

AWICS Housing News

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Inside This Issue

- 1 Introduction
- 2 Reform of Council Housing Finance in England
- 6 Housing investment reform in Scotland
- 9 Welsh Housing Associations
- 10 Opportunities and Challenges for Arms Length Management Organisations
- 12 Questions and Answers
- 13 Upcoming Regional Seminars
- 13 Other Services

Introduction

You may be familiar with the 'Public Services News' – the free e-newsletter published by 'AWICS' for people with an interest in public services.

This e-newsletter, the 'AWICS Housing News' is a sister e-newsletter to the 'Public Services News' that will focus on housing. It can also be freely downloaded from our website at: <http://www.awics.co.uk/HousingNews/>

We will continue to publish the 'Public Services News' that will continue to provide information on matters relating to all public services. It can be freely downloaded from: <http://www.awics.co.uk/PublicServicesNews/>

Adrian Waite

*Completing the review
would not have been
possible without your
knowledge, contribution and
keen interest*

Reform of Council Housing Finance in England

In December 2007 the government announced that Communities & Local Government and HM Treasury would jointly carry out a review of the financing of the Housing Revenue Account. The review had a particular focus on the option that had earlier been piloted in six authorities of making the housing revenue account self financing based on a redistribution of debt.

Four working parties were established to consider aspects of the study and Adrian Waite was invited to be a member of the working party that considered the future mechanisms for the funding of council housing. On 29th June 2009 the Minister of Housing, John Healey MP, laid a written statement before Parliament that announced his conclusions from the review of council housing finance. This announcement is considered in my briefing paper 'Housing Revenue Account Review' that can be downloaded from the website at:

<http://www.awics.co.uk/BriefingPapers/ViewCategory/housing/>

On 30th June 2009, Simon Connell of 'Communities & Local Government' wrote to Adrian Waite, Managing Director of 'AWICS' to say:

"We would like to thank you again for all the hard work that you put in and for your patience over the last few months whilst we worked on the emerging models. Completing the review would not have been possible without your knowledge, contribution and keen interest. And we look forward to hearing your views when the consultation document is issued."

On 21st July 2009 Communities & Local Government issued a consultation paper 'Reform of Council Housing Finance'.

In the foreword to the consultation paper, John Healey MP, Minister for Housing and Planning, said:

"As a Government we remain fully committed to completing our comprehensive Decent Homes programme and to seeing this standard maintained. The reforms proposed in this consultation will safeguard this commitment. We will also improve the common areas of estates and will ensure that there is sufficient funding in the system to do so."

"If we are to maintain these improvements for the long term then it is imperative to reform the system that finances council housing."

“My intention is to dismantle the Housing Revenue Account subsidy system and replace it with a devolved system of responsibility and funding. This consultation sets out the steps required to do so, together with the timescales on which changes can be made. I want to provide more flexibility in finances and more transparency in the operation of the system. I want to devolve control from central to local government. And, in return, I want to increase local responsibility and accountability for long term planning, asset management and for meeting the housing needs of local people.

“I am therefore proposing a devolved self-financing alternative to the current system which will remove the need to redistribute revenue nationally while continuing to ensure that all councils have sufficient resources. With these radical reforms, councils will finance their own businesses from their own rents and revenues, in exchange for a one-off allocation of housing debt.

“I aim to make this a once-and-for-all settlement to create a new baseline for all local authorities currently in the HRA subsidy system, from which each will be able to sustain and maintain their homes on an equitable basis. By freeing councils from the annual funding decisions in the current system, councils will be able to plan long term and improve the management of their homes, secure greater efficiencies and improve the quality of service to their tenants. This will be a financial framework in which councils can plan and manage for the long term, in the same way that we expect of other affordable housing providers, like housing associations. It will give councils greater capacity and more freedom to respond to local needs and, in doing so, increase their responsibility and accountability to local tenants and residents.

“With greater freedom comes greater responsibility and accountability. The Tenant Services Authority will in future play a major role in ensuring that local authorities are seeking efficiency and value for money in their service delivery, providing greater openness on costs and making sure that every penny of tenants’ and taxpayers’ money is spent well.”

My intention is to dismantle the Housing Revenue Account subsidy system and replace it with a devolved system of responsibility and funding

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This consultation paper is potentially good news for local authority housing services and their tenants. Not only does it propose the introduction of self-financing but it proposes doing this on the basis of increased funding for housing revenue accounts. This increased funding will be aimed at management costs, maintenance costs, major repairs and achieving and exceeding the decent homes standard.

The proposed mechanism is a one-off redistribution of housing revenue account debt. This would be done by assessing each authority's capacity to raise income and its need to spend and therefore its capacity to fund debt. On the whole, negative subsidy authorities with low (or no) debt would find their debt increased; while positive subsidy authorities with high debt would find their debt reduced. There is also a proposal to introduce capital grants to fund investment.

