

# AWICS Wales News February 2015

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**Denbighshire Council's Housing Offices in Rhyl – one of the stock holding authorities in Wales where AWICS has assisted with implementing self-financing.**

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## Introducing the AWICS Wales News

Welcome to our new e-newsletter: The 'AWICS Wales News'. This e-newsletter is intended to provide news about public services, especially housing and local government, in Wales.

While our existing e-newsletters, the 'Public Services News' and 'AWICS Housing News' will continue to include articles of interest to people in Wales, I think there is a need for a separate e-newsletter for Wales to reflect the unique political, legislative, regulatory, social and economic situation in Wales and the specific issues that arise.

I hope that you enjoy reading the e-newsletter. If any reader would like to give me feedback on this newsletter, or would like to submit an article or letter for publication, please contact me at [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk).

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## Implementing Self-Financing in Wales

Housing revenue account self-financing is making its way to Wales. The English have had it for two years.

The new system will result in the abolition of the housing revenue account subsidy system, an increase in the level of housing revenue account debt and the imposition of 'borrowing caps' as in England. However, it appears that the Welsh settlement is slightly more generous than the English settlement was, providing significant additional revenue resources when compared with the current system and significant capital resources for new build as well as the completion of the Welsh Housing Quality standard programme in all authorities. Indeed, the Welsh Government has specific expectations of local authorities when it comes to new build.

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At the same time the Welsh Government has introduced new policies on rents and service charges. These oblige Welsh authorities to introduce service charges where they have not already done so and (as in England) this often proves more complex than would initially be imagined.

Self-financing also has a large number of practical implications including:

- Treasury Management – deciding a borrowing strategy for the borrowing required to ‘buy out’ of the housing revenue account subsidy system and additional borrowing for the Welsh Housing Quality Standard and new build; and deciding how to account for borrowing using one, two or three loans pools.
- Business Planning – preparing a business plan that incorporates the new rent policy, service charges, self-financing, new build and increased exposure to risk.
- Accounting, Asset Management and Governance implications.

The Housing (Wales) Act that extends self-financing to the eleven stock-retaining councils in Wales received Royal Assent in September 2014 having been agreed by the Welsh Assembly in July 2014.

Part five of the Bill abolishes the housing subsidy system for councils in Wales and gives Welsh Ministers the power to make a financial settlement transferring debt to or from councils to implement the new self-financing system under which rent income will be retained locally in full.

Self-financing will be introduced from April 2015. As in England, each council will be set a borrowing limit based on historic debt. Interestingly, the power to set these debt caps for councils in Wales remains with the Treasury in London although the levels of the caps are somewhat higher than those that were imposed in England.

The Act gives the Welsh Government powers to set standards for local authority rents and service charges. Currently, government influence over council rents is exercised through the subsidy and rent rebate systems - there are strong financial incentives to comply with rent guidelines but councils remain free to set rents differently if they choose.

The Act allows Ministers to set a target rent band within which local authorities will be legally required to set their average rents. There is also scope for consideration of a higher rent regime similar to the "affordable" rents charged on some dwellings in England.

One aspect of the policy that is contentious requires local authorities that currently pool rent and service charges to disaggregate service charges from rent; and to consider the impact on their Business Plan, the achievement of the Welsh Housing Quality standard and other government priorities. It requires that the de-pooling exercise be undertaken in full, to ensure only tenants that receive, or are entitled to receive, services pay the service charges. The Welsh Government regards de-pooling service charges as best practice.

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The de-pooling of service charges is also required in the light of the introduction of Universal Credit. Under the Universal Credit, tenants will be required to provide information on the breakdown of their rents and service charges as part of their on-line Universal Credit applications. In addition, Under Housing Benefit rules the vast majority of services are eligible for Housing Benefit. Universal Credit regulations set out which services charges will be deemed eligible for benefit and those which are not.

