AWICS Housing News - August 2013

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The End of Rent Convergence

On 2nd August 2013, Graham Duncan, the Deputy Director for Affordable Housing Regulation and Investment at the Department for Communities & Local Government wrote to the national housing bodies about future social rent policy as follows:

"We are writing to set out some further details on our recent announcement on future rent policy for social housing. This is partly in response to queries we have been receiving on whether we intend to continue with rent convergence policy beyond 2014/15. We are writing in parallel to the Chartered Institute of Housing, Local Government Association, National Federation of Arm's Length Management Organisations and the Association of Retained Council Housing.

"We announced in the Spending Round that rents in the social sector will increase by the Consumer Prices Index plus 1% annually from 2015/16 to 2024/25, delivering on the pledge we made at Budget.

"This commitment to a long-term rent policy is a recognition by Government that a certain and stable investment climate is important for investors and landlords. It is designed to support providers in securing private finance, which will continue to play a vital role in funding new affordable housing. It should also help to provide a stable context within which providers can maximise value for money, including through active asset management. And it should give providers the long-term certainty and stability they need to deliver good services for their tenants.

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"In switching from the retail price index to the consumer price index, we hope to put rents onto a more stable footing. We are taking this action following the announcement from the National Statistician that the formula used to produce the Retail Price Index does not meet international standards.

"There has been some speculation that the new formula will lead to lower rents than the current formula. This will depend on the level of future inflation under the two measures. Over the last twelve months, the Retail Price Index has been on average 0.5% higher than the Consumer Prices Index – the latest figures show a 0.4% gap – suggesting the formula should give broadly the same rent change in the short-term. In the long-run, the difference between the Retail Price index and the Consumer Price Index is more uncertain, and will obviously vary year-on-year.

"Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014/15 – and the policy costings published by the Office for Budget responsibility are based on that assumption. So when we say rent increases of up to Consumer Prices Index plus 1% from 2015/16 onwards, that is what we mean.

"We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost fifteen years – this is a significant period of time for landlords to make full use of the rent flexibilities the Government has provided, and most have done so.

"As is the case under current policy, if individual housing associations believe that adherence to rent regulation will cause them difficulties, they should contact the regulator. We will set out details on limit rents for local authorities in 2014/15 in due course.

"In coming to a decision on our future rent policy, we have struck a balance between protecting tenants – ensuring rents remain affordable – and giving social landlords the income they need to invest in new housing (helping more people in housing need) and provide good services to their tenants. We think Consumer Price Index plus 1% strikes the right balance and represents a good deal for both landlords and tenants.

"Our policy is intended to ensure that all tenants, in future, see their rents increase on the same basis. We think it is fair, transparent, and will be easily understood by tenants. It will also provide tenants and landlords with stability – which should allow landlords to lever in further investment, in order to improve, renovate and build more housing.

"Taken together, our announcements on rent certainty and capital funding will provide the long-term investment framework that providers need to make plans for affordable house building.

"We will of course consult on the new rent policy, including proposals for ending convergence. We will set out further details on our proposals at that point."

Last month's spending review set a new rent formula of the consumer price index plus 1 per cent for 10 years.

The government intends to carry out a formal consultation in due course, but it appears that they intend to legislate to the effect that social rents cannot increase by more than the consumer prices index plus 1%. This appears to have various implications:

- Councils whose rents are currently below target will never achieve target. As the government's calculation of the debt that Councils have been given is based on target rents being achieved this will leave such councils under-resourced with serious implications for routine maintenance, major repairs and the decent homes standard. Southwark Borough Council is a good example of this. Similarly, housing associations whose business plans rely on rents achieving convergence may also struggle to reach the decent homes standard.
- Councils and Housing Associations will have an incentive to increase their rents as much as possible in 2014 before the new system comes into force.
- Government, despite its commitment to localism has taken another centralising step. The introduction of the borrowing cap and the ending of rent convergence both appear to undermine the stated objective of self-financing that was to give councils more autonomy. Government will continue to control councils' income and borrowing.

Following the announcement landlords have been warning they may be forced to revise their business plans or build fewer homes if the government ends a policy designed to align council and housing association rents at the level of the government's formula.

