AWICS Housing News

July 2016

YMCA East London at Walthamstow
AWICS has just assisted YMCA East London and YMCA London Southwest in preparing an outline business case for merger.

CONTENTS:

Brexit and Housing

The full implications of the vote for Britain to leave the European Union will not be known until after the negotiations between Britain and the European Union are completed. However, the housing sector is already experiencing some effects some of which may be caused by short-term uncertainty and some of which will be permanent.

David Orr, Chief Executive of the National Housing Federation has said that:

"Leaving the European Union could… affect housing associations' ability to build homes. Boards should consider that Brexit could make it harder to source labour and materials, and make investment more expensive."

One effect will be that housing associations will lose access to the European Investment Bank. The European Investment Bank committed £1billion to housing in April 2016 with a further £0.6billion in the process of being negotiated. Before the referendum, Peter Apps wrote in 'Inside Housing' that:

"The European Investment Bank has provided more funding to social housing projects in the United Kingdom than any other member state… (It) is able to offer lower rates than other long-term investors in the sector in part because of its not-for-profit status… While the deals which have so far been announced will not be affected by Britain's status in the European Union, future investment may be threatened if Britain votes to leave."

Housing associations' credit ratings have already been reduced following the downgrading of the credit rating of the United Kingdom government. Moody's said the vote would 'lead to a prolonged period of uncertainty' and 'will be credit negative for the UK sovereign and other rated entities', and added:

"The immediate financial market reaction has been pronounced, with sterling depreciating sharply and global equity markets falling… Heightened uncertainty during negotiations over new arrangements between the UK and the EU will likely dent investment inflows and consumer and business confidence in the UK, weighing on its growth prospects."

Housing associations are considered 'government-related entities' and receive an uplift in their rating as a result. A downgrade for the UK has therefore had a direct effect on housing associations' credit ratings that are seen as crucial in securing cheap debt, particularly on the capital markets.

House builder shares have lost value and experts have warned of house price falls, with the London market said to be particularly vulnerable.

In a recent 'Inside Housing', three quarters of housing association chief executives warned a leave vote would be negative for their organisations, with the impact on the economy and borrowing prices flagged as key concerns.

The social housing regulator has warned that housing associations with complex financial instruments are likely to face cash calls at the end of July 2016. Banks will assess whether landlords will have to put up additional security under the terms of their interest rate swaps with banks. Will Perry, assistant director of commercial and new entrants at the Homes and Communities Agency said that the immediate risk to housing associations following Britain's decision to leave the European Union was their 'mark to market' exposure, caused by falling swap rates. He said:

"If the swap rate [at the end of June] has moved down significantly compared to the last quarter end, which it probably will have done, there will be cash calls made. That's probably the most immediate risk that there is out there.

"We will keep in touch with anybody we think has significant exposure to make sure they have security in place… The swap rate has moved before and we would expect it to have been on their risk radar in any case."

A number of housing associations use fixed-rate derivatives, financial instruments that enable landlords to swap variable interest rates for fixed rates. Under the terms of the derivatives, if swap rates fall then landlords are required to put up extra security. The 10-year swap rates fell sharply from 1.38% to 1.9% following the Brexit vote, which Howard Webb, a director at Capita, described as unprecedented.

In June 2016, the Homes & Communities Agency said that the sector's mark to market exposure had increased from £2.4billion to £2.9billion between December and March. Last year, the Agency wrote to the 47 associations with freestanding derivatives asking them to disclose if they had concerns over their "ability to collateralise increased margin calls".

Waqar Ahmed, Finance Director at L&Q, told 'Inside Housing' that:

"We have sufficient cash should there be any cash calls and we've also got sufficient security."

One of the issues that was prominent during the referendum campaign and will be prominent during the negotiation of Britain's new treaties with the European Union will be the free movement of labour. Currently, citizens of any European Union state are free to sell their labour in any of the European Union states. One of the arguments for leaving the European Union that was put forward during the referendum campaign was that this right should be curtailed or removed. Today, there have even been reports in the media that some contenders for the Conservative Party leadership have refused to rule out repatriating European Union citizens who are already living and working in Britain.

However, it is clear that many of our public services rely on workers from other European Union countries.

The construction industry operates on a pan-continental basis (remember 'Auf Wiedersehen Pet'?) with many British construction companies currently dependent on labour from other European Union countries. Any restrictions on the free movement of labour would have an adverse effect on their ability to provide construction, major repairs and revenue maintenance services to local housing authorities and housing associations at a reasonable price. Brian Berry, Chief Executive of the Federation of Master Builders told 'Inside Housing' that the UK construction industry is heavily reliant on migrant workers from Europe and 12% of British construction workers are of non-UK origin. He said that it was the government¹s responsibility to ensure that the 'free-flowing tap' of migrant workers from Europe was not turned off.