Local authorities in Wales have traditionally included the cost of providing additional service to shared or communal areas in the rent that all tenants pay, regardless of whether all tenants benefit from the services being provided. While a pooled approach to service charges is administratively simpler for the landlord, it also has a number of disadvantages:

- Tenants may be paying for services they don't receive.
- Tenants are unaware that they are, in fact, paying for services.
- Services provided, and quality of service, do not reflect the needs and aspirations of tenants.
- Financial arrangements can mean that the housing revenue account contribution to some services is not related to the cost of providing that service.
- The cost to the landlord of service provision can be unclear.
- It is difficult to demonstrate value for money.

Councils will be expected to make achievement of the Welsh Housing Quality Standard the first priority for new investment made possible by self-financing. There will be a legal requirement to achieve the standard throughout the housing stock by 2020 and maintain it thereafter.

Our first seminars and workshops of 2015 will be on 'Implementing Self-Financing in Wales'. We will hold two sessions: the first in Cardiff on 10<sup>th</sup> February 2015 and the second in Wrexham on 12<sup>th</sup> February 2015. I am pleased to say that these are proving very popular. A majority of Welsh local authorities with housing stock are already sending delegates and I hope that all of them will be represented come the day.

This seminar and workshop is designed to assist local authorities with the implementation of self-financing. It is suitable for elected members, housing managers, finance managers and anyone with an interest in the implementation of self-financing in Wales.

**The Session addresses the following questions:**

- The Welsh Self-Financing settlement – Debts, Borrowing Caps, New Build and what the Welsh Government expects from local authorities
- The new Welsh policies on rents and service charges
- The practical implications of self-financing including those for Treasury Management, Accounting, Business Planning, Asset Management, Risk Management and Governance
- The opportunities and challenges that are brought with self-financing

The session includes opportunities for networking and a participatory case study. It is accompanied by a very useful and fully up to date book that is designed for future reference entitled: **"Implementing Self-Financing in Wales"**.

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Further information is available on our website at: <http://www.awics.co.uk/walesselffin.asp> from where you can also book a place online.

Adrian Waite has been working with Denbighshire County Council on preparing for the implementation of self-financing in Wales. For further information on support that can be provided to Welsh local authorities in preparing for self-financing either through management consultancy or training please contact Adrian at [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk)

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## **The role of Welsh Housing Associations**

Community Housing Cymru published a report from Cardiff University in December 2014 on the positive economic impact that housing associations are having in Wales; while the Welsh Government is suggesting that housing associations should consider providing services that have traditionally been provided by local authorities.

It is reported that, since the banking crisis of 2008, housing associations in Wales have developed 63,000 new houses – an increase of 66%. In 2013/14, housing associations in Wales spent £0.91 a day for every person in Wales but that expenditure has ‘levered in’ additional investment. Firstly, the money that has been spent directly by Welsh housing associations has generated another £0.91 per person per day indirectly, because every penny spent is income for somebody else. There is then the ‘multiplier’ effect as that money circulates in the economy. It is estimated that this year the housing association sector has had a combined economic impact of £2billion (almost a quarter of that was spent building new affordable homes), 81% of which has stayed in Wales.

It is calculated that this underpins 8,400 full time equivalent jobs in Wales and a further 12,950 jobs supported in the economy. Looking at Wales as a whole, this equates to almost 1 in 70 people. Therefore 1 in 70 of those employed in Wales has a job that is, in one way or another, supported by the housing association sector. Community Housing Cymru consider that investment in housing has clear wider benefits, and the challenge for housing associations is to continue to increase that £0.91 per person per day to build even more homes and create even more jobs across Wales.

