388	€5,388

Source: Indecon

*Opportunity Cost to Landlords of Loss of Access to Deposit Funds and Costs of Fee Payments*

There are also wider costs of a deposit protection scheme to society as indicated in Table 5.52. Included in these measures is the opportunity cost to landlords of the loss of access to deposit funds in a custodial based scheme and the costs of scheme fees in the insurance scheme. The former is represented by the interest that is lost to the landlord while the later represents the total cost of the fees that he/she are required to pay to an insurance scheme provider.

**Table 5.52: Assumptions Underlying Cost-Benefit Analysis of Costs and Benefits of a Deposit Protection Scheme to Society and the Exchequer – Opportunity Cost to Landlords of Loss of Access to Deposit Funds and Costs of Fee Payments**

Scheme Option	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
<b>Costs</b>								
Opportunity cost of funds to landlords (calculate on entire deposit pool) - assume equates to interest rate of:	2%	2%	2%	2%				
Opportunity cost of fee payments under Insurance-based scheme - % of Estimated Fees Paid					100%	100%	100%	100%

Source: Indecon

### 5.3.2 Outputs from CBA

#### Estimated Value of Deposits Returned to Tenants

The assumption underlying the economic costs and benefits of a deposit protection scheme informs the following series of tables. Table 5.53 highlights the estimated annual value of deposits returned in full or in part to tenants.

Table 5.53: Wider Scheme Benefits - Impact of Scheme on Estimated Value of Deposits Returned in Full or in Part to Tenants								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€154,237	€154,237	€154,237	€154,237	€154,237	€154,237	€154,237	€154,237
2015	€169,714	€169,714	€169,714	€169,714	€169,714	€169,714	€169,714	€169,714
2016	€185,563	€185,563	€185,563	€185,563	€185,563	€185,563	€185,563	€185,563
2017	€215,703	€215,703	€215,703	€215,703	€215,703	€215,703	€215,703	€215,703
2018	€219,382	€219,382	€219,382	€219,382	€219,382	€219,382	€219,382	€219,382
2019	€223,110	€223,110	€223,110	€223,110	€223,110	€223,110	€223,110	€223,110
2020	€226,887	€226,887	€226,887	€226,887	€226,887	€226,887	€226,887	€226,887
2021	€230,714	€230,714	€230,714	€230,714	€230,714	€230,714	€230,714	€230,714
2022	€234,592	€234,592	€234,592	€234,592	€234,592	€234,592	€234,592	€234,592
2023	€238,522	€238,522	€238,522	€238,522	€238,522	€238,522	€238,522	€238,522

Source: Indecon analysis

#### Cost savings in Supplementary Welfare Allowance/Exceptional Needs payments

The benefits in relation to estimated costs savings in Supplementary Welfare Allowance/Exceptional Needs payments for tenancy deposits are indicated in the table below.

Table 5.54: Wider Scheme Benefits - Impact of Scheme on Estimated Value of Savings in Supplementary Welfare Allowance/Exceptional Needs Payments for Tenancy Deposits								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2015	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2016	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2017	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2018	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2019	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2020	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2021	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2022	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000
2023	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000	€200,000

Source: Indecon analysis

### Savings in PRTB Determination Order Compliance Enforcement Costs

As highlighted in Section 4, Indecon assumes that with the introduction of a deposit protection scheme, the costs of determination order enforcement as currently experienced by the PRTB would cease to be a significant issue for a scheme operator. Under a custodial scheme, the landlord transfers the deposit to the scheme initially. In a scenario where a dispute occurs at the end of the tenancy and a full apportionment is awarded to the tenant(s), the scheme can automatically transfer this money to the tenant. The scheme administrator does not have to pursue the landlord for the deposit in the case where the landlord was not willing to comply with the determination of the dispute as the scheme already has the deposit. In the case of the insurance scheme, the same concept broadly applies. The difference in this case is that the scheme is already insured against this eventuality and if the landlord is not willing to transfer the deposit if a dispute occurs, the scheme can claim this amount through its insurance. If a landlord continues to operate in such a manner, the scheme could ultimately revoke the landlord's membership. The benefit arises from the fact that these costs do not arise after a scheme is introduced. These estimated benefits are outlined in the table below.