The decision to 'leave' the European Union has already resulted in sharp falls in the value of sterling and the value of United Kingdom companies. The UK economy dropped from being the fifth largest in the world to being the sixth largest overnight. The government's credit rating has already been downgraded causing an increase in interest rates faced by housing associations. In these circumstances it will be important for the government to pay careful attention to the economy and public finances. While George Osborne has backed away from his original proposal to have an emergency budget, it is likely that measures will need to be taken to protect the value of assets, pensions and savings including changes to interest rates, taxation and public expenditure. As local government, housing and welfare budgets have been 'unprotected' since 2010 it is likely that any reductions in public expenditure would impact heavily in these areas.

Adrian Waite has had a letter about the United Kingdom leaving the European Union published in the 'Cumberland & Westmorland Herald' a copy can be downloaded from: http://www.awics.co.uk/dynamicdata/data/docs/european%20union%20letter.pdf

Supported Housing

The United Kingdom government is proposing that, from 2018, housing benefit will be capped at local housing allowance rates. This has the potential to have a seriously detrimental effect on supported housing where rents and service charges are often significantly higher than in general needs housing. This is because supported housing incurs higher maintenance costs and investment and caters for some of the most vulnerable and disadvantaged groups in society, allowing them to live more independently.

The Local Government Association is therefore arguing that supported accommodation must be exempt from the impending housing benefit cap to protect the most vulnerable and save putting additional pressures on councils and the National Health Service.

They have said that elderly people, ex-homeless people, those fleeing domestic violence and people with learning disabilities or mental health problems could be at risk if the housing benefit cap that comes into force for social housing from April 2018, also applies to supported accommodation.

Following a review, the government was expected to confirm in July whether the cap will extend to supported accommodation.

Councillor Izzi Seccombe (Conservative, Warwickshire County Council), Local Government Association community wellbeing spokesperson, said that if the cap applied to supported housing then tenants would have nowhere else to go. Market uncertainty already means that supported housing schemes are not being built and many existing schemes are being forced to close. The Local Government Association warned that the benefit cap and subsequent lost revenues would further exacerbate these problems, and that vulnerable tenants wouldn't have enough money to cover the higher rental costs. Councils would then be left scrambling to find tenants suitable accommodation and having to meet any shortfall in costs, at a time when care services and budgets are already under enormous strain. The Local Government Association said that:

"This will heap huge pressures onto councils who are already struggling to cope with and fund demand for housing and social care."

According to the National Housing Federation, more than 9,000 planned supported housing units may now not go ahead – equating to 96% of all developments within the sector. An estimated 156,000 units of existing supported and sheltered housing – or 41% of all existing schemes – are also at risk of closure. The Local Government Association warned that a lack of supported homes could mean some people are forced to remain in hospital, seriously undermining efforts to move them into the community and heaping further strain on the National Health Service and said that:

"It is vital that we ensure we continue to meet the needs of the most vulnerable people in our society, and that they live in homes that are fit for purpose. . .We urge the government to listen to our call and exempt supported housing from the cap, and to work with us to look at alternative ways of managing this cost."

Landlords have been urged to bid for supported housing funding despite the government's benefit changes and the Homes and Communities Agency has indicated a more relaxed approach will be taken. This encouragement follows fears that housing associations could scrap future bids to build supported housing under the 2016/21 affordable homes programme.

Caroline Cormack, team leader of affordable housing programmes and policy at the Homes & Communities Agency said that associations should bid for funding under the Shared Ownership and Affordable Homes Programme, despite the doubts raised by the cap.

The government has said it may protect schemes affected by the cap. However, so far it has only offered a one-year exemption to the social rent reductions for supported housing. Speaking at a conference in London, Ms Cormack said:

"If you've got schemes that you definitely want to do once everything is sorted out… do feel free to bid them in, even though you need to wait until the LHA position is sorted to actually know whether they're going to be viable."

Under previous programmes, housing providers have had to demonstrate they have sufficient funding to be viable. However, Ms Cormack said that the Homes & Communities Agency would 'engage with' providers if their schemes were rendered unviable by the cap.

The 2016/21 Shared Ownership and Affordable Homes Programme is intended to fund 8,000 specialised, low-rent homes. Ms Cormack also left the door open for negotiations to increase the proportion of specialised housing or rent-to-buy homes in the programme. She said:

"If we are massively overbid for rent-to-buy or specialist rent, we can give the minister options and say, 'if you want to stick to the current funding you get this much, or if you rearrange the priorities to do this'. But it's a ministerial decision, and at the moment that was what was announced, and that's what we're aiming to deliver. But five years is a long time."

Some councils are having difficulty in finding housing association partners that would be willing to commit to new extra care elderly schemes.