It had earlier been believed that total housing revenue account debt would remain the same, but the consultation paper states that it is uncertain whether total debt would increase or reduce. The government's debt paper table shows an increase in total housing revenue account debt at the point of redistribution of £7million (40%). However, it is difficult to see how self-financing could be achieved at the proposed levels of expenditure without a significant reduction in total housing revenue account debt and/or significant increases in rents.

There are a large number of complex technical matters to address not least of which is how the increased levels of expenditure are to be calculated at an individual authority level. This could have a significant effect on the geographical distribution of debt and resources following self-financing. The government's proposals for controlling local authority borrowing after self-financing will also require close examination as this implies a departure from the principles of 'prudential borrowing'. Local authorities would therefore be wise to respond to the consultation paper, to participate in discussions about the detailed implementation of self-financing, to lobby for changes that would be in their best interests and to participate in the Local Government Association's attempts to secure agreement on a voluntary system of self-financing.

The consultation paper does not address the question of social rent policy but this is clearly an important part of the picture for local authorities and their tenants. With self-financing any increases in rents would be retained locally so policy on social rents becomes even more important to local authorities.

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With implementation planned for 2012/13 it is certain that a general election will intervene. This consultation paper is clearly part of the government's 'offer' to local authorities and their tenants at that general election. The Conservative Party, however, also appears supportive of self-financing but with some reservations about increasing the debt of low debt, negative subsidy authorities. This suggests that they may consider implementing self-financing but with a more limited redistribution of debt.

The implementation of self-financing will also take place in the context of the Comprehensive Spending Review of 2010. It is generally accepted that, whatever party is in power in the autumn of 2010, they will have to make difficult decisions about making significant reductions in expenditure and/or increases in taxation. Whether a significant increase in expenditure in the housing revenue account or a write-off of housing revenue account debt could be contemplated at that time is open to doubt.

However, these uncertainties should not discourage local authorities from seizing the opportunities presented to them by a consultation paper that offers them self-financing and increased revenue and capital resources. After many years of discussion, local authorities should do their best to ensure that self-financing is now finally implemented.

Following the publication of the government's consultation paper 'Reform of Council Housing Finance' we have published a comprehensive briefing paper that can be freely downloaded from our website at:

<http://www.awics.co.uk/BriefingPapers/ViewCategory/housing/>

We are holding a series of seminars on 'Developments in Local Authority Housing Finance in England 2009' at venues around England between September and November 2009. The speaker will be Adrian Waite. The seminars will look at all current developments in local authority housing finance but will focus particularly on the government's proposals for self-financing in the housing revenue account. Further information is available on our website at: http://www.awics.co.uk/RegionalSeminars/ViewCourse/developments_in_local_authority_housing_finance_in_england_09/

Adrian Waite

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Housing investment reform in Scotland

The Scottish Government has made a statement on the future of affordable housing investment that has been backed by the Scottish Federation of Housing Associations, the Convention of Scottish Local Authorities, Homes for Scotland and the Chartered Institute of Housing (Scotland)

In the light of the responses to the recent consultation on affordable housing, the statement outlines the five key proposals shaped by input from the wider housing sector:

- Improving the efficiency and effectiveness of housing associations' activities across the board, including procurement
- Setting a standard for development performance, which will in future be a requirement for receipt of Government subsidy
- The award three-year budgets to those associations and groups of associations that are best placed to make use of it
- Supporting collaborative groups as a way of bringing local authorities and housing associations together
- A new focus on sharing best practice

This Government wants to promote collaboration among social landlords and councils, thereby enhancing efficiency and effectiveness in the way new housing is delivered

Housing Minister Alex Neil said:

"Scottish housing associations have a proven track record of developing and managing homes across the length and breadth of the country."

"This statement illustrates our commitment, along with our partners, to pursue a more strategic approach to housing investment."

"This Government wants to promote collaboration among social landlords and councils, thereby enhancing efficiency and effectiveness in the way new housing is delivered."

"The statement sets out how we intend to pursue these objectives, building on the experience, strengths and skills of the sector."

Councillor Harry McGuigan, COSLA's Community Safety and Wellbeing spokesman, said:

"I'm pleased to add COSLA's support to today's statement. Local Authorities have a crucial role in

increasing the supply of social housing. We want to continue the discussions around the country sharing good ideas and best practice."

Scottish Federation of Housing Associations Chief Executive Jacqui Watt said:

"The SFHA welcomes the formation of a working group to look strategically at delivery of housing in Scotland, having called for such a group in our response to the Government consultation."