Table 5.55: Wider Scheme Benefits - Impact of Scheme on Estimated Value of Savings in PRTB Determination Order Compliance Enforcement Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€803,103	€803,103	€803,103	€803,103	€803,103	€803,103	€803,103	€803,103
2015	€883,692	€883,692	€883,692	€883,692	€883,692	€883,692	€883,692	€883,692
2016	€966,215	€966,215	€966,215	€966,215	€966,215	€966,215	€966,215	€966,215
2017	€1,123,152	€1,123,152	€1,123,152	€1,123,152	€1,123,152	€1,123,152	€1,123,152	€1,123,152
2018	€1,142,310	€1,142,310	€1,142,310	€1,142,310	€1,142,310	€1,142,310	€1,142,310	€1,142,310
2019	€1,161,721	€1,161,721	€1,161,721	€1,161,721	€1,161,721	€1,161,721	€1,161,721	€1,161,721
2020	€1,181,389	€1,181,389	€1,181,389	€1,181,389	€1,181,389	€1,181,389	€1,181,389	€1,181,389
2021	€1,201,317	€1,201,317	€1,201,317	€1,201,317	€1,201,317	€1,201,317	€1,201,317	€1,201,317
2022	€1,221,510	€1,221,510	€1,221,510	€1,221,510	€1,221,510	€1,221,510	€1,221,510	€1,221,510
2023	€1,241,970	€1,241,970	€1,241,970	€1,241,970	€1,241,970	€1,241,970	€1,241,970	€1,241,970

Source: Indecon analysis

### Scheme financial income

In addition to the above wider economic benefits, it is also necessary to add the financial benefits of a scheme in relation to the income generated through the operation of a scheme. Table 5.56 re-states the benefits evident in terms of income streams from the financial appraisal outlined previously. As we can see, insurance options have the potential to raise more income given the assumed level of fees charged and the current interest rate environment.

Table 5.56: Scheme Benefits - Total Financial Benefits/Income								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€3,168,558	€3,168,558	€3,168,558	€3,168,558	€11,877,912	€11,877,912	€11,877,912	€11,877,912
2015	€3,486,515	€3,486,515	€3,486,515	€3,486,515	€4,773,936	€4,773,936	€4,773,936	€4,773,936
2016	€3,812,100	€3,812,100	€3,812,100	€3,812,100	€5,161,977	€5,161,977	€5,161,977	€5,161,977
2017	€4,431,281	€4,431,281	€4,431,281	€4,431,281	€6,630,643	€6,630,643	€6,630,643	€6,630,643
2018	€4,506,864	€4,506,864	€4,506,864	€4,506,864	€5,292,845	€5,292,845	€5,292,845	€5,292,845
2019	€4,583,448	€4,583,448	€4,583,448	€4,583,448	€5,382,043	€5,382,043	€5,382,043	€5,382,043
2020	€4,661,046	€4,661,046	€4,661,046	€4,661,046	€5,472,423	€5,472,423	€5,472,423	€5,472,423
2021	€4,739,672	€4,739,672	€4,739,672	€4,739,672	€5,563,999	€5,563,999	€5,563,999	€5,563,999
2022	€4,819,340	€4,819,340	€4,819,340	€4,819,340	€5,656,789	€5,656,789	€5,656,789	€5,656,789
2023	€4,900,062	€4,900,062	€4,900,062	€4,900,062	€5,750,807	€5,750,807	€5,750,807	€5,750,807

Source: Indecon analysis

The table below adds the above financial income-related benefits to the wider economic benefits to obtain the estimated overall economic and societal benefits of a deposit protection scheme.