The problem is not a lack of willingness to participate on the part of housing associations or a lack of sites or finance but the general environment of uncertainty. The uncertainty affects not only the potential viability of individual schemes, but also affects the overall finances of housing associations making many of them increasingly risk averse. This is clearly not a good situation either for people who would like to move into an extra care elderly scheme of for local authorities that are trying to provide high quality care services on limited budgets.

The traditional model of funding development through a combination of grants; and loans supported by rents that are themselves supported by housing benefit no longer appears to be working. This is partly due to economic factors and partly due to government policy.

There is clearly a need or central government to display more joined-up thinking in its housing, welfare, social care, health and financial policies. In the meantime, there is also a need for local authorities to explore innovative ways of delivering extra care elderly schemes in this new financial environment.

AWICS is currently advising a County Council on options that may be available to it to ensure the continued provision of extra care elderly schemes. For more information about this please contact Adrian Waite at Adrian.waite@awics.co.uk or 017683-51498.

New Housing Policies for London

In May 2016, Sadiq Khan (Labour) was elected Mayor of London. His manifesto included a commitment to increase house building and ensure that 50% of new housing is 'affordable'. Housing association chief executives believe that this target for 'genuinely affordable housing' is achievable, despite scepticism from commercial builders. The definition of 'genuinely affordable' includes part rent, part buy; social rent or "London living rent" housing.

Paul Hackett, chief executive of Amicus Horizon told 'Inside Housing' that:

"I think there has been a lot of scaremongering. If the market believes this mayor and successive mayors will stick with a 50% requirement the market will inevitably adjust. The fundamentals of continued population growth and household formation mean supply and demand will remain unbalanced for decades, and this will drive continued price growth that will support land values."

Brendan Sarsfield, Chief Executive of Family Mosaic, added:

"I think it is achievable at the moment, and he should make sure that it's delivered by London boroughs. But if the market changes, he may need to be flexible."

David Montague, chair of the G15 group of large London landlords and chief executive of L&Q said that the target would be achievable in the 'right circumstances' but there might be a 'price to be paid' in terms of providing land or investment. He added that he believed Mr Khan recognises the 'urgency' of addressing housing issues in the capital and called on him to guarantee a supply of land for affordable house building that would allow the G15 to build 180,000 homes in a decade.

However, a spokesperson for the Home Builders' Federation that represents developers, said:

"There are intense financial pressures on sites in London, driven by the extremely high cost of land. Affordable housing limits thus have to be realistic. Imposing unrealistic targets will make developments unviable."

James Murray, cabinet member for housing at Islington Council, will join Mr Khan's housing and planning team at City Hall.

The principal housing policies of the new Mayor include:

- 'Establish Homes for Londoners' – a City Hall-based team that will build homes directly on land owned by the mayor, including Transport for London land.
- Clear guidelines for which developments the mayor will 'call in', including where planning has stalled, and where opportunities to deliver more new or affordable homes are being missed.
- A 50% target for affordable housing in new developments, with greater transparency around viability assessments.
- A London-wide, not-for-profit lettings agency for 'good' landlords.

Housing Association Mergers

The English social housing regulator is set to relax its registration rules for newly merged housing associations as part of the government's deregulation drive. The Homes and Communities Agency is to consult on removing a requirement on merged social landlords to go through a rigorous registration process with the regulator. Measures already included in the Housing and Planning Act 2016 (although still requiring implementation by Ministers) will remove the requirement for associations to ask for Homes & Communities Agency consent before forming mergers. The Agency now proposes to go one step further and radically simplify the process of registering merged bodies with the regulator. This would mean that merged associations would receive near to automatic approval for registration.

Under current rules, landlords that transfer engagements or amalgamate must undergo a demanding process to register with the regulator, including governance and viability checks. The regulator is concerned that associations would still face additional hurdles from the Homes & Communities Agency to registration despite attempts from the government to deregulate the sector.

Ian Graham, partner at law firm Trowers & Hamlins, told 'Inside Housing' that:

"We really need to ensure that a landlord which resolves to transfer engagements or amalgamate is not worried that at some point in the future it is going to trip over a hurdle with the Homes & Communities Agency about whether or not the entity is capable of registration."

However, others consider that it may be beneficial for housing associations that wish to merge to seek Homes & Communities Agency approval before the Housing & Planning Act is implemented as their 'seal of approval' may find favour with the funders!

The government has signalled that it would like to see more mergers in the 1,500-strong English housing association sector. When L&Q, Thames Valley and East Thames announced plans to merge, housing minister Brandon Lewis said:

"In my mind this is exactly what housing associations should be doing."

The National Housing Federation (NHF) last year published its first merger code, a document that was widely seen as a move to encourage thinking about mergers.