Social landlords claim this will cost them 'hundreds of millions' a year and dent the sector's capacity to build new homes. The Association of Retained Council Housing warned the 'shock' change could affect councils' ability to repay the £29billion of debt they collectively took on in the April 2012 housing revenue account reforms. The government had said previously that social rents should converge by 2015/16, but it was largely expected the policy would be extended for those landlords that could not meet the deadline because of the government's limit on rent increases of the retail price index plus 0.5% plus £2 a week.

Paul Price, Director at the Association of Retained Council Housing, said the loss in rental income could threaten some council's 30 year business plans and limit their ability to invest in housing. A spokesperson for Communities & Local Government said local authorities would have to 'adjust their business plans accordingly'.

The changes are also expected to hit the viability of some recent stock transfer associations that are in talks with the social housing regulator to be exempt from the move. Bolton at Home that transferred in 2011, said it has 12,000 homes that have not converged. This equates to a £2.5million-a-year rent loss over thirty years if convergence ends, meaning it would struggle to pay off its debt.

The G15 group of large housing associations in London, where thousands of homes are still below target rent despite associations charging the maximum rent under the formula, said the plan was 'unfair' on tenants, and would reduce development capacity.

Peabody, reported that 40% of its 20,000 homes were below target rent due to having historically low rents. The £7million-a-year rent loss it will incur if rent convergence is scrapped means it would build 100 fewer homes a year.

Self-Financing Budgets and Business Plans

AWICS has published a briefing paper that looks at the preparation of budgets and business plans with self-financing in the local authority housing revenue account.

The implementation of self-financing has allowed local authorities to plan ahead with more certainty leading them to produce more robust business plans and asset management plans. Members and tenants are able to consider their long-term priorities around such matters as housing and environmental improvements, how often components such as kitchens are replaced, the green agenda, redevelopment, regeneration and new build.

It is clear that local authorities are responding differently to the challenges and opportunities that have been provided by self-financing. Some are focusing on achieving and maintaining the decent homes standard while balancing the housing revenue account; and others are considering how to use their surpluses.

Many councils, especially those that had been 'debt free' prior to self-financing, initially intended to repay their debt as soon as practicable. However, in view of the relatively low rates of interest at which councils were able to borrow, many of these have since decided that repaying debt is a lower priority in the short to medium term than spending the money on improvements or new build.

To download your free copy of this paper please click here: http://www.awics.co.uk/bpsfbudgerblpan.asp

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Housing Capital Programmes in English Local Authorities

English Local Authorities have extensive housing capital programmes providing major repairs and improvements to existing council housing, new council housing, support to housing associations and investment in strategic housing services.

This briefing paper provides an overview of housing capital programmes in English local authorities and includes reference to:

- What is Capital expenditure?
- Housing Revenue Account Capital Programme - An Example
- The Financing of Housing Capital Expenditure
- Major Repairs
- The 2003 Local Government Act and Prudential Borrowing
- The Prudential Code
- Capital Receipts
- Revenue Contributions to Capital Outlay
- Government Grants
- The Decent Homes Standard and Capital Resources
- Capital Funding
- New Build
- Borrowing and Self-Financing

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Impact Housing Association and the Homes & Communities Agency's proposals for Regulation

Impact Housing Association, of which Adrian Waite is Chair, made representations on the Homes & Communities Agency's proposals for the regulation of housing associations to the Agency and via a local member of parliament. Their concerns were that the Agency's proposals to limit the ability of housing associations to carry out activities in addition to renting social and affordable housing unless they set up arm's length subsidiaries would reduce their ability to develop new homes and to provide services to communities. Many housing associations expressed similar reservations. The Agency is now indicating that they will propose a more flexible approach to regulation that would not undermine the ability of housing associations to provide services to the community or to be innovative in finding ways to carry out new development. This is to be welcomed.

John O'Mahony, Assistant Director of regulatory framework and performance at the Homes & Communities Agency, has reported that the social housing regulator had received responses to its discussion paper 'from a diverse range of organisations', including registered providers, lenders, credit rating agencies, trade bodies and specialist advisors. He told a National Housing Federation conference in London that:

"What we're particularly pleased about is that pretty much everyone understood the problem that we're trying to solve, however, it's fair to say views on our approach to dealing with it varied considerably and this is most notable in relation to ring-fencing."