Table 5.57: Scheme Benefits - Total Benefits (Financial + Wider)								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€4,962,124	€4,962,124	€4,962,124	€4,962,124	€13,671,478	€13,671,478	€13,671,478	€13,671,478
2015	€5,439,992	€5,439,992	€5,439,992	€5,439,992	€6,727,412	€6,727,412	€6,727,412	€6,727,412
2016	€5,929,323	€5,929,323	€5,929,323	€5,929,323	€7,279,200	€7,279,200	€7,279,200	€7,279,200
2017	€6,859,909	€6,859,909	€6,859,909	€6,859,909	€9,059,271	€9,059,271	€9,059,271	€9,059,271
2018	€6,973,505	€6,973,505	€6,973,505	€6,973,505	€7,759,486	€7,759,486	€7,759,486	€7,759,486
2019	€7,088,605	€7,088,605	€7,088,605	€7,088,605	€7,887,201	€7,887,201	€7,887,201	€7,887,201
2020	€7,205,230	€7,205,230	€7,205,230	€7,205,230	€8,016,607	€8,016,607	€8,016,607	€8,016,607
2021	€7,323,400	€7,323,400	€7,323,400	€7,323,400	€8,147,727	€8,147,727	€8,147,727	€8,147,727
2022	€7,443,134	€7,443,134	€7,443,134	€7,443,134	€8,280,583	€8,280,583	€8,280,583	€8,280,583
2023	€7,564,455	€7,564,455	€7,564,455	€7,564,455	€8,415,200	€8,415,200	€8,415,200	€8,415,200

Source: Indecon analysis

The below figures indicates the present value of the above total benefits over an assumed scheme contract period of five years, with 2014 assumed as the first year of operation of a scheme.<sup>13</sup> Indecon stresses that these results are dependent on the relevant assumptions that have been outlined previously.

<b>Table 5.58: Scheme Benefits - Total Benefits (Financial + Wider) - Present Value in 2012 assuming 5-year Contract Period</b>								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€4,500,793	€4,500,793	€4,500,793	€4,500,793	€12,400,433	€12,400,433	€12,400,433	€12,400,433
2015	€4,699,269	€4,699,269	€4,699,269	€4,699,269	€5,811,392	€5,811,392	€5,811,392	€5,811,392
2016	€4,878,069	€4,878,069	€4,878,069	€4,878,069	€5,988,616	€5,988,616	€5,988,616	€5,988,616
2017	€5,374,918	€5,374,918	€5,374,918	€5,374,918	€7,098,176	€7,098,176	€7,098,176	€7,098,176
2018	€5,203,737	€5,203,737	€5,203,737	€5,203,737	€5,790,248	€5,790,248	€5,790,248	€5,790,248
<b>Total</b>	<b>€24,656,786</b>	<b>€24,656,786</b>	<b>€24,656,786</b>	<b>€24,656,786</b>	<b>€37,088,865</b>	<b>€37,088,865</b>	<b>€37,088,865</b>	<b>€37,088,865</b>

Source: Indecon analysis

The assumption underlying the economic costs of a deposit protection scheme inform the following series of tables. Table 5.59 highlights the impact on the opportunity costs to landlords across scheme options. The figures indicate that these particular wider scheme costs are higher in the case of insurance scheme options.