However, the Homes & Communities Agency has conceded that the evidence that larger housing associations can always achieve economies of scale and improved value for money is not very strong! Speaking at a Social Housing Finance Conference, Julian Ashby, Chair of the Regulation Committee at the Homes & Communities Agency said that the renewed appetite for mergers in the housing sector could mean that half of housing association stock could be owned by 'a dozen' organisations in the future. However, he warned that larger housing associations were not automatically more efficient than smaller ones.

There are various possible approaches to housing association mergers and partnerships:

- Transfer of engagement - A transfer of one housing association's business into another, with all assets and liabilities automatically bestowed to the receiving business.
- Amalgamation - One or more associations merge together to form a combined body into which assets and liabilities are transferred.
- Group structures - A new parent entity is formed, with subsidiary organisations able to retain their individual identity, with no automatic transfers of assets or staff.
- Strategic alliance - Where organisations form a close working relationship and agree to work together but remain constitutionally separate.

There is clearly an increase in interest in mergers among housing associations. AWICS has recently completed the preparation of a joint business case – including a financial model - for two housing associations (YMCA East London and YMCA London Southwest) that wish to merge. The rationale for the merger is that two effective and viable associations see opportunities to achieve greater value for money and improved service outcomes by combining their resources. Both boards have now approved the case. The merger will now go ahead to the benefit of both organisations, their residents and the communities that they serve.

If you would like to know more about support that AWICS can offer housing associations that wish to consider a merger please contact Adrian Waite at Adrian.waite@awics.co.uk or 017683-51498.

A briefing paper on housing association mergers can be freely downloaded from the AWICS website at: http://www.awics.co.uk/dynamicdata/data/docs/housing%20association%20mergers%20-%20briefing%20paper.pdf

Value for Money

The English social housing regulator has announced a tougher new approach to value for money, as research shows 'concerning' unexplained cost variations in the sector. Julian Ashby, chair of the Homes and Communities Agency's regulation committee, has written to the chairs of the 350 largest housing associations to express his concerns about the sector's approach towards efficiency. The letters point out the individual landlord's social housing costs per unit, compared to sector averages.

This follows comments by Ministers to the effect that housing associations have not faced financial pressures in the same way as other organisations (such as local authorities) and that consequently they have not had the same incentives to become more efficient.

In his letter, Julian Ashby sets out how the Homes & Communities Agency will 'reinforce' value for money regulation. Currently, housing associations are required to set out transparently how they measure value for money. However, the Homes & Communities Agency will now also look more closely at how well landlords are obtaining value for money in practice. Associations found to have high operating costs that cannot be explained will face questions when the Homes & Communities Agency carries out an in-depth assessment (IDA) on the organisation.

In a more forensic approach than before, the regulator will ask boards how they ensure efficiency and check that they are using resources in a 'cost-effective' way. Mr Ashby's comments come as the Homes & Communities Agency publishes its long-anticipated 'regression analysis' – a major project to compare the largest housing associations' costs per home. The analysis found 50% of the variation between landlords' costs could not be explained by factors such as their level of supported housing and regional wage differences. The regression analysis found that in the five years since 2010, average (median) headline social housing costs per unit have fallen slightly in real terms to £3,550 in 2015.

The Homes & Communities Agency will look at value for money in all future In-Depth Assessments of landlords, using the data from the Homes & Communities Agency's regression analysis. A regression analysis is a statistical tool that involves isolating factors that might influence costs – such as managing a large portfolio of supported housing – to attain a better picture of a landlord's costs compared to the rest of the sector. This has prompted Julian Ashby to write:

"It is concerning that there is such a wide variation in headline social housing costs. This level of unexplained variation must, at least in part, be due to differences in the operating efficiency of different organisations."

And at a Social Housing Finance Conference, Julian Ashby said that:

"There are still huge variations in housing association costs and that's part of what we are going to be using to provide additional challenge in the context of In-depth assessments."

Following his speech, Mr Ashby explained that even when taking into account particular pressures on housing associations' costs – such as social care – there were still large, unexplained variations in costs. Mr Ashby also said the Value for Money standard would be included in the Homes & Communities Agency's review of standards later this year. He also said that there was scope for 'deregulation' in certain consumer standards, but did not expand on which ones.

While some in the sector have taken exception to these comments, our view is that Julian Ashby is probably correct. There do appear to be significant variations in the value for money and outcomes achieved by different housing associations. However, we are aware of at least one housing association that has questioned the accuracy of the data that has been used by the Homes & Communities Agency.

David Montague, Chair of the G15 group of London housing associations, said the regulator's strengthened approach to value for money could 'only be a good thing for the sector'; but while Ian Munro, Chief Executive of New Charter, welcomed the 'external challenge', he also warned against the regulator getting too involved on how 'independent' associations spend their money.