The Housing and Regeneration Act 2008 allowed for-profit providers of social housing and unregistered parent companies for the first time. The regulator feels the current regulatory framework is insufficient to ensure it can protect social housing assets and is therefore proposing changes.

It is exploring measures designed to prevent risks from non-core activity threatening social housing assets, in a move it calls 'ring-fencing'. This could include ensuring social housing activity is carried out in a specific corporate entity, with non-social housing activity limited to a percentage of its turnover.

Mr O'Mahony said this prospect caused the most anxiety of the suggested reforms, with concern that it may inhibit commercial activity that supports building new social homes and discourage registered providers from entering into market rent.

However, he added that ring-fencing will probably remain as part of the eventual new package, while conceding the regulator should have been clearer in its language to alleviate such worries, as some may have wrongly concluded that a 'very tight' ring-fence would be imposed.

The regulator is also planning to require some landlords to draw up 'living wills' – recovery plans to draw on in the event of failure – and is also looking at requiring for-profit providers to pay a premium when assets are sold outside the sector.

Mr O'Mahony noted that these measures had been broadly welcomed by respondents and said:

"Our committee will shortly consider a detailed analysis of responses to the discussion document and will then move on to develop proposals over coming months."

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NATIONAL HOUSING FEDERATION

National Housing Federation Leaseholder and Tenant Service Charges Conference

4th September 2013, America Square Conference Centre, London.

This conference looks at the strategic issues around service charges, from development and how to design out service charges to collection across leasehold properties and tenancy management. It will also focus on sharing best practice among housing associations, ensuring the sector tackles the issues that are raised by benefit reform and the changing legal environment.

Attend specialist sessions that will cover both leasehold and tenant issues around service charges. Specific case studies will give you an insight into how to benchmark with other landlords. Gain an insight into which Information Technology systems cope best with supporting diversity within your organisation and how you can maximise building design to keep service charges down.

Speakers include:

- Adrian Waite, Managing Director of AWICS and Chair of Impact Housing Association
- Jonathan Cox, Partner, Anthony Collins Solicitors
- Georgina Beard, Senior Service Charge Consultant, Opus
- Adrian Shaw, Group Head of Leasehold Management, Circle Living

The National Housing Federation is also running a half day introductory workshop on Tuesday 3rd September 2013.

Adrian Waite will look at the strategic issues around service charges, from development and how to design out service charges to collection across leasehold properties and tenancy management. It will also focus on sharing best practice among housing associations, ensuring the sector tackles the issues that are raised by benefit reform and the changing legal environment.

The key benefits of attending include:

- Attending specialist sessions covering both leasehold and tenant issues around service charges
- Discovering how to provide value for money by delivering the most effective service for tenants, residents and customers
- Sharing best practice in consultation, communication, collection, standards and engagement
- Understanding how to future proof your systems to be able to deal with housing benefit changes and Universal Credit
- Exploring how you can make living in your properties more affordable whilst maintaining financial viability
- Master managing third party agents and share best practice in this area of work.

To download a programme for the conference and workshop go to http://www.housing.org.uk/events/browse/leaseholder-and-tenant-service-charges-conference

IF YOU WOULD LIKE TO PLACE AN ADVERTISEMENT IN THE AWICS HOUSING NEWS PLEASE CONTACT Adrian.waite@awics.co.uk FOR FURTHER DETAILS.

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Scotland ends Right to Buy

The Scottish Government says that thousands of people will benefit from improved access to social housing thanks to plans announced in July 2013 by Deputy First Minister Nicola Sturgeon. Up to 15,000 social houses will be protected from sale over the next decade with the final ending of Right to Buy. This will safeguard social housing stock for future generations, helping to build more cohesive and sustainable communities. As a result of previous reforms to Right to Buy and suspensions in pressured areas, the right to buy is already unavailable to many social housing tenants.

However, any social housing tenant who still has the right to buy will have a period of three years to exercise it following royal assent of the Housing Bill, expected in Autumn 2014. The Scottish Government will continue to assist people into home ownership through a range of shared equity schemes.