Nick Bennett, Group Chief Executive of Community Housing Cymru said:

*"This report further demonstrates the true impact of housing associations on the Welsh economy and shows that our sector is about much more than bricks and mortar - it also acts as an economic stimulus. There is no doubt that continued investment from our sector is helping to create solid foundations for a healthier Welsh economy."*

*"In the past year we have pumped hundreds of millions of pounds into the Welsh economy and are constantly innovative in our thinking to continue to invest for the future in order to play an integral part in the Welsh economy and ultimately the local communities we serve."*

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Community Housing Cymru cites a Pembrokeshire Housing Association scheme as a good example of a housing association supporting local business. The association has used a new finance model to begin building twelve new houses in Roch near Haverfordwest. It borrows from banks to fund the project while the Welsh government contributes the repayment of the 'mortgage'. This is the first scheme of its kind in Wales though similar ones are being rolled out. Building began at the Roch project in September 2014 with the construction contract being awarded to a local family firm, WB Griffiths. Graham Holmes of Pembrokeshire Housing Association told BBC Wales that:

*"For every £10 we spend on housing the public purse puts in £3 and we put in, through a private mortgage, £7, so we can basically build more homes for less public money. Every housing association has to put in a 30-year business plan to the Welsh government every year and that shows that we are, if you like, a business that can keep going in the long term."*

Mark Griffiths of WB Griffiths told BBC Wales that it is important for local companies to fulfil these types of contracts:

*"As a company we belong to a lot of framework agreements within South Wales and unless you're on the framework you won't get a look at the job... Pembrokeshire Housing Association (has) been very good to us and we've done a lot of work with them in the locality building a lot of houses."*

Housing associations are increasingly involving themselves in community work. One in North Wales is providing a meals-on-wheels service on Anglesey after the council withdrew its provision due to cutbacks; others are offering recycling services. The following are also examples:

- Go Girls - young women from Torfaen have raised funds to go to Belarus and "make over" an orphanage run by women
- The Lighthouse Project in Newport helps vulnerable people leaving the Royal Gwent Hospital return home
- Energy Wardens - Gwynedd tenants advising others on how to cut their fuel bills
- Improving Parc Peulwys in Colwyn Bay, including better roads and paths and nature projects with schools

The Welsh Government is encouraging this trend saying that housing associations should take over services local councils can no longer afford to run. Communities Minister Lesley Griffiths said:

*"It would be great if we could see more collaboration between housing associations and local government. I understand local government has had a difficult financial settlement - we don't want to see front line services being blanket cut - so the non-statutory services that local government are having to provide, it would be great if housing associations could help in some way... Housing associations do a lot more than just build houses, they do a lot more work than that and it's really encouraging to see that."*

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However, Community Housing Cymru is concerned that the scope to run community projects depends on income from tenants which may be hit by welfare reform. Stuart Ropke, Chief Executive of Community Housing Cymru told BBC Wales that:

*"If local government is under pressure there is sometimes an expectation that housing associations will step in when the council walks away, but our members are thinking very carefully about what they take on. Compared to councils some housing associations are comparatively well resourced, but we can't do that in every circumstance."*

With all the main political parties at Westminster committed to continuing significant reductions in public expenditure it is almost certain that the budgets of the Welsh Government and Welsh local authorities will be reduced further over the next five years. This is likely to lead to a new relationship between local authorities and housing associations with the latter taking far more of a 'place shaping' role than has been the case to date.

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## **Welfare Reform in Wales**

The Welsh Audit Office reported in January 2015 that the United Kingdom government's reforms to welfare, in particular the under-occupation penalty (or 'bedroom tax') and the £26,000 annual benefit cap, have affected a greater proportion of tenants in Wales than in Scotland or England. It is believed that the reforms are responsible for an increase in rent arrears. With further welfare reforms expected, it remains unclear what impact future changes to benefit payments will have on local authorities, housing associations, their borrowing and their business plans.

Examining the impact of the government's welfare reforms on social housing providers and tenants, the Welsh Audit Office said that they were having 'a significant impact' on councils, housing associations and tenants. Councils and housing associations were struggling to devise ways to deal with the impact of the policies, the 'Managing the impact of welfare reform changes on social housing tenants in Wales' report warned.

The Welsh Audit Office found that the under-occupation penalty that reduces Housing Benefit for claimants if they are judged to have unoccupied rooms had applied to a greater proportion of social housing tenants in Wales. According to the analysis, a greater proportion of Welsh social housing tenants claim Housing Benefit (74%) than in England (70%) or in Scotland (63%). Of these, one fifth of those receiving Housing Benefit in Wales have been subject to the under-occupation penalty. This is higher than the 19% of claimants in Scotland and 15% in England.