Perhaps in an effort to defend the record of the sector, the National Housing Federation has published research that shows that housing associations' overhead costs have fallen from 2008/09 to 2014/15. The report looked at benchmarking data submitted by 250 housing associations between 2008/09 and 2014/15. It showed overhead costs (that refers to back-office functions such as Information Technology, human resources and finance) had fallen from a median of 13.6% of turnover in 2008/09 to 11.8% in 2014/15. The cost of repairs and maintenance per property also dropped by 11.1% from around £650 per property to below £600. The amount of time taken to complete repairs dropped marginally from 8.51 to 8.22 days. Satisfaction with repairs and maintenance fell from 83.2% in 2011/12 to 82.3% in 2014/15. However, overall satisfaction rose from 86.5% to 88% over the same period. The cost of housing management had stayed relatively stable, dipping just 0.6% but remaining at around £500 per property on average.

The report defined housing management as combining five elements: rent arrears, lettings, anti-social behaviour, tenancy management and resident engagement. It showed that spending on anti-social behaviour, tenancy management and resident engagement had all decreased in relation to income while spend on rent collection went up. The report said this reflected housing associations' response to welfare reform. This did coincide with a decrease in rent arrears over the period – that fell from 4% to 3.4% as a percentage of rent owed.

When launching the report, Gill Payne, Director of policy and external affairs at the National Housing Federation said:

"The findings in this report demonstrate the tireless work of housing associations to maximise their resources while continuing to provide good quality homes and services."

Kathleen Kelly, assistant director of policy and research at the National Housing Federation, said:

"We welcome the Homes & Communities Agency's recognition that decisions on investment properly sit with housing association boards and look forward to continuing to work with them on this vital agenda."

Pay to Stay

One of the measures included in the Housing & Planning Act 2016 obliges local authorities to charge near market rents to tenants whose incomes exceed £31,000 a year (£41,000 in London). The proceeds will be paid to the Treasury. This policy has been dubbed 'pay to stay'. However, the government is facing criticism from councils over the 'horrendously short' timescale required to implement its controversial Pay to Stay policy by April next year. At a recent meeting with civil servants, local authority officers said they will struggle to introduce systems to carry out the policy in time.

It is understood that under a draft timetable, councils will be expected to gather information from tenants on their earnings from September and October; and that by Christmas, councils will have to start preparing people with notices to raise their rents in April 2017. If tenants do not disclose their rents, then it will be assumed that they earn more than the £31,000/£41,000 threshold and they will be charged the near-market rent. The government will also require councils to pay them a sum based on a notional calculation of the additional rent that should be due rather than the actual sums collected.

'Inside Housing' has quoted an anonymous council housing officer in London as saying that:

"We don't collect the information from tenants, and for the new systems to be able to digest and function in that time, it is going to be very difficult indeed."

Councillor Khevyn Limbajee, Cabinet Member for Housing at Waltham Forest Borough Council, told 'Inside Housing' that:

"I don't think the [timescale] is realistic… a lot of councils think it's unrealistic."

However, civil servants at the Department for Communities and Local Government are restricted by the timetable in George Osborne's 2016 Budget, that says that the policy will be implemented by 2017/18. A spokesperson for the Department told 'Inside Housing' that:

"We are working closely with Local Authorities and will be setting out regulations soon."

While the government wishes housing associations to implement the policy it will be discretionary. It is understood that some landlords – including Metropolitan Housing Association - have begun planning for the introduction of Pay to Stay. However, doubts remain over implementation and at what level the income threshold should be set.

Responding to an 'Inside Housing' survey, nine of the twenty largest associations said they are actively considering or will consider implementing the policy. Three said they had not yet considered it, with none ruling it out entirely. Eight others declined to respond.

Metropolitan Housing Association will do more work to ascertain what threshold it would start to charge increased rents at. They think it's important that it's pitched at a level and tapered so that it doesn't disincentive work. They consider that in some parts of London thresholds are pitched too low.

One other medium-sized association plans to introduce Pay to Stay at an income threshold of initially £60,000. It may then reduce the thresholds towards the government's suggested level depending on this pilot.

Implementation of the policy in housing associations is likely to depend on its cost and how much extra income could be generated.

Scottish Housing Regulator's Approach to Regulation

In May 2016 the Scottish Housing Regulator published a summary of its work plan for 2016/17 that will see the organisation focus on its three priorities of good services, financial health and good governance. According to the summary, specific areas of work will include planned regulatory engagement; Charter data collection, analysis and reporting; and involving tenants.

The Regulator's engagement with landlords will see it:
- Oversee statutory interventions and publish a report on each when they conclude
- Put in place a new reviews and appeals procedures from April
- Publish reports on the thematic inquiries started in 2015
- Engage with representative groups and publish information on 'how we intervene'
- Put in place and publish its selection panel for special managers by October
- Carry out thematic work on governance and on landlords' delivery of new homes
- Start its annual risk assessment and publish information on the risks it will focus on in November.