<b>Table 5.59: Wider Scheme Costs - Impact of Scheme on Opportunity Cost to Landlords of Loss of Access to Deposit Funds and Fees Paid on Insurance Scheme</b>								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2014	€2,235,314	€2,235,314	€2,235,314	€2,235,314	€11,877,912	€11,877,912	€11,877,912	€11,877,912
2015	€2,459,623	€2,459,623	€2,459,623	€2,459,623	€4,773,936	€4,773,936	€4,773,936	€4,773,936
2016	€2,689,312	€2,689,312	€2,689,312	€2,689,312	€5,161,977	€5,161,977	€5,161,977	€5,161,977
2017	€3,126,124	€3,126,124	€3,126,124	€3,126,124	€6,630,643	€6,630,643	€6,630,643	€6,630,643
2018	€3,179,446	€3,179,446	€3,179,446	€3,179,446	€5,292,845	€5,292,845	€5,292,845	€5,292,845
2019	€3,233,473	€3,233,473	€3,233,473	€3,233,473	€5,382,043	€5,382,043	€5,382,043	€5,382,043
2020	€3,288,216	€3,288,216	€3,288,216	€3,288,216	€5,472,423	€5,472,423	€5,472,423	€5,472,423
2021	€3,343,684	€3,343,684	€3,343,684	€3,343,684	€5,563,999	€5,563,999	€5,563,999	€5,563,999
2022	€3,399,887	€3,399,887	€3,399,887	€3,399,887	€5,656,789	€5,656,789	€5,656,789	€5,656,789
2023	€3,456,834	€3,456,834	€3,456,834	€3,456,834	€5,750,807	€5,750,807	€5,750,807	€5,750,807

Source: Indecon analysis

<sup>13</sup> This measure is informed by typical contract lengths evident in England and Wales.

The table below re-states the scheme financial costs that Indecon outlined in detail previously. This table indicate that insurance schemes are substantially more costly than custodial schemes in on a purely financial basis.

Table 5.60: Scheme Costs - Total Financial Costs								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,419,682	€1,149,098	€1,327,234	€1,327,234	€1,457,385	€1,171,121	€1,358,496	€1,358,496
2014	€4,108,137	€3,890,287	€3,608,941	€1,905,678	€7,076,475	€6,932,257	€6,652,066	€4,948,803
2015	€4,490,032	€4,255,799	€3,944,664	€2,070,483	€7,756,996	€7,603,519	€7,293,538	€5,419,357
2016	€4,881,088	€4,630,080	€4,288,441	€2,239,241	€8,453,844	€8,290,885	€7,950,400	€5,901,200
2017	€5,731,278	€5,390,549	€5,010,448	€2,628,406	€9,885,572	€9,646,761	€9,267,815	€6,885,774
2018	€5,715,560	€5,428,756	€5,022,024	€2,599,353	€9,940,841	€9,757,650	€9,352,072	€6,929,401
2019	€5,807,544	€5,516,794	€5,102,887	€2,639,048	€10,104,753	€9,919,332	€9,506,579	€7,042,740
2020	€5,900,746	€5,605,998	€5,184,821	€2,679,269	€10,270,836	€10,083,155	€9,663,132	€7,157,580
2021	€5,995,183	€5,696,384	€5,267,840	€2,720,023	€10,439,119	€10,249,148	€9,821,758	€7,273,941
2022	€6,090,871	€5,787,967	€5,351,959	€2,761,316	€10,609,631	€10,417,339	€9,982,486	€7,391,843
2023	€6,187,825	€5,880,763	€5,437,191	€2,803,156	€10,782,400	€10,587,758	€10,145,342	€7,511,307

Source: Indecon analysis

When we combine the financial costs with the potential wider costs, it becomes even more apparent that insurance schemes are ultimately significantly more costly (in both the financial and economic sense) than custodial schemes. The table below indicates that Custodial Option 4 is the preferred option in terms of cost efficiency.