The report also found there was increasing poverty and debt amongst some social housing tenants that coincided with these changes. Rent arrears of current social housing tenants in Wales have increased, with the number of tenants in arrears increasing by almost a quarter (23%) in the six months following introduction of the changes and the total level of arrears reaching £5.3million. This is leading to increased costs for councils and housing associations.

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The report identifies some weaknesses in how councils are responding to welfare reform. There is significant inconsistency in how councils are monitoring and evaluating delivery of their plans and, despite local authorities identifying welfare reform as a substantial risk, approaches being taken to mitigate this risk are not always comprehensive.

For example, the Welsh Audit Office complains that although the introduction of the under-occupation penalty has resulted in increased demand for smaller homes, councils and housing associations have done little to increase their supply of such stock either through new build or conversion. They found that investment to develop new housing is limited and it will take time to develop new properties. To date there has been limited take up of lodgers or use of the private rented sector and performance on supporting tenants into permanent employment to reduce the impact of welfare reform is mixed.

The report also found evidence that welfare reform changes to housing benefit and the introduction of the benefit cap are resulting in increased costs for, councils, housing associations and tenants and the Welsh Government has set aside money to address some of the impact in Wales. Social housing landlords are making a greater investment in staffing and administration costs to deal with managing empty homes and collecting rent that has become more complex since the introduction of welfare reform.

The report concludes that the roll out of Universal Credit and direct payments – where tenants receive the benefit direct rather than have the money paid to their landlord – could make this situation much worse.

The report makes seven recommendations for improvement, including:

- Councils and housing associations should improve strategic planning and better coordinate activity to tackle the impact of welfare reform on social housing tenants.
- The Welsh Government needs to establish a set of minimum service standards on letting and transfers, so that tenants affected by the removal of spare room subsidy receive a minimum standard of service.
- Councils need to strengthen how welfare reform risks are managed by creating a single corporate approach that coordinates activity across the council and the work of others.
- All social housing providers should improve engagement with tenants affected by the under-occupation penalty.

Auditor General for Wales Huw Vaughan Thomas said:

*“The welfare reform and in particular the changes to housing benefits are having a significant impact on social housing providers and tenants in Wales. Councils and social housing providers need to work together more closely to find sustainable solutions that will mitigate the risks to tenants that are arising from these changes and the further reforms which are due to be implemented.”*

Darren Millar (Conservative), Chair of the National Assembly's public accounts committee, said:

*"As the report makes clear, councils, housing associations and the Welsh Government need to plan more effectively and work closer together to ensure that social housing tenants are engaged with and supported consistently."*

A Department for Work and Pensions spokesman said:

*"Ending the spare room subsidy was absolutely necessary to return fairness to the system and make better use of social housing stock. We made over £15million in Discretionary Housing Payments available to Welsh local authorities so that vulnerable people can receive additional support."*

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

*"The findings in this report are worrying but unfortunately not a surprise. We've always known that Wales is disproportionately affected by these reforms and we now know that as a result of the removal of the spare room subsidy and the benefit cap, 51% of tenants are reporting an increase in their debt levels."*

With further reforms to the welfare system expected after the 2015 general election the challenges faced by the Welsh Government, local authorities and housing associations are expected to intensify.

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## **Reform of Right to Buy**

The Welsh Government published a White Paper in January 2015 that seeks views on the proposals to change the legislation on the Right to Buy and Right to Acquire. The consultation closes on 16<sup>th</sup> April 2015.

Since 1981 the Right to buy and Right to Acquire have allowed many tenants in social housing to buy their home from their local authority or housing association. As a result, there has been a significant reduction in the social housing stock. The Welsh Government considers that the reduced number of social rented homes available to help people who are on housing waiting lists is adding to the pressures on housing supply and on people's ability to find a home they can afford.