Making the announcement on a visit to Queens Cross Housing Association in Glasgow, Ms Sturgeon said:

"It is absolutely vital that people can access social housing when they need it most. Social housing is under significant pressure and so too are the budgets that support it.

"The Scottish Government is doing everything possible to maximise our investment in housing and deliver on our target of 30,000 new, affordable homes over the lifetime of this Parliament. But, given the pressure on both the housing stock and budgets - and with 400,000 people on waiting lists for social housing - we can no longer afford to see badly needed homes lost to the social sector.

"That is why I am today announcing the final stage of the abolition of the Right to Buy – a decision that will safeguard Scotland's social housing stock for the benefit of citizens today and for our future generations.

"Tenants who currently have a right to buy will have a period of three years from the date of royal assent of the Housing Bill in which they will be able to exercise that right - but after that date it will no longer be possible to buy social houses.

"This will mean that social houses will always be available for long term rent, helping to ease pressure on the social rented stock.

"More than 450,000 houses have already been sold through right to buy and although the policy has been restricted in recent years, its final abolition will safeguard an estimated 15,000 homes over the next decade.

"Notwithstanding our decision to end the right to buy, which has been fully consulted on, the Government remains committed to helping people buy their own homes and our shared equity schemes are helping - and will continue to help - thousands of people get a foot on the property ladder."

Graeme Brown, Director of Shelter Scotland said:

"We welcome the news that this outdated policy - which for a long time has had no place in Scotland's housing landscape - is to be scrapped.

"Around half a million public sector homes have been sold off in Scotland since the policy was implemented. Meanwhile, 157,000 families and individuals are today stuck on council waiting lists for a home to call their own.

"Shelter Scotland has long-campaigned for the abolition of Right to Buy and praises the Scottish Government on their decision to protect existing and future council house stock in a bid to address Scotland's chronic housing shortage."

Andy Young, Scottish Federation of Housing Associations Policy and Membership Manager said:

"We are delighted that the Scottish Government has decided to end all forms of the Right to Buy in Scotland. Right to Buy has had its day and has no place in 21st Century Scotland.

"The Scottish Federation of Housing Associations and its members have campaigned for this for years and we thank the Scottish Government for listening closely to the arguments for abolition which we put forward."

Queens Cross Housing Association, Chief Executive, Shona Stephen said:

"We welcome the Scottish Government's decision to end the Right to Buy. There is huge demand and pressure on existing Queens Cross Housing Association housing stock with over four times as many people waiting for a house as we have houses to let each year. The continued loss of stock due to Right to Buy would only see this get worse, particularly in times of increasing financial hardship and the impact of Welfare Reform starting to bite."

Regeneration in Leeds

Leeds City Council has sealed a long-awaited deal to deliver a huge regeneration programme for its inner city.

The council has said it has signed a contract with the Sustainable Communities for Leeds consortium for a 20 year partnership which will help rejuvenate local communities across the Little London, Beeston Hill and Holbeck areas of the city.

The private finance initiative means 1,245 council homes will be refurbished and 388 new homes built, it added, with capital investment of more than £120 million over the next three and a half years also providing new jobs, apprenticeships and social enterprise opportunities.

The project is being funded by the Communities and Local Government department with a council contribution, and is the first scheme of its kind where the private finance element is secured through the capital funding markets via a bond issue.

Under the Private Finance Initiative, capital projects are built and managed by a consortium over a long period, with Cyril Sweet, Keepmoat and Lloyds Bank joining forces in this instance. Jon Hinchcliff, General Manager at SC4L said:

"The team we have assembled to deliver this project is local, committed, professional and vastly experienced… We are all keen to get started and are looking forward to making a positive difference to the neighbourhoods and communities living here."

The scheme was given the go-ahead by the government in October 2011 after being subject to a 'value for money' review, with the council then working to finalise the consortium's proposals for the scheme.

Councillor Peter Gruen, Leeds Council's executive board member with responsibility for neighbourhoods, planning and support services said:

"The Council has worked extremely hard with its partners over many years to move this project along at the various stages.

"It is great to sign it off and be able to tell local people they will start to see work happening soon… We know there is a need to bring more council housing to the city, and we have looked at a number of possible ways that this can be achieved… It is the first time in a number of years that we have been able to deliver such a large number of council homes to our city."

