Briefing Paper

Housemark Conference – Stock Retaining Authorities' Conference 2014

December 2014

Introduction

I attended the Housemark Stock Retaining Authorities' Conference on 4th December 2014 to present a session entitled 'Getting a Grip on Asset Management'.

In the light of the borrowing cap and tough conditions for acquiring social housing grant, this session looked at:
- What does the government expect on asset management from local authorities?
- Asset management plans and the impact on them of the borrowing limit and depreciation accounting
- Achieving the decent homes standard with reduced or insufficient capital resources
- Achieving new build and the potential of delivery vehicles and joint ventures
- Developing sustainable investment programmes
- Asset performance – sustaining demand, investment and disposals
- Performance Management – understanding and measuring return on investment

I have placed a copy of my slides and a briefing paper that covers the same ground on my website. These can be freely downloaded from: http://www.awics.co.uk/assetmmt.asp

While at the conference I attended some of the other sessions. This briefing paper contains my notes from them.

High Performance Business Planning
Speaker: Simon Smith – Chartered Institute of Housing

There is a positive picture:
- Sensible prudent decision making is taking place to get 'over the line' – there is a cautious approach
- Some local authorities are pushing ahead straight away with new build programmes
- Many are taking time to review asset management in more detail – bearing in mind the reforms to 'right to buy'
- Most have considerable resources to invest
- There are still issues for some – hence stock transfer is a possible option – mainly because of the debt cap.

Simon Smith thinks that the debt cap may stay to encourage further stock transfers and I would tend to agree.

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Local authorities with council housing have responded appropriately:

- All have business planning models & plans
- Two thirds have updated their asset management strategies
- Two thirds are planning annual business plan updates
- A number of stock retention local authorities have established management boards

Prudent and sensible assumptions to make in business planning include:

- Planned rent increases to convergence (where permitted under the new rent policy)
- Increased provisions for bad debts
- There are low interest rates across mixed portfolios that demonstrate some flexibility to respond to changing circumstances

Most local authorities are investing wisely:

- They are securing the existing stock through diversified asset management plans
- 71% have new build in their top three priorities
- Many also have regeneration schemes.

Authorities are taking the following approach to rent convergence:

- A declining rate of increase in rents
- RPI + 0.5% + £2 rent increases are no longer available after 2014/15
- Smoothing the path to convergence is not uncommon

Notable features of the recent spending round include:

- The use of the Consumer Prices Index is causing serious concern. Costs, especially of capital investment are likely to increase by more than rents.
- The end of rent convergence – some local authorities are still working towards convergence. There are usually not massive rent increases required but there is a need to tackle differentials.
- It is estimated that the changes to rent policies will give local authorities a loss of £1.2billion compared to the assumptions that were made when calculating the self-financing settlement.

Rent control will be voluntary but there will be legislative and fiscal controls. These include the continuation of rent rebate subsidy limitation and the introduction of Universal Credit.

'Right to Buy' reforms are having the following effects:

- The Downside – activity has doubled but the initial 'spike' is now being worked through.
- The Upside – retained receipts are beyond what was originally budgeted.
- The Department for Communities & Local Government is now out to consultation on future cap levels

New build is a priority for many councils. Its implications include:

- More diversity and flexibility
- There is a Persuasive narrative:
    - Councils have an appetite for new build under the 'cap'
    - Ambitions for new build have stimulated exploration of alternative delivery vehicles including arms' length management organisations, special purpose vehicles, joint venture companies and institutional investors. However, it is not possible to allocate the 'right to buy one for one' money to them.

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- Funding is being sought from Pension funds, insurance companies and private equity.

The Local Growth Fund was announced in the autumn statement of 2013. It offers borrowing potential of £30,000 a unit for new build, encourages the sale of high value properties and obliges councils to make bids to local enterprise partnerships for individual schemes.

Government is planning to make cuts in public funding to 1930s levels.

The loophole that enabled local authorities to transfer housing revenue account balances to the general fund is now closed.

The interpretation of the housing revenue account ring fence is controversial. It was introduced in 1990 but the history of the 1990s seems to be repeating itself. The previous government looked to strengthen guidance. It is now important that a debate takes place around a rational basis for delivery.