The Welsh Government argues that in the current financial climate, housing, economic and other factors have combined to cause considerable pressure on the supply of homes. The pressures affect many but the effect on people whose needs cannot be met by the housing market is particularly noticeable. Some people cannot afford to buy a home, or to rent a home from a private landlord. They are dependent on social housing or some other form of subsidised provision. Social housing is a particularly important safety net.

The White Paper puts forward two proposals for public consultation. Both are aimed at protecting the social housing stock from further reduction:

- Changing existing legislation – that would reduce the maximum discount available to a tenant who applies to buy their home from their council or housing association landlord

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- Developing new legislation – which, if passed by the National Assembly for Wales, would end the Right to Buy and Right to Acquire.

According to the Welsh Government, right to buy has resulted in the sale of 138,423 council homes between 1981 and 2014 - a 45% reduction in the social housing available since the beginning of the 1980s.

In Wales, the current limit on the sales discount for right to buy and right to acquire is £16,000. The Welsh Government, is proposing to reduce the current maximum discount to £8,000.

Lesley Griffiths (Labour), Minister for Communities said:

*“Many families depend on social housing for a safe, secure and affordable place to live. Our supply of homes is under considerable pressure and we are still seeing social rented properties being taken out of our social housing stock because of the right to buy, which is forcing many vulnerable people to wait longer for a home. This is why decisive action is needed to protect our social housing to make sure it is available for those who need it most.”*

The white paper was welcomed by the Welsh Local Government Association. Councillor Dyfed Edwards (Plaid Cymru) said:

*“With many thousands of people currently on housing waiting lists and at a time of acute shortages of affordable homes the proposal from Welsh Government to abolish the Right to buy scheme is a welcome step in tackling a growing problem in Wales. Despite the considerable efforts that local councils and housing associations are making to increase the overall supply of social housing by building new homes, housing provision continues to struggle to meet the rising level of housing need in Wales. The loss of properties through the Right to buy has worsened this situation and has, in some circumstances, acted as a considerable disincentive for further housing development.”*

Mark Isherwood Conservative shadow minister for housing, said:

*“This is an anti-aspiration, nanny-state-knows-best decision, which limits housing supply and denies people in council properties the choice and power to buy their council house... Welsh Labour is returning to its outdated socialist dogma of the 1980s, which kept it out of power for a generation, believing that government rather than individuals know what is best for them and their families... Welsh Conservatives have set out proposals to reform Right to Buy, ensuring the proceeds of sale are invested in new social housing, thereby unlocking resources, increasing affordable housing supply and thereby helping to tackle Labour’s housing supply crisis.”*

The Welsh Government propose to end the right to buy and the right to acquire in 2016 with discounts being reduced before then, but in the meantime Carmarthenshire Council had asked, under existing legislation, to apply for permission to suspend the Right to Buy and Right to Acquire schemes to help tackle its own housing issues. It was the first authority to do so and Ms. Griffiths has now approved the application. Carmarthenshire council leader Kevin Madge said that this would:

*“Help alleviate the demand on our housing register and support our vision to make more good quality homes available for local people”.*

The news came as reports suggested the Conservative party is considering a pledge to extend the right to buy policy to cover housing associations in England. Scotland abolished the right to buy policy in 2014 after legislation was passed in June.

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### **Denbighshire Council forced to cut budget**

The Welsh local government finance settlement for 2015/16 has made it inevitable that Denbighshire County Council will have to reduce its budgets. The authority calculates that there is a need to look to make reductions of £17million from its budgets over the next two years.

Care homes could be closed, bus routes reduced and public toilets shut. The council has been out to consultation, saying it wants residents to have their say before final decisions are taken.

Council leader Hugh Evans (Independent) says £20million in savings have already been made 'but the time has now come for us to make cuts'.

Councillors have already agreed to increase burial charges, reducing street cleaning activity and to charge residents £24 for garden waste collections.

The next budget reductions could include withdrawing funding to organisations like Prestatyn's Scala Cinema and Arts Centre (£41,000) and Ruthin Craft Centre (£30,000), as well as cutting £166,000 on providing bus routes, and closing a quarter of the county's public toilets to save up to £60,000. The council is also considering the future of council-run care homes and adult services which could save it £700,000.