The council claimed it would be the 'largest number of homes to be brought to the city for 30 years'. As well as building new houses, the authority is to repurchase some council homes sold under the Right to Buy scheme and also acquire empty houses. The council said it also aimed to boost private housing by freeing up brownfield land for new developments. Currently there are 26,000 people on the city's council home waiting list.

Liberal Democrats unveil plans to build up to 25,000 new homes.

The Liberal Democrats have unveiled a series of policy ideas for the next election that are planned to boost growth - including a plan to build up to 25,000 council houses.

Councils that have not taken up their full borrowing entitlement under self-financing could allow other authorities to use the money to build new homes.

The move could result in authorities that did not want extra construction in their area sealing deals allowing councils that are constrained by the 'borrowing cap' to build homes in exchange for taking on responsibility for some of their housing waiting list.

The measure, that could result in between 15,000 and 25,000 council homes being constructed, forms part of a strategy aimed at boosting jobs and growth that will be put before the Liberal Democrats' autumn conference in September by the Deputy Prime Minister Nick Clegg and Business secretary Vince Cable.

The Liberal Democrats will set out a package of measures in an effort to persuade voters that there are differences between them and the Conservatives and that they have innovative ideas for growth while at the same time demonstrating the responsibility needed to tackle the deficit.

In a speech in Manchester, Business Secretary Vince Cable insisted that the coalition government had 'made some real progress' on tackling the housing crisis. But he said more needs to be done and he will call for a 'surge of house building of the kind that lifted Britain out of the inter-war slump'. He said:

"At present we are in danger of the worst (situation) of all: a revival of house prices fed by easier credit and housing shortage, making them still less affordable to the ordinary first-time buyer, a growing private rented sector sucking in housing benefit which is in turn being reduced, cutting off low income tenants, and growing pressure on the remaining social housing stock which has been declining irredeemably in recent decades."

In an email to party supporters, Nick Clegg, the Deputy Prime Minister said:

"We've agreed this autumn is the right moment to set out a clear, Liberal Democrat vision for Britain's future economic growth and prosperity… We are putting a motion to our party conference that will move us beyond the sterile Plan A versus Plan B debate and on to distinct liberal territory. Not abandoning for a moment our commitment to fiscal discipline… But not wavering, either, in our determination to find new ways to support growth and jobs."

Greenwich Council procures £269million redevelopment programme

Lovell, the affordable housing division of the Morgan Sindall Group, has been appointed by Greenwich Borough Council to oversee a thirteen year project involving the demolition and redevelopment of estates that will include 1,500 new homes. The project, in partnership with Asra Housing Group, will create 975 new homes for open market sale, 375 homes for affordable rent and 150 shared ownership homes on the Connaught, Morris Walk, and Maryon Road and Grove estates.

Construction is set to start in May 2014 after a consultation programme and the successful completion of the full planning process. The redevelopment of the existing 1,064-home estates will result in a net increase of 436 properties.

Peter Taylor, regional director at Lovell, said:

"This wide-ranging regeneration programme will bring new open market and affordable housing of the highest quality to the area, along with new community facilities and infrastructure and significant employment and training opportunities."

All of the new properties will be energy efficient, meeting level four of the code for sustainable homes, while Asra will be responsible for the management of the new shared ownership and affordable rent homes. Matt Cooney, Chief Executive of Asra Housing Group, said:

"This development will breathe new life into the area and we are certain it will become a thriving community who will be living in high-quality sustainable homes at affordable prices."

The estates occupy around twelve hectares of land to the east and west of Woolwich town centre, with their development being negotiated by the council since 2010. The appointment of Lovell and Asra was agreed in principle in June 2013, but the final contract still has to be agreed.

Councillor Steve Offord, Cabinet Member for Housing at Greenwich Borough Council, said:

"The redevelopment of the three estates represents a key part of our ongoing plans to transform Woolwich and the wider borough after decades of economic decline."

Rehousing has begun on the Connaught Estate, with 70% of residents having already moved off the premises, while the process to buy back affected leasehold homes there has also begun.