Table 5.61: Scheme Costs - Total Costs (Financial + Wider)								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,419,682	€1,149,098	€1,327,234	€1,327,234	€1,457,385	€1,171,121	€1,358,496	€1,358,496
2014	€6,343,452	€6,125,601	€5,844,255	€4,140,993	€18,954,386	€18,810,169	€18,529,978	€16,826,715
2015	€6,949,655	€6,715,422	€6,404,287	€4,530,106	€12,530,932	€12,377,455	€12,067,475	€10,193,294
2016	€7,570,401	€7,319,393	€6,977,753	€4,928,553	€13,615,821	€13,452,862	€13,112,377	€11,063,177
2017	€8,857,403	€8,516,673	€8,136,572	€5,754,531	€16,516,215	€16,277,404	€15,898,458	€13,516,417
2018	€8,895,006	€8,608,202	€8,201,469	€5,778,798	€15,233,686	€15,050,495	€14,644,917	€12,222,246
2019	€9,041,017	€8,750,267	€8,336,360	€5,872,521	€15,486,796	€15,301,375	€14,888,622	€12,424,783
2020	€9,188,962	€8,894,215	€8,473,037	€5,967,485	€15,743,259	€15,555,577	€15,135,555	€12,630,003
2021	€9,338,867	€9,040,068	€8,611,524	€6,063,707	€16,003,118	€15,813,147	€15,385,758	€12,837,940
2022	€9,490,758	€9,187,854	€8,751,846	€6,161,203	€16,266,419	€16,074,128	€15,639,274	€13,048,632
2023	€9,644,659	€9,337,597	€8,894,026	€6,259,990	€16,533,208	€16,338,565	€15,896,149	€13,262,114

Source: Indecon analysis

The below figures indicates the present value of total costs over an assumed scheme contract period of five years with 2014 being the first operational year of this contract. The figures suggest that in terms of scheme total costs, insurance schemes are much less attractive.

Table 5.62: Scheme Costs - Total Costs (Financial + Wider) - Present Value in 2012 assuming 5-year Contract Period								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
2013	€1,352,078	€1,094,379	€1,264,033	€1,264,033	€1,387,985	€1,115,353	€1,293,806	€1,293,806
2014	€5,753,698	€5,556,101	€5,300,912	€3,756,002	€17,192,187	€17,061,378	€16,807,236	€15,262,327
2015	€6,003,373	€5,801,034	€5,532,264	€3,913,276	€10,824,691	€10,692,111	€10,424,338	€8,805,350
2016	€6,228,187	€6,021,683	€5,740,615	€4,054,733	€11,201,769	€11,067,703	€10,787,585	€9,101,703
2017	€6,940,007	€6,673,036	€6,375,217	€4,508,825	€12,940,886	€12,753,772	€12,456,858	€10,590,466
2018	€6,637,590	€6,423,573	€6,120,063	€4,312,228	€11,367,611	€11,230,911	€10,928,263	€9,120,428
<b>Total</b>	<b>€32,914,933</b>	<b>€31,569,806</b>	<b>€30,333,102</b>	<b>€21,809,097</b>	<b>€64,915,130</b>	<b>€63,921,228</b>	<b>€62,698,086</b>	<b>€54,174,080</b>

Source: Indecon analysis

Table 5.63 below brings together the costs and benefits in outlining the overall performance of the various scheme options. As can be seen in the table, custodial option 4 is the only option with a marginally positive benefit cost ratio of 1.13.

Table 5.63: Costs-Benefit Analysis: Overall Performance of Scheme Options								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€8,258,147	-€6,913,019	-€5,676,316	€2,847,689	-€27,826,265	-€26,832,364	-€25,609,221	-€17,085,216
Benefit-Cost Ratio - X : 1	0.75	0.78	0.81	1.13	0.57	0.58	0.59	0.68

Source: Indecon analysis  
\* Discount Rate = 5%

## 5.4 Multi-Criteria Analysis

### 5.4.1 Introduction

A financial appraisal and cost-benefit appraisal can only be undertaken on costs and benefits which are monetisable. To reflect consideration of both the monetary and the non-quantifiable or qualitative impacts of a deposit protection scheme, Indecon has also completed a Multi-Criteria Analysis on the alternative scheme approaches or options examined in this assessment. A Multi-Criteria Analysis is a technique which enables scoring or assessment of alternative options using multiple criteria.

