Alex Attwood MLA
Minister for Social Development
Lighthouse Building
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26 January 2011

Dear Minister,

Draft Budget for Social Housing Development April 2011 – March 2015

Introduction

The main purpose of this letter is to outline how the registered housing associations in Northern Ireland are prepared to think creatively and use their assets to “lever in” even more private finance to mitigate the social and economic impact of severely curtailed public expenditure.

This letter also follows up my preliminary response of 13 December 2010 by providing additional information about housing association reserves. Much has happened since I sent you that letter, namely:

- On 15 December the NI Executive issued its draft budget for consultation. As NIFHA understands the situation, the draft budget assumes that the DSD will generate approximately £100 million of capital receipts in each of the next four years. Of this anticipated flow of capital receipts, £20 million per annum is assumed to come from the reserves of registered housing associations.
- During a BBC interview later on 15 December the Finance Minister explained that these “capital receipts” would be obtained by reducing the grant paid on new housing association developments.
- On 12 January your Department issued its draft budget for consultation. It says the DSD is testing the Executive’s assumption “that £20 million per year can be released from housing association reserves to supplement the new build programme but the Department does not accept this figure.”

Reserves

The Federation notes your recognition that government has neither the legal power nor the moral right to extract reserves from charities such as the registered housing associations in Northern Ireland. These reserves protect existing and future tenants.

You clearly appreciate that housing associations need sufficient reserves to maintain their homes over their entire economic lives, meet the covenants on their private loans (which currently exceed £300 million) and safeguard the organisations against numerous other risks inherent in their everyday operations. The attached appendix summarises the purpose and nature of housing association reserves.

At your request, the Federation undertook research to ascertain if the housing association movement has reserves that are "free" in the sense that they are more than what is required for present and future commitments.

Having collated the replies from individual associations, NIFHA confirms that the total amount of "free" reserves is negligible but our members are determined to do their utmost to maintain the supply of new homes for those in need, sustain what remains of the construction industry and stimulate the wider economy.

<u>Constructively Addressing the Budget Shortfall</u>

The Federation is dismayed by the prospect that, unless the draft budget is radically changed, the Social Housing Development Programme will be decimated and the hopes of many families in housing need will be dashed. You are aware that housing stress levels are at a record but social housing does not appear to be receiving its fair share of the Executive budget. We believe an annual base figure no less than £120 million should be allocated for the social housing capital programme before adding any assumptions about reserves or capital receipts.

For the reasons outlined above, the assumption about housing association reserves is clearly inapplicable. The Federation also has serious concerns about the realism of the assumption that capital receipts of £25 - 27 million per year will be generated from the sale of NIHE land, house sales to NIHE tenants and "urban land sales". We trust you will seek guarantees that, should these assumed receipts fail to materialise, the Executive will provide replacement funding.

As we have repeatedly stressed to successive Ministers, social house-building cannot be switched on and off like an electric light – even a very quick housing development scheme takes several years from inception to completion so we need continuity of funding to achieve the maximum efficiency we are all seeking.

Despite this gloomy outlook, we believe additional social housing can be funded by associations leveraging their assets and marginally increasing their rents. It is not our intention to mirror the very big increases being envisaged in England but we strongly believe reliable annual increases of RPI plus half of one percent would provide a sound platform for attracting substantial additional private finance. We would welcome your support in this regard.

The housing association movement cannot fill the £80 million shortfall in the draft DSD budget but proposes a package of measures, worth an estimated £17 million to your Department's spending power, which should significantly mitigate the problem provided the specified conditions are satisfied.

The registered housing associations will also contribute another £14 million "in kind" over the four-year period. This is the estimated value of the voluntary contribution made by their 400 voluntary Board members. These willing volunteers carry full responsibility for the direction and control of their respective associations and if they were paid (at a rate similar to a typical District Council) the associations' reserves would be depleted by that huge sum.

The Federation believes every DSD-registered housing association should play its part in this four-year project but recognises that the circumstances of associations planning to develop homes with Housing Association Grant are significantly different from associations with no such plans. In addition to the "in kind" contribution of volunteer Board members, we estimate that the assistance from non-developing and developing associations, respectively, represents £2 million and £15 million over the budget period April 2011 – March 2015.

Factors outside the control of the voluntary housing movement (such as price levels and conditions in the financial and property markets) are likely to change over the budget period. NIFHA's members may therefore adjust the package of measures they adopt to deliver this housing association initiative.

<u>Developing Associations</u>

Our members are prepared to claim no more than 95% of the Housing Association Grant to which they would have been entitled if the schemes had been approved in the present financial year (2010/11).