Housing revenue account business plan essentials include:
- Putting the Financial plan at the centre
- Also having a vision, mission, tenant involvement, good governance and good risk management (there is not much movement on tenant empowerment at the moment)
- Effective Value for Money, standards set by the Homes & Communities Agency and repairs strategies
- Addressing debt financing, treasury management and rent increases (changes in ‘right to buy’ and rent policy reduce the ability to fund debt)
- Ambitions on refurbishment, the green agenda, regeneration and development

Asset Management’s key drivers are:
- Demand & supply
- Stock condition & sustainability
- Funding, financing & value for money

The pendulum has swung away from delivering for the customer (decent homes standard & customer service) to delivering for the asset (performance and value).

A voluntary code has been established by the Chartered Institute of Public Finance & Accountancy but, surprisingly, most councils have not adopted it. There is a briefing paper on the voluntary code on the AWICS website that can be downloaded from: http://www.awics.co.uk/volcode.asp

If the business plan is strong, what would you do with the money when surpluses build up in the long-term? A high performing business plan should address what to do with the resources, especially what can be done NOW to benefit the tenants.

There is a need to look at environmental works.

‘Existing use value for social housing (EUVSH) is usually lower than the cost of building a house. This causes problems in demonstrating a viable scheme and reduces the capacity to build. There is also the question of how to circumvent the debt cap. There are concerns about the impact of impairment.

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It was asked if, where a local authority receives Homes & Communities Agency grant, they have to convert relets to affordable rents and, if so, at what level? Only one local authority is known to have had to convert existing properties to affordable rent (that being Stockport Borough Council). The biggest problem is that social housing grant is only £12,000 a unit. Greater London Authority grant is also low and some authorities find it a disadvantage. Capital receipts in bank are often not able to be used as authorities cannot find the other 70%. The government considers that using social housing grant and capital receipts would be a double subsidy.

It is difficult to do long-term planning of new build as authorities cannot forecast future capital receipts. If an authority prioritises new build it may need to defer improvements in existing stock.

Councils need to build 'off balance sheet' because of the financial complexities of building in the housing revenue account.

Some authorities want to repay debt as they are debt averse.

Let's Build: The practicalities of setting up a subsidiary
Speaker: Phil Gallagher – Head of Investment & Development, Gateshead Housing Company

Gateshead Housing Company is the arms' length management organisation that manages Gateshead Borough Council's housing stock. Keelman Homes is the charitable subsidiary of Gateshead Housing Company as a vehicle to do development in 2008. It is a partnership between Gateshead Borough Council and Gateshead Housing Company.

The presentation answered the question: Why set up a charitable subsidiary to deliver new build? It also covered how the model has developed to meet the changing demands of the council, tenants and regulator and lessons learned.

Gateshead Housing Company's statistics for 2013/14 were:
- £18.3million spent on improvements
- 69,298 repairs carried out
- 19,870 homes managed (there were 24,000 in 2008 but stock numbers have reduced because of big increases in 'right to buy' sales
- 1,746 lettings were made
- 888 customers were involved
- There were 321 employees (there were over 400 when the company was formed)

The consequences of self-financing included:
- Gateshead Borough Council being at the debt cap for at least ten years
- No new build was factored into the self-financing settlement or business plan
- Resources are available for maintaining decency only
- Gateshead Borough Council wants new council homes – but they need to be attractive (location and house type need to be popular – high rise flats are not popular). Members want more council homes but don't want affordable rents.
- The challenge was how to do it?

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Setting up Keelman Homes involved:

- Commissioning Trowers & Hamlins to look at the best way to do new build
- The recommendation was to set up a charitable subsidiary of Gateshead Housing Company
- Clear advantages were identified (mainly avoiding corporation tax on surpluses and getting an exemption on stamp duty) and few disadvantages
- New build would cost about £110,000 a unit. This could not be achieved through 'right to buy'
- The company was incorporated on 25th July 2009
- The sole member was Gateshead Housing Company
- There are seven board members (four independent, one from Gateshead Housing Company and two Gateshead Borough Councillors). The independent board members were recruited following an advertisement. There is an independent Chair – a previous Director of Housing.
- Charitable status was achieved on 16th December 2009

The strategy is for Keelman Homes to support Gateshead Borough Council's aspirations to increase affordable housing supply.