The following criteria, or aspects of a deposit protection scheme, inform the analysis:

- The extent to which a scheme provides certainty/security to tenants
- The extent to which a scheme provides tenants with access to an efficient and effective dispute resolution system;
- The financial costs to landlords/agents;
- The ease of scheme administration for landlords/agents; and
- The overall financial viability of a scheme.

Indecon allocates equal weighting across these different categories with a maximum possible score of 20. Alternative scenarios, based on assigning alternative weighting schema to the assessment criteria, were undertaken but Indecon would stress that there are great uncertainties regarding what weights to attach to different factors and this is ultimately a matter of judgement.

### 5.4.2 MCA Results

#### *Extent to which a scheme provides certainty/security to tenants*

Throughout this assessment, we have referred on numerous occasions, to the rationale for a deposit protection scheme to be introduced in Ireland. Central to this rationale is the increased security afforded to tenants in term of the returning of their deposit. This is important because the current PRTB dispute figures suggest unfair deposit withholding by landlords is a significant issue. In the provision of certainty/security to tenants then, Indecon gives a higher score to custodial scheme options. This is because the deposit is transferred to the scheme in these scenarios and is thus less likely to be withheld.

#### *Extent to which a scheme provides tenants with access to an efficient and effective dispute resolution system*

This assessment has outlined in detail the current Irish system of dispute resolution and has provided for an international comparative analysis of this system. What Indecon has found is that the Irish system is expensive in terms of dispute resolution because of the nature of the legislative basis. For this reason, we provide a score of 10 out of 20 to those options that persist with the current system while we score both Option 4 scenarios with 20 out of 20. This is because these options represent international best practice in scheme dispute resolution procedures and are lower cost than the other options.

*Financial costs to landlords/agents*

Evident with all scheme options is a financial cost to the landlord/agent. The financial costs to landlords are outlined in terms of the opportunity costs of a loss of access to deposit funds in the custodial scenarios and fees paid in terms of insurance schemes. Given that the opportunity cost in terms of fees paid in the insurance scheme is higher than the loss of access to the deposit in the custodial options, Indecon apportions a higher score to the custodial options in this case.

*Impact of a scheme on Buy-To-Let Landlords*

One issue Indecon highlights here, in terms of both types of schemes, is the impact on buy-to-let landlords. There are currently significant mortgage arrears in this sector. There is a risk that a deposit protection scheme could exacerbate these arrears.

<b>Table 5.64: Current Buy-to-Let Mortgage Arrears</b>	
	<b>Details</b>
Current Buy-to-Let Mortgages	
Total Value of Mortgage Loans	€32,000,000,000
Number of Loans	150,000
Average Value of Loans	€213,333
Total Loans in Arrears	37,000
Value of Loans in Arrears	€11,000,000,000
Average Value of Loans in Arrears	€297,297
<b>Source: Central Bank of Ireland</b>	

*The ease of scheme administration for landlords/agents*

Deposit protection schemes reduce the administrative burden on both landlord/agents and tenants. This is especially the case for landlords/agents. This is particularly so in terms of custodial deposit protection schemes where the landlord does not have to deal with the administration of the deposit. This is done through the scheme operator, thus in this criteria, Indecon apportions a higher score to custodial scenarios.

*The overall financial viability of a scheme*

Finally, in terms of overall financial viability, the highest score is given to Custodial Option 4. Taking into account the extent to which a scheme provides certainty/security to tenants, the extent to which a scheme provides tenants with access to an efficient and effective dispute resolution system, the financial costs to landlords/agents, the ease of scheme administration for landlords/agents and the overall financial viability of a scheme, it is evident that Custodial Option 4 is the preferred option in this analysis if a scheme is introduced.