Today's statement affirms the Scottish Government's commitment to increasing the supply of housing overall

"We welcome the opportunity for housing practitioners to get around the table with Government and find pragmatic solutions to some of the long-term challenges we face, in order to deliver the affordable housing Scotland so desperately needs."

Jonathan Fair, Chief Executive of Homes for Scotland, said:

"Today's statement affirms the Scottish Government's commitment to increasing the supply of housing overall, broadening its focus from social rented accommodation."

"It is also further welcome recognition of the need for the public sector to work more closely with private sector counterparts to achieve the common goal of building strong, sustainable communities."

"Our industry is ready to play a full part and we look forward to continuing dialogue with the Scottish Government, Local Authorities and RSLs on developing the innovative approaches required to help deliver the private finance for the many thousands of new homes that Scotland needs across all tenures."

Alan Ferguson, Director of the Chartered Institute of Housing Scotland said:

"Much of what the Scottish Government has said in its statement chimes closely with what CIH Scotland said in our submission to the Government's consultation on investment reform earlier this year."

two working groups are being set up, one to look at efficiencies including mergers and partnerships and the other looking at sharing best practice

"CIH has also been active in developing a briefing for organisations on the issue of partnerships and mergers between housing associations. Hopefully, the Scottish Government's intention to focus on best practice sharing will be coupled by new resources to deliver on something many housing professionals have been asking for, for a long time now.

"I am therefore pleased to see that two working groups are being set up, one to look at efficiencies including mergers and partnerships and the other looking at sharing best practice.

"CIH Scotland looks forward to these groups and an opportunity to bring its unique cross-sector remit and impartial input to help shape a housing investment future that meets all needs including those of the communities we serve."

AWICS is holding a seminar on 'All You Want to Know about Scottish Housing Association Finance 2009' in Falkirk on Tuesday 3rd November 2009. This will provide an introduction and overview of the finance of Scottish Housing Associations and is suitable for Board members, housing managers, new finance staff and other people with an interest in the finance of Scottish Housing Associations. Further details are available on our website at: http://www.awics.co.uk/RegionalSeminars/ViewCourse/all_you_want_to_know_about_scottish_housing_association_finance_09/

Adrian Waite

Welsh Housing Associations

Welsh Housing Associations provide 112,000 affordable homes to rent or buy and are the main providers of new social housing in Wales. Some local authorities have transferred their council housing to new Housing Associations while others are considering doing so.

The latest stock transfer ballot has been at Blaenau Gwent where council tenants have voted yes to transfer their housing stock to a new not-for-profit housing organisation called Tai Calon Community Homes. 57% of tenants turned out with 73% voting yes and 27% voting no.

The transfer will allow council homes to be improved up to the Welsh Housing Quality Standard, set by the Welsh Assembly Government, under a repairs and improvements programme totalling £111million in the first five years and £543million over thirty years.

When transfer is complete the social housing sector in Wales will hold 9.6% of all homes in Wales, compared to 7.5% held by local authorities.

Welsh Housing Associations employ 4,000 people and are managed by Boards that are comprised of volunteers and over 25% are tenants. They are making a major contribution to improving and managing social housing and to community and economic regeneration.

In 2007/08 Welsh Housing Associations contributed over £407million to the economy, with over three quarters of that money staying in Wales. They also spent an estimated £210million on activities that were linked to regeneration projects.

Their financial arrangements are becoming increasingly complex. But are their finances always well understood by Board Members or Managers?

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Adrian Waite

AWICS is holding a seminar on 'All You Want to Know about Welsh Housing Association Finance 2009' in Cardiff on Tuesday 20th October 2009. This will provide an introduction and overview of the finance of Welsh Housing Associations and is suitable for Board members, housing managers, new finance staff and other people with an interest in the finance of Welsh Housing Associations. Further details are available on our website at:

http://www.awics.co.uk/RegionalSeminars/ViewCourse/all_you_want_to_know_about_welsh_housing_association_finance_09

The Government sees a strong future for ALMOs. Under self-financing they and their local authorities should have the financial flexibility and resources to plan ahead and prosper, and should utilise their experience and local knowledge to broaden and enhance their role

we see ALMOs as being able to take on management of stock of other social landlords

Opportunities and Challenges for Arms Length Management Organisations

It is now a critical time for Arms Length Management Organisations with the government implementing self financing following the Communities & Local Government / HM Treasury Review of the Housing Revenue Account; the Tenant Services Authority about to become responsible for the regulation of Arms Length Management Organisations; and many authorities are launching New Build programmes using Arms Length Management Organisations.

The Communities & Local Government Consultation Paper on the 'Reform of Council Housing Finance' envisages a strong future for arms length management organisations, saying:

"The Government sees a strong future for ALMOs. Under self-financing they and their local authorities should have the financial flexibility and resources to plan ahead and prosper, and should utilise their experience and local knowledge to broaden and enhance their role.