The Regulator will involve tenants in its work through its National Panel of Tenants and Service Users, its tenant liaison group and by working with its new tenant advisors. This work will aim to empower tenants by providing helpful and easy-to-use information on their landlord's performance that helps them to compare this with other landlords. It will also maintain the confidence of public and private funders which the organisation says is crucial for access to competitive investment in social housing.

On the Scottish Social Housing Charter, the Regulator will:
- Collect performance data from all social landlords on its digital portal by May
- Publish landlord reports and update the online comparison tool in August
- Carry out 10 data accuracy visits by October
- Publish its national Charter report by February
- Contribute to the Scottish Government's review of the Charter.

It also plans to publish:
- a refreshed consultation and involvement strategy in May
- updated tenant satisfaction methodology in June
- a new factsheet for tenants on significant performance failures in July

- outcomes from its national panel of tenants and service users
- data tables on the finance of RSLs by November
- its analysis of loan portfolios and the financial health of RSLs by March.

Working with reduced resources, the Regulator has also laid out plans to cooperate with the Scottish Government in its response to the Office for National Statistics review of the classification of registered social landlords and to move office by December.

Michael Cameron, Chief Executive, said:

"Successful social landlords deliver good outcomes for tenants, homeless people and others who use their services. Our work helps to achieve this by focusing on our three priorities: good services for tenants and other service users and landlords' financial health and good governance. This year we will empower tenants by providing easy to use information on their landlord's performance. We will also work to maintain the confidence of public and private funders that is crucial for landlords' access to competitive investment.

"We are a smaller Regulator, having had a significant reduction in our funding from 2016/17. We will continue to prioritise our use of resources to protect the interests of tenants and service users, while doing less of some things and stopping others."

In April 2016 the Scottish Housing Regulator published a summary of its annual risk assessment of local authorities and registered social landlords. The Regulator's report sets out the main themes of its engagement across both registered social landlords and local authorities in a single report. It details the landlords the Regulator will engage with and the reasons for this engagement. The Regulator will engage with 51 registered social landlords and nineteen local authorities in 2016. Michael Cameron, Chief Executive said:

"Our annual regulatory assessment drives our risk-based regulatory approach and our regulatory engagement. This year, we're engaging with fewer landlords than last year having gained assurance that a number are managing the risks they face. We know landlords are continuing to face risks and challenges, particularly around rents, development, budgetary pressures and homelessness. We will monitor and assess emerging risks as we engage with landlords to gain the assurance we need that the interests of tenants and other service users are protected."

The Regulator's risk assessment includes a review of financial health and governance for registered social landlords, service and stock quality for both registered social landlords and local authorities' homelessness services. This takes account of landlords' performance against the Scottish Social Housing Charter.

The Scottish Housing Regulator has published its new plans for continuing to involve tenants and service users in its work. According to the plans, the Regulator will use a variety of initiatives, many of which build on existing activities, to help it understand tenants' and service users' views. It will continue to work with its National Panel of Tenants and Service Users. Established in 2013, the Panel now has almost 500 members and lets the Regulator hear directly about the views and priorities of a diverse range of tenants and others.

Continuing to engage with tenant representatives will also be a key part of the Regulator's work. It will do this through its Registered Tenant Organisations' liaison group and the nine Regional Networks. It will also speak with bodies who work on service users' behalf.

The Regulator will also involve tenants and others in its regulation activities, bringing a direct service user perspective. Building on the work of its tenant assessors, it will shortly begin working with its new pool of independent, volunteer tenant advisors. Tenant advisors will speak directly to tenants and test landlords' services.

Iain Muirhead, the Regulator's director of strategy and communications, said:

"Our plans for the next two years build on our work since 2012. We're very grateful to all the tenants and service users who have taken the time to contribute to our work. That includes tenant organisations, members of our National Panel and tenant assessors. It's important that we understand their perspectives and priorities. And involving tenants and service users directly in our regulation helps make sure we stay focused on the issues that matter most to them."

The Scottish Housing Regulator was established on 1st April 2011 under the Housing (Scotland) Act 2010.Its objective is to safeguard and promote the interests of tenants and others who use local authority and registered social landlord housing services. The Regulator operates independently of Scottish Ministers and is accountable directly to the Scottish Parliament. It assumed its full regulatory responsibilities on 1st April 2012. The Regulator consists of the Chair and five Board members.

The Scottish Housing Regulator regulates around 160 registered social landlords and the housing and homelessness activities of 32 local authorities.

The Scottish Government's Scottish Social Housing Charter came into force in April 2012. The Scottish Social Housing Charter sets out the standards and outcomes landlords should aim to achieve. The Regulator's role in relation to the Charter is to monitor and assess landlords' performance against the Charter.