The council has said it will consult with tenants and leaseholders regarding the rehousing process when there is a timescale for rehousing, demolition and redevelopment for Morris Walk and Maryon Road and Grove Estates.

Southwark Borough Council rejects selling off stock in favour of building

Southwark Borough Council's Cabinet agreed to order the development of long-term plans for building more council housing when it met on 16th July. Councillors voted on the council's response to its independent housing commission that reported at the end of last year and that has been reported on in the 'AWICS' Housing News.

The commission recommended three options for the council beyond 2015/16: to reduce the council's current stock of 39,000 to 20,000 by 2045; to allow the stock to reduce gradually to 30,000 through right to buy and void sales; or to invest substantially in a new build programme to maintain stock at its existing level.

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Council leaders have ruled out large-scale sell offs and have come down in favour of a building programme. Following the publication of the commission's report the Council commissioned consultants to produce a financial and stock options appraisal. They found that the introduction of housing self-financing for local authorities in April 2012 meant the council should be able to increase investment in housing, and reducing its stock significantly would mean revenue dropped more sharply than costs.

Councillor Peter John, Leader of the Council, said:

"We want to build more council homes for Southwark's present and future residents as part of the increased housing capacity of all tenures which we need to deliver across our borough.

"Irrespective of any political will, through the work undertaken by the independent housing commission and more recent financial modelling, we can now conclude with some certainty that not only can we afford to retain our housing stock, but that any stock transfer or significant reduction in the numbers of that stock would not make any financial sense for us as a council."

However, it has subsequently emerged that the opportunities presented by self-financing may have been over-estimated. Southwark Borough Council's rents are lower than the government's formula (target) rents and this has always meant that their actual income is lower than the government assumed when it calculated the Council's debt level at the start of self-financing. The government's recent announcement about the ending of rent convergence and the imposition of a limit on rent increases on the consumer prices index plus 1% a year has exacerbated this problem and cast doubt on the ability of the Council to fund the decent homes standard let alone an ambitious building programme.

In July 2013, Councillor Ian Wingfield, deputy Leader of the Council wrote in 'Inside Housing' that:

"The… loss of resources over the life of the housing revenue account business plan could mean we need to rethink our carefully considered business plans… We have already made more than £21million of efficiency savings over the past three years… and there are few remaining options other than to make unpalatable service cuts. More worryingly, it could make it more difficult for us to generate sufficient resources to meet our stock's massive investment needs."

The Council may yet have to return to the options that were identified by the independent housing commission.

Suffolk Housing buys more affordable homes

The Bury St Edmunds-based housing association said the £18million deal for 428 properties in Norfolk and Suffolk has expanded its stock by 23% to just more than 2,600 homes. Ian Winslet, Chief Executive, said:

"This purchase is the first step in an ambitious expansion programme planned over the coming years, which will see us provide an increasing number of affordable homes for people in housing need all across the region, and not just in Suffolk."

Suffolk Housing said the deal has been made possible after it secured a £35million funding package from Canada Life Investments and Lloyds Bank Commercial Banking in April.

The properties include 308 general needs family homes in Ipswich, Haverhill, Stowmarket, Felixstowe and Grundisburgh, as well as five sheltered schemes in Lowestoft and Norwich, and two non-sheltered schemes in Catfield, near Great Yarmouth.

Seven staff have also transferred from Riverside to manage the sheltered schemes, joining Suffolk Housing's existing workforce of 32. Chris Flynn, Divisional Director for the South & Central regions at Riverside said:

"Our aim is to improve services for tenants outside of Riverside's larger areas of housing concentration, through transfers to locally-based social housing providers."

AWICS Seminars – Autumn 2013

Our Autumn 2013 seminars are listed below:

- Value for Money and Procurement in Local Government and Housing – London – 17th September 2013
- All You Want to Know about Local Authority Housing Finance – Coventry – 2nd October 2013
- Welfare Reform: Implications for Local Government and Housing – London – 9th October 2013
- All You Want to Know about Local Authority Housing Finance – London – 12th November 2013

All these seminars are proving popular but there are still some places available. For details please see http://www.awics.co.uk/regionalSeminars.asp

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Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

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Adrian Waite has a blog at http://www.awics.co.uk/Blog.asp and a Twitter feed at @AdrianWaite

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