Table 5.65: Multi-Criteria Analysis of Options for a Deposit Protection Scheme										
Criterion	Maximum Possible Score	Weight	Custodial				Insurance			
			Option 1	Option 2	Option 3	Option 4	Option 1	Option 2	Option 3	Option 4
Provision of Certainty/Security to Tenants	20	20.0%	15	15	15	15	10	10	10	10
Access to Efficient and Effective Dispute Resolution System	20	20.0%	10	10	10	20	10	10	10	20
Financial Costs to Landlords	20	20.0%	5	5	5	5	2.0	2.0	2.0	2.0
Ease of Administration for Landlords	20	20.0%	10	10	10	10	5	5	5	5
Overall Scheme Financial Viability	20	20.0%	9.8	10.4	11.1	20	10.3	10.6	11.0	14.6
<b>Overall Weighted Score</b>		<b>100%</b>	<b>8.5</b>	<b>8.5</b>	<b>8.6</b>	<b>10.5</b>	<b>5.3</b>	<b>5.4</b>	<b>5.4</b>	<b>6.8</b>
Source: Indecon analysis										

## 6 Conclusions

### 6.1 Introduction

This section brings together the detailed analysis and appraisal work undertaken in the preceding sections of this review to deliver our overall conclusions. It also sets out the policy options with the objective of guiding policy decision in relation to a deposit protection scheme.

### 6.2 Detailed Conclusions from Assessment

Summary of Conclusions
1. If a formal deposit protection scheme was to be introduced, the best option would be a custodial scheme whereby the management and administration would be undertaken by a private sector provider.
2. A scheme would not be financially viable without Government subsidies or significant legislative changes in order to reduce deposit resolution costs.
3. A custodial scheme involving legislative changes and outsourcing would be likely to achieve financial viability.
4. Introducing a scheme would not be costless for society but appropriately structured with changed legislation could have marginal net benefits.
5. A deposit retention scheme would not eliminate disputes involving deposits but would increase tenant protection and have other benefits.
6. A scheme would need to be linked into existing PRTB registration system.
7. To be financially viable, in addition to changes in legislation, measures would be required to address non-compliant landlords.
8. There are likely to be significant economies of scale for an existing service provider in managing a scheme.
9. There are significant financial risks in any scheme and it would be essential to ensure these risks are borne by any provider and not by the exchequer.
10. Given the scale of the Irish market, it may be necessary to have only one or two scheme providers, although this is not ideal.
11. If a scheme is implemented, there are two options for Government: one to await introduction of legislation to reform resolution process or, two, to provide an exchequer subsidy to meet any shortfalls.
12. An alternative approach to enhance tenant protection would be to provide a fund to ensure tenants are not left at loss if landlords fail to comply with enforcements orders.

The key conclusions are discussed below:

1. If a formal tenancy deposit protection scheme was to be introduced, our analysis suggests the best option would be a custodial scheme. There would, in such a scenario, be benefits of the PRTB or some other statutory agency, tendering the management and administration of the scheme to a private service provider in order to minimise costs and to take account of economies of scale.
2. There would be significant costs involved in operating such a scheme including staffing costs, legal costs, case processing costs, compliance costs and ICT costs. While a scheme would generate income through the use of the deposits received, our analysis suggests it would not be financially viable without Government subsidies or significant legislative changes in order to reduce dispute resolution costs.
3. Our appraisal indicates that a custodial deposit protection scheme involving legislative change to enable a streamlined lower cost dispute resolution as per the UK and involving outsourcing of administration, dispute resolution and enforcement, would be likely to achieve financial viability. However, in the absence of radical reform of the dispute resolution framework and associated legislative change, a scheme would not be financially viable.
4. Introducing a deposit protection scheme would increase opportunity costs for landlords who would ultimately be reflected in rents and so it would be a mistake to see this as a costless policy option. However, appropriately structured with legislative changes on dispute resolution process, such a scheme could on balance have a marginally positive net benefit.
5. A deposit retention scheme would not eliminate disputes involving deposits but would ensure that in cases where such disputes were deemed to involve landlords unjustifiably retaining deposits that the tenants would receive their money back. It could therefore ensure tenant confidence and would result in increased protection for such tenants. It would also have the benefit in reducing social welfare dependent related exceptional payments, and would reduce PRTB costs. These have been taken account of in our analysis.
6. A deposit retention scheme would need to be linked into the existing PRTB registration system and legislation may be required to encourage PRTB to pass on tenancy information to a scheme operator. We would not see such a linkage with other regulations such as BER as appropriate.
7. To be viable, in addition to legislation to reduce dispute costs, measures may be required to address non-compliant landlords. A system whereby tenants would receive three months' rent free for non-compliance would enhance compliance rates. There would also be a need to ensure that on-line facilities were used to the maximum extent in terms of administration of any scheme.