"A number of ALMOs/LAs have already completed their Decent Home investment programmes and now wish to do more for their tenants, such as engage in a wider range of activities and secure funding from external sources to increase investment levels.

"The Government has already provided very substantial funding to ALMOs for Decent Homes investment programmes. It is expected that the investment carried out would be reflected in any valuation of the housing stock and thereafter any transfer price. The Homes and Communities Agency is currently considering a small number of ALMO/local authority transfer proposals. Going forward, these proposals will need to be demonstrably a good deal in terms of any financial support required from Government. For the future we are proposing that the financial support available for a transfer would be no different from that on offer for self-financing.

"Under domain regulation, we see ALMOs as being able to take on management of stock of other social landlords, where this makes sense. Domain regulation under the TSA is intended to lead to a more vibrant market in management and offer new opportunities for providers."

AWICS is holding a series of seminars on 'Opportunities and Challenges for Arms Length Management Organisations' in venues across England in November and December 2009. All those with an interest in developments in Arms Length Management Organisations, including Board Members, Senior Management and Housing Managers in Arms Length Management Organisations, Elected Members and Officers in Local Authorities with Arms Length Management Organisations, Housing Accountants, Civil Servants and Tenant Representatives should attend. Further details are available on our website at: http://www.awics.co.uk/RegionalSeminars/ViewCourse/opportunities_and_challenges_for_almos_09

Adrian Waite

Questions and Answers

In this section we answer questions from practitioners and readers

Question

We are a very small HA/RSL started as a bit of a hobby some 45 years ago. We have a large demand for our properties and are now looking to expand for the first time. We are aware of the 40% grants available from the HCA but are looking for advice on obtaining the rest of the funding. The total project cost will be circa £1.3m so we need to raise about £750k. Where is the best place to go? Does it have to be a private sector institution? Are there government loan schemes available? Can we mortgage over say 60 years? Are any other grants etc available? I should say that the development will be rented to older people only with no right to buy if that makes any difference (?) Advice appreciated.

Answer

There are a number of ways in which a Housing Association can finance new developments.

Social Housing Grant – now administered by the Homes and Communities Agency – usually funds just over 40% of development costs and is allocated following a competitive bidding process. However, the Agency now recognises that the recession is making it difficult for Housing Associations to develop at low levels of grant and it is possible that it would contemplate providing Social Housing Grant at a higher level.

Private Loans are the other major source of finance. Housing Associations usually borrow from the major banks and building societies. The amount of borrowing that is affordable depends on the expected surplus of income (rent) over expenditure and the rate of interest that can be negotiated. Recently banks and building societies have been looking for higher rates of interest and this reduces the potential to fund new development from loans.

Social Housing Grant and Loans are often insufficient to meet the costs of a new development and Housing Associations often have to be innovative in finding additional resources. The sale of houses on the open market or as part of a shared ownership scheme can generate a surplus that can fund part of a social housing scheme. Similarly, housing associations can use their own resources (land or reserves) to fund new development. Other organisations, such as local authorities or private developers acting under planning gain agreements can also provide finance or land.

There would probably be advantages in discussing this with neighbouring housing associations, the local authority and the Homes and Communities Agency. Other housing associations may be able to share experience and a larger housing association may be able to act as a development agent on your behalf. The local authority would have to support any application for Social Housing Grant and may be able to offer financial, planning or other support. The Homes and Communities Agency is keen to support new build during the recession and may be able to offer advice or resources.

Adrian Waite

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Upcoming Regional Seminars

We will be holding a number of our Regional Events around the UK over the upcoming months.

- Budgets and Financial Management in the Public Sector for Non-Financial People
- Developments in Local Authority Housing Finance in England
- All You Want to Know about Welsh Housing Association Finance
- All You Want to Know about Scottish Housing Association Finance
- Opportunities and Challenges for Arms Length Management Organisations

You can find more information about all of these regional courses on our website : <http://awics.co.uk/RegionalSeminars/Overview/>.

You can also find a copy of our In House Training Courses Guide for 2009 which includes information on all the courses we can provide. These are available specifically for England, Wales and Scotland from our website:

http://awics.co.uk/View/Page/in_house_training_courses/

Other Services

In addition to our in house and regional seminars AWICS also provide a range of other services including:

- Management Consultancy including:
 - Business and Best Value Reviews
 - Advice on Procurement
 - Housing Finance
 - Housing Stock Options Appraisals
 - Housing Association Finance
 - Performance Management
- Independent Tenants' Advice
- Publications

AUGUST 2009

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SEPTEMBER 2009

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OCTOBER 2009

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