Gateshead Borough Council has mix of stock types including 25 tower blocks and some villages. Keelman Homes' achievements include the regeneration of Kibblesworth. There were non-traditional properties in the village. People wanted to stay. Two units were relocated to Beamish. Demolished units were replaced with new units. 94 were demolished. 150 new homes were built. 81 were for social rent. 54 were for private sales. It was a joint development with a private builder. There were seventeen shared ownership homes that were popular. There are a mix of types including bungalows and houses of up to five bedrooms. All were let straight away. There is good tenant satisfaction.

At the outset, the houses were not fit for purpose. Keelman Homes found out what tenants wanted. Previously all houses had three bedrooms. People have now moved into the village. There is more resident involvement than in the past. The school is involved as a way of involving parents and children. There are play areas and public art.

There are more efficient homes. The SAP rating is up from 36 to 91. CO2 emissions are down from 10.4 to 3.5 tonnes/pa. Energy used is down from 46,000kwh/year to 12,600kwh/year. Running costs are down from £2120 to £705.

Rents have been kept as social rents.

Kibblesworth is eligible for rural exemption from 'right to buy'

Land owned by council was transferred to Keelman Homes at nil value.

The Council is currently changing ownership of Keelman Homes for it to be an independent stand-alone organisation. They may set up a trading subsidiary. They wanted to access grants that were not available to the Council. The implications of changing ownership are:

- Giving Keelman Homes more control over development.
- Attracting private finance
- Assisting the Council in regeneration objectives and getting round the borrowing cap
- But there are concerns about the implications for 'right to buy'

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There was a need to change ownership from Gateshead Housing Company to board members. This was completed in early 2014. Cabinet, Gateshead Housing Company and Keelman Homes board all agreed). The same members are still on the board. The company is still a charity. Board members are insured.

Future strategy to build more homes, purchase empty properties and manage properties on behalf of other registered providers. There is a need to be aware of your position in the market place.

Developers with surplus grant approached the Council for sites in 2013. Gateshead Borough Council officers identified infill sites. About fifty units have been built – all affordable rent units.

There is not much difference between Keelman Homes and a normal registered provider that Gateshead Borough Council develops a close relationship with. But Gateshead Borough Council, Gateshead Housing Company and Keelman Homes are all seen as part of the same family.

Keelman Homes takes on sites where Gateshead Housing Company already does management so they are sites that other providers may not be interested in.

There is potential for Keelman Homes to develop its own strategy in its own interests but the set-up is designed to keep it in partnership with the Council. They are obliged to keep to agreed charitable objectives.

The current position is:

- Direct new build
- Kibblesworth complete
- Building in partnership with developers at present (Fifty homes offered for sale by 31st March 2015)
- Recent bid to Homes & Communities Agency for 2015/18 affordable housing programme for at least 100 homes.

It was asked whether this could this be criticised as anti-competitive as Keelman Homes is in effect a preferred partner that has received land from Gateshead Borough Council at no cost. However, these are difficult sites that may not have a commercial value.

Keelman Homes is purchasing and refurbishing existing properties. It has secured empty homes funding from Homes & Communities Agency – the plan is to buy at low cost and rent at affordable rents. There is a recent Homes & Communities Agency bid to do more. Keelman Homes is utilising its reserves to purchase properties from the market and other landlords.

Keelman Homes is managing properties for other landlords. Registered providers initially approached Keelman Homes. They have developed a successful model. They charge a reasonable fee. By March 2015 they will be managing over 200 properties. The staff who do the managing are from Gateshead Housing Company. They charge Keelman Homes a fee.

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It was suggested that Keelman Homes should think about not taking grant as it will have better ways of raising finance. This would keep them outside 'right to buy' and 'right to acquire' and other Homes & Communities Agency conditions.

Most local authorities want to set up companies so they can get some money into the general fund. This approach doesn't seem to achieve that.

Keelman Homes borrows at preferential rates from Gateshead Borough Council who can borrow from the Public Works Loans Board at low rates. This raises a potential issue if there is an increase in Public Works Loans Board rates in future. Keelman Homes has borrowed £4.5million to part-fund a £9million scheme.