<u>Non-Developing Associations</u>

NIFHA will ask these members to assist to the value of £2 million in ways that are appropriate to their particular circumstances such as:

- redeeming their DSD loans
- before 30 September 2011, transferring to the DSD any money in their Disposal Proceeds Funds they judge they will not be able to spend on qualifying housing activities within the two year limit set by the Housing Association Guide
- self-funding adaptations for disabled tenants (up to a maximum of £5,000 per adaptation), rather than claiming Housing Association Grant for the work
- indirectly assisting the Social Housing Development Programme by:
    - purchasing and temporarily holding sites suitable for social housing development, with a view to selling them for development by another housing association as soon as the DSD's capital budget permits
    - lending (after undertaking "due diligence" checks) to developing associations on terms that are beneficial to both parties

<u>Conditions Attaching to the Housing Association Initiative</u>

(a) The initiative taken by developing housing associations will apply only to projects approved between 1 April 2011 and 31 March 2015 or (if earlier) the date when the total amount of grant saved by this housing association initiative reaches £15 million

(b) Money from the Disposal Proceeds Funds of any registered association (developing or not) that is released to the DSD earlier than required by the Housing Association Guide will form part of this housing association initiative

(c) The DSD will urgently seek approval from the Department of Finance and Personnel for registered housing associations to redeem the public loans they took out before full implementation of the “mixed funding regime” in 1992

(d) If (c) is ruled out, the DSD will urgently explore the option of selling its portfolio of housing association loans

(e) The DSD will require the NIHE to conduct a more rigorous review of its land bank by the end of June 2011, with a view to transferring additional sites suitable for development by housing associations. The Minister should urge other Ministers to conduct similar reviews for this purpose.

(f) The grant budget for the Social Housing Development Programme (including supported accommodation under the “Bamford” budget heading) will be assured for those four financial years and will not drop below £120 million per annum

(g) The DSD will ensure that the Bamford budget line is re-profiled (to switch some funds from the first and second years to the third and fourth years) and that it can be used to develop supported housing for any of the client groups considered by the Bamford report

(h) The DSD will ensure that sufficient revenue from the Health and Social Care authorities is available to meet the care needs of residents of new supported housing projects

(i) The Minister will raise no objection to housing association rent increases that do not exceed the rate of inflation (as measured by the Retail Price Index) plus half of one percentage point

(j) The DSD will continue to use the established procedures and formulae to publish Total Cost Indicators, multipliers and grant rates each financial year

(k) Before April 2012 the DSD will amend secondary legislation to permit registered housing associations to build for outright sale (with a view to cross-subsidising social rented development when market conditions are suitable)

(l) The Social Development Minister will continue to press the Minister for the Environment to make such changes to planning policies and procedures as are necessary to introduce a system of developer contributions before 1 April 2012

(m) The Social Development Minister will use his/her best endeavours to ensure that the Northern Ireland Executive participates actively in the UK's submission to the European Commission's review of the European Procurement Directives

<u>Conclusion</u>

In these very testing times this housing association initiative demonstrates, yet again, that the Federation's members are prepared to "dig deep" to benefit the community in all parts of Northern Ireland.

Yours sincerely

Christopher Williamson
Chief Executive

APPENDIX

Housing Association Reserves

Housing associations hold reserves. Indeed, it is incumbent on all independent organisations to build up an adequate level of reserves to cover future financial obligations and deal with future uncertainties. This ensures that associations remain financially viable and are in a position to provide reliable services over the longer-term.

In looking at reserves, therefore, it is important for housing associations to determine whether the amount of reserves they are holding is sufficient to meet their future financial risks and obligations. Similarly, they should assess if any of their reserves are “free” in the sense that they exceed anticipated requirements.

NIFHA’s survey of its members confirms that the level of free reserves across the housing association movement is not significant. How then can this be reconciled to a reserves figure of more than £200 million on housing association balance sheets? This can be explained by a number of factors -:

1. Around 60% of all reserves have been set aside on the balance sheet as designated reserves to meet future major repairs and replacement works. The remainder are largely committed as follows-:

2. A portion of each association’s general reserves has been committed to meet capital funding shortfalls in housing already built and occupied.

3. Associations with a house-building programme need to set aside an element of reserves to cover development risks (such as a fall in the value of the land), unforeseen site problems (such as an underground stream), contract risks (such as the builder going into liquidation) and asset impairment.

4. Associations also have on-going operational risks and need to set aside an element of their reserves as a financial cushion against future uncertainties. For example, associations face a number of challenges on the revenue side arising from the current economic situation. The level of cover required is often expressed as an amount representing up to six months’ operating expenditure and follows generally accepted guidelines from organisations such as the Charity Commission in terms of financial prudence and responsibility.

5. Many associations are also subject to significant swings in pension deficits, which can reduce the level of reserves at a stroke.

6. Associations may be subject to other financial commitments such as re-structuring and regeneration plans

Another major factor is that housing associations have negotiated big loans from private financial institutions and these loans relieve the public purse of up to 40% of all social housing capital costs. At present, the perceived financial strength of associations gives them access to a reasonable supply of capital funding at competitive rates. There is a danger, however, that unplanned depletion of reserves would have an adverse effect on lenders, who might be concerned about the impact on financial viability and sustainability within the housing association movement.

What Can Associations Do?

Although reserves are fully committed, this does not mean that associations cannot do even more in relation to social housing development. The real challenge for associations is to find new and more effective ways of contributing to the Social Housing Development Programme by creativity, additional borrowing and further “sweating” of their assets.