Councillor Evans described these proposals as 'the least-worst options that the council has to consider as it sets its budget for the next financial year'.

The Council describes its situation as follows:

*“The proposals set out... are the 'least-worst' options that the council has to consider between now and February 2015 when it will have to set its budget for the next financial year. While we need only make decisions for 2015/16 in February, we know it will be just as difficult next year so we're looking at the two years together.*

*"While £8million cuts in one year is just over 4% of total spend, the impact of these cuts will not be evenly spread across our services, mainly because some services, like schools, must be protected while other areas are high priority and high risk, such as social services, others are important statutory functions that the council must continue to do, like Planning, Payroll, Financial Management and regular performance reporting to Welsh Government and regulators. The cuts will, therefore be felt on some areas, more than others.*

*"The council is required to identify cuts of around £8million in 2015/16 and a similar figure for 2016/17. To achieve these cuts the council agreed a process that involved scrutinising every service and function. This led to the identification of all the available options and that led to debates about choices. The process started in April 2014 and will be completed in February 2015."*

Councillor Evans had earlier called for Welsh ministers not to interfere in local authority budget cuts decisions saying that statutory services should not be immune from cuts if there were ways to run them more efficiently. He told BBC Wales that the Council would look at increasing charges for some services and that:

*"We've always driven budgets by safeguarding jobs and protecting frontline services; this level of cuts will not allow us to do that. There will be, sadly, redundancies... We'd like to be given the opportunity to make cuts in services which are essential by doing things in a different way... Give us the opportunity to do it on our own. Don't interfere is the message I would suggest to the Welsh Government,"*

Councillor Evans also said that North Wales is being short-changed when it comes to spending on infrastructure projects:

*"There's a projection over the next three or four years, roughly, about £1.4billion investment in South Wales and it's really concerning that in terms of capital investment that we're earmarked for £10million investment somewhere in North Wales and that's the message from the draft budget."*

However, a Welsh government spokesperson said:

*"The draft budget 2015/16 set out how we will allocate £1.4billion of capital to deliver on our priorities and boost jobs and growth across the length and breadth of Wales... As part of this, we are providing an additional £10million to improve transport connectivity in north Wales, while we have already announced £12million in 2015/16 for safety improvements to the A55 Tunnels and £5million for the redevelopment of Ysbyty Glan Clwyd... North Wales will also benefit from the additional £32million investment in housing, £5million to promote green growth across Wales and £10million for the next generation broadband programme."*

Further information on the budget consultation is available on the Council's website at: <https://www.denbighshire.gov.uk/en/your-council/consultations/current-consultations.aspx>

Denbighshire County Council is one of the principal clients of 'AWICS' in Wales.

## **Risk Management in Social Housing**

Risk Management is gaining a higher profile in social housing because of the recession, austerity and self-financed housing revenue accounts.

In its guide to housing self-financing the Chartered Institute of Public Finance & Accountancy identified the main risk factors that local authorities should consider now that self-financed housing revenue accounts have exposed local authorities to greater risks.

In this context there is a need for a greater understanding of the issues involved in implementing risk management. AWICS has therefore organised a series of seminars and workshops entitled 'All You Want to Know about Risk Management in Social Housing'. Those who attend will gain an awareness of Risk Management in Social Housing including how to apply the principles of risk management in a social housing context. All those with an interest in Risk Management including Board members in Housing Associations; elected Members in local authorities; Housing managers, Finance managers and tenant representatives should attend.

This seminar and workshop includes a participatory session and opportunities for networking and is accompanied by an up-to-date and very useful book for future reference entitled:

**"All You Want to Know about Risk Management in Social Housing"**

### **Venues and Dates:**

- **London:** Novotel Hotel, Waterloo - Wednesday 11th March 2015
- **Northern England:** Clough Manor Hotel, Oldham - Tuesday 24th March 2015

It is possible to access more information and to make a booking on our website at:  
<http://www.awics.co.uk/risk.asp>

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