Association of Retained Council Housing Update and Question & Answer session
Speaker: Paul Price, Corporate Director, Tendring District Council

The Association of Retained Council Housing has met with the Welsh stock holding local authorities to discuss self-financing.

Interests are starting to align with the Councils with ALMOs Group and the National Federation of ALMOs group. This is around:
- The housing & health agenda
- The debt cap
- Special purpose vehicles
- Tenant engagement
- Customer engagement and channel shift
- New build
- Welfare reform

It is planned to hold more regional events.

A member survey has been held in which members said:
- Clarity of purpose is required after self-financing. The original objective to abolish the subsidy system is achieved. It should now be about best practice, sharing & lobbying.
- Authorities with retained council housing are different to arms' length management organisations and registered providers. They are planning authorities and want to look at holistic services to customers.
- Image is important and there is a need to widen engagement.
- Communications were important
- There are lobbying priorities
- Member services need to be developed – blogs are no longer seen as appropriate.

The response will be to develop:
- A three year business plan
- Wider executive membership
- Chief officer conference arrangements
- Expanded contact list and ensure the right people are on it.
- Reviewed communication strategies
- Agreed lobbying priorities – it may not be productive to argue for an increase in the borrowing caps!

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- A joint manifesto with the National Federation of ALMOs to lobby government post-2015. Possibly the Councils with ALMOs Group will also be involved
- Events including a House of Commons reception Feb 2015
- Research
- Seminars
- Regional events – these are becoming less well attended.
- Engagement with additional resources.

It was suggested that the Association of Retained Council Housing should:

- Lobby for the borrowing limit to be increased by inflation.
- Look at the role that housing plays in the local authority and wider public service context.
- Want to strengthen resident engagement.

In Bournemouth, for example, housing associations are no longer building on a significant scale and new development is being done by the Council and the private sector. Housing associations appear to have higher new build costs than local authorities.

2020 Vision: The Council of Christmas Future
Speaker:Emma Maier, Editor Inside Housing & Neil Walkley, Chief Executive, Haringey Council

This presentation looked at:

- What might councils look like and do in 2020 and beyond?
- Within that vision, what is the role of local authority housing services as strategic enabler, social housing provider and, increasingly, community service provider?
- What is the local authority offer to central government and how should it be made?

Local authority housing budgets will inevitably decline.

A Joseph Rowntree Foundation survey has found that:

- Private rents will increase by 90% in real terms between 2008 and 2040 while income will increase by 40%
- Only 10% will live in social housing.
- Social rents will increase by 39%.
- The cost of Housing Benefit will increase by 125%.
- 1.3million more will live in poverty - up to 25% of population.
- House prices will increase by 57%.

Poverty levels could be contained if 175,000 social houses were to be built each year.

The link between social / affordable rents and market rents is dysfunctional. Rents should be linked to income.

80% of people want the government to focus more on housing but it will not be a strong election issue.

Adrian Waite
December 2014

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All You Want To Know About Local Authority Housing Finance 2015

March / November 2015

We are holding our 2015 series of 'All You Want to Know about Local Authority Housing Finance' from March to November. This series of seminars and workshops is designed to give an introduction and overview to this important subject and is fully up to date with all developments.

Flats in Enfield, London.

This seminar and workshop 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, 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 – especially when considering the financial opportunities and threats that exist for local authority housing!

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

We believe in quality rather than quantity and so numbers at each session are limited to twenty people to permit the maximum possible interaction and participation.

The session will answer the following questions:

- How does the Housing Revenue Account work?
- How does the Housing General Fund work?
- What are the Implications of Self-Financing?
- What are the Financial Opportunities and Threats for Local Authority Housing?

The session includes a participatory case study and 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 2015"

Venues and Dates:

London: Novotel Hotel, Waterloo – 10th March 2015.
North: Clough Manor Hotel, Oldham – 7th July 2015.
London: Novotel Hotel, Waterloo – 10th November 2015.

For further information please visit our website at http://www.awics.co.uk/lahfin15.asp or contact us at enquiries@awics.co.uk or 017683-52165.

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'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!

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