8. There are likely to be significant economies of scale for an existing service provider in managing such a scheme operated by an existing operator internationally or related service provider in Ireland. There would be significant higher cost for a provider to build all of the systems required from scratch compared to modifying existing systems.
9. There are significant financial risks in operating any such scheme and the financial outturns would depend on cost containment, interest rates and compliance rates. In order to minimise exchequer risks, any scheme would have to be structured so that any potential financial losses would accrue to the scheme contractor and that such providers have the financial capability to absorb such losses.
10. In an Irish context, the small scale of the market is such that there would be significant economies if one or possibly two scheme operators were licensed to provide the service. This would however reduce the level of competition and options for landlords and would increase the impact of a scheme operator ceasing business.
11. Our analysis suggests that if a decision is made to introduce a formal deposit protection scheme, there are two clear options available to the Government as follows:
  - i. To await the introduction of legislation to provide for a lower cost resolution process;
  - ii. To provide an exchequer subsidy to meet the shortfall in the financial viability of a scheme.
12. An alternative approach might be to enhance tenant protection by providing a fund to ensure that where determinants have been made, and where landlords have failed to comply with PRTB enforcement orders, then the outstanding deposits would be paid to tenants. Given that there are only approximately 626 cases annually where PRTB have concluded that deposits should be returned and that we understand in most cases landlords may repay these deposits, the number of cases where a fund would be called on would be limited. The costs of such a measure could be funded by the exchequer partially from savings in social welfare deposit support or from a small levy via the household charge on landlords or other means and this would involve lower costs than operating a formal deposit retention scheme.

A summary of the likely financial viability of different options for a formal deposit protection scheme are presented in the table overleaf. There are however significant uncertainties regarding these costs and the actual costs could only be determined following a tendering process and the operating experience over time. For that reason there are significant risks to the financial viability of any scheme.

Overall Performance of Scheme Options (based on Total Costs (Set-Up/Development Costs + Operating Costs))								
Scenarios	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€5,871,168	-€4,526,040	-€3,289,337	€5,234,668	-€8,336,774	-€7,342,872	-€6,119,730	€2,404,276
Benefit-Cost Ratio - X : 1	0.73	0.78	0.83	1.49	0.77	0.79	0.82	1.09

Source: Indecon analysis  
\* Based on Real Discount Rate = 5%

A summary of the likely costs and benefits ratios for different options are presented in the following table. As indicated above there may also be other options to enhance tenancy protection.

Costs-Benefit Analysis: Overall Performance of Scheme Options								
Year	Custodial				Insurance			
	Custodial Option 1	Custodial Option 2	Custodial Option 3	Custodial Option 4	Insurance Option 1	Insurance Option 2	Insurance Option 3	Insurance Option 4
Net Present Value in 2012*	-€8,258,147	-€6,913,019	-€5,676,316	€2,847,689	-€27,826,265	-€26,832,364	-€25,609,221	-€17,085,216
Benefit-Cost Ratio - X : 1	0.75	0.78	0.81	1.13	0.57	0.58	0.59	0.68

Source: Indecon analysis  
\* Discount Rate = 5%

## Conclusion

Indecon hopes this independent analysis will be useful in informing policy decisions and in understanding the costs and benefits as well as the risks of different options.