More information about the Regulator can be found on its website at www.scottishhousingregulator.gov.uk

The Regulator's publication 'How we involve tenants and service users in our work' is now available on its website www.scottishhousingregulator.gov.uk.

Housing Revenue Account Draft Item Eight Determination

The Department for Communities & Local Government has published its Housing revenue account: draft item 8 credit and item 8 debit (general) determination for 2016. This includes their proposals for what should be done in 2017 when the self-financing transitional period comes to an end. It proposes to:

- Continue to allow impairment charges on dwelling assets to be reversed out of the housing revenue account following the end of the transitional period
- Extend the principle to non-dwelling assets in the housing revenue account from 2017-18
- Confirm that from 2017-18 depreciation should be charged to the housing revenue account in accordance with proper practices

In other words, they have decided not to introduce their original proposals to make depreciation and impairment real costs in the housing revenue account but to continue the transitional arrangement and extend it to non-dwellings.

However, the proposals do not address the problem faced by authorities with Private Finance Initiative schemes. As things stand they will be obliged to pay twice for major repairs on these properties and will be forced to set aside rents rather than spending them on maintenance or services. Communities & Local Government have been asked to comment on this but a response has not yet been received.

The consultation paper can be downloaded from: https://www.gov.uk/government/consultations/housing-revenue-account-draft-item-8-credit-and-item-8-debit-general-determination

Housing in Wales Roundup

Recent statistics have confirmed the value of housing associations to the Welsh economy. According to the latest economics research report by the Welsh Economy Research Staff at Cardiff University, the Welsh economy gained £2billion from the effects of investments made by housing associations in the past financial year. The continued growth in the affordable housing sector has also provided a significant boost to employment.

Overall, employment depending on the affordable housing sector has grown by 30% over the past five years. This comes alongside the Welsh Government investment of an additional £7million into training to link with recent changes that require certification of housing providers. A further £2.1million was allocated to fund apprenticeships and employment support.

In late November 2015, Community Housing Cymru held its annual conference. At the conference, there was debate about the effects of housing policies in England, including the reclassification of English Housing Associations as public organisations and the mandatory annual rent reductions of 1% by social housing providers. There is a potential for this to have effects on the Welsh housing sector. This debate was held at the same time as the recent release of the Wales Bill that sets out arrangements of for how the Welsh Assembly will produce legislation affecting Wales in the future.

For the United Kingdom accounts, the Office for National Statistics has reclassified English housing associations as public as opposed to private. While some argue that these labels are merely technical, Stuart Ropke, Chief Executive of Community Housing Cymru argues that the implications are more sinister. Instead of an arbitrary semantic change, Ropke argues that the reclassification is a 'battle… within the United Kingdom Government', and that Westminster is attempting to redefine where power truly resides.

The Office for National Statistics apparently based its decision regarding English Housing Associations on the provisions of the 2008 Housing & Regeneration Act rather than on the current government's policies on 'right to buy' and rents. However, the argument that English Housing Associations must be classed as public sector organisations because they are regulated by the state could also be applied to Welsh Housing Associations Pertaining to the effects of the Wales Bill on Welsh housing, Stuart Ropke described the situation as 'perverse' saying:

"We might have to move policy because of changes over the border."

Following the decision of the United Kingdom government to require annual rent reductions of 1% in English social housing, the Welsh government consulted with local authorities and housing associations in Wales about the potential to introduce a similar policy in Wales and required social landlords to carry out modelling to demonstrate the impact of a similar cut in Wales, or other options including no rise in rents. It is understood that the financial modelling showed that most Welsh housing associations would cease to be viable after about two years. In the event it was decided to make no changes to the existing Welsh policies on social rents that have been introduced only recently and provide for modest increases and local discretion. Control of social housing regulation in Wales moved to an independent regulatory board for the first time in January 2016. Value for Money has emerged as a key priority for the regulator, with a review planned for later in the year to look at how it could be assessed. Early discussion has suggested the evaluation of Value for Money in Wales would take account of social value added, rather than having a simple focus on efficiency.

English housing providers have been required to produce annual statements demonstrating efficiency since the regulator introduced a Value for Money standard in April 2012. However, it has never been a formal part of regulation in Wales.

Stuart Ropke, Chief Executive of Community Housing Cymru said that:

"We have been discussing with the Welsh Government and the regulator what value for money looks like in a Welsh context. It is not only about measuring efficiency in financial terms, but measuring the social value and positive benefits of the work housing associations are doing."

It is understood the new regulatory board has discussed introducing 'stress-testing' that is currently required by its English counterpart the Homes and Communities Agency. 'Stress testing' is seen as a development of sensitivity analysis that is commonly carried out by housing associations as part of their business planning.

Deregulation is also expected in Wales to ensure that the Office for National Statistics does not classify Welsh housing associations as public sector bodies. This is a priority for government, with legislation expected early in this parliament.

All You Want to Know about Local Authority Housing Finance

Seminars – March / July / November 2016

We are holding our 2016 series of 'All You Want to Know about Local Authority Housing Finance' from March to November. This series of seminars is designed to give an introduction and overview to this important subject and is fully up to date with all developments.

This seminar is designed for people who are not experts in housing finance, but who need to understand the basics and achieve an overview of what is going on. It is suitable for councillors, housing managers, tenant representatives and finance staff who have limited experience of local authority housing finance and others who realise that an understanding of housing finance can place them at an advantage!

Do you think that a working knowledge of local authority housing finance would put you and your colleagues in a position of advantage?

The session will answer the following questions:

- How does the Housing Revenue Account work?
- How does the Housing General Fund work?
- How does the Housing Capital Programme work?
- What are the financial opportunities and threats for local authority housing?

The session is fully up to date and refers to recent government policies on sale of high value council homes, charging near market rents for tenants on high incomes, annual reductions in social and affordable rents of 1%, welfare reform, the implications of the Welfare Reform and Work Act and Housing and Planning Act, and the implications of the United Kingdom leaving the European Union.

The session is accompanied by a very useful 100 page book that is designed for reference after the session entitled: **"All You Want To Know About Local Authority Housing Finance 2016"**

Remaining Venues and Dates:

- **North:** Novotel Hotel, Leeds - 12th July 2016
- **London:** Novotel Hotel, Waterloo - 1st November 2016

For further information or to make a booking please click here: http://www.awics.co.uk/lahfin16.asp

---

Our other Seminars

Details of all our seminars are available on our website at: http://www.awics.co.uk/seminars2016.asp

Our seminars include: All You Want to Know about Service Charges in Social Housing. For further information or to make a booking please click here: http://www.awics.co.uk/schs2016.asp

Our seminars are held at venues in Cardiff, Edinburgh, Leeds and London.

Our Webinars

Our next webinars include the following subjects:

Welsh Housing Association Finance
This webinar provides an introduction and overview of the finances of housing associations in Wales. It looks at income, expenditure, cash-flow, balance sheets, development, capital and other factors that influence Welsh housing association finance.
Date: 2.00pm on Thursday 14th July 2016.
Price: £25 plus VAT. Total £30.

Local Authority New Build: The Financial Implications
This webinar considers the financial implications for local authorities of building new council homes.
Date: 2.00pm on Tuesday 19th July 2016.
Price: £25 plus VAT. Total £30.

Welsh Local Authority Housing Finance
This webinar is a useful introduction and overview of the finance of local authority housing services in Wales. It considers income and expenditure, rent and service charges, self-financing, capital programmes, the impact of government policy and much more.
Date: 2pm on Tuesday 26th July 2016.
Price: £25plus VAT. Total £30.

Social Rent Reforms
This webinar considers the United Kingdom government's proposal to oblige housing associations and local authorities to reduce social and affordable rents by 1% a year over the next four years; and to charge near-market rents to tenants with high incomes.
Date: 2pm on Thursday 4th August 2016
Price: £25 plus VAT. Total £30.

For further information, including future planned webinars, or to make a booking please visit our website at: http://www.awics.co.uk/webinars.asp

Technical Books

AWICS publishes books on technical topics useful for those providing public services.

Our most recent book is 'All You Want to Know about Scottish Social Housing Finance'. For more information or to order a copy please visit our website at: http://www.awics.co.uk/scotfinbook.asp

Further information about all our publications is available on our website at:
http://www.awics.co.uk/publications.asp

Client Survey

We would be grateful if you could take part in our survey of our clients, website users, newsletter readers or others with an interest in local government or housing. If you would like to please visit http://form.jotform.me/form/50612526489459

Editorial Note

This edition of the AWICS Housing News was edited by Kirsten Laidlow. The AWICS Housing News is published by AWICS Limited. Articles are written by Adrian Waite unless otherwise stated. However, the views expressed are not necessarily those of Adrian Waite or AWICS unless expressly stated.

IF YOU WOULD LIKE TO PLACE AN ADVERTISEMENT PLEASE CONTACT
Adrian.waite@awics.co.uk

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

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!

For more information about our services and us please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk.

Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars — http://www.awics.co.uk/Seminars2016.asp
- Webinars – http://www.awics.co.uk/webinars.asp
- In-House Training — http://www.awics.co.uk/inHouseCourses.asp
- Independent Residents’ Advice — http://www.awics.co.uk/IndependentTenantAdvice.asp
- Technical Books — http://www.awics.co.uk/publications.asp
- Information Service — http://www.awics.co.uk/aboutUs.asp