Evidence

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Consultation: Committee for Social Development:
Draft N Ireland Budget for 2011-2015

Introduction
The Northern Ireland Federation of Housing Associations (NIFHA) represents 40 housing associations, including all 33 registered and regulated by the Department for Social Development (DSD).

Collectively, the registered housing associations provide 33,000 good quality, affordable homes for renting or equity sharing. They also develop over 1,500 new homes each year and, often working in partnership with more specialised voluntary organisations, provide housing support services for thousands of tenants.

Further information is available at www.nifha.org

Draft Budget Issued by the NI Executive on 15 December 2010

A. The development of more social housing not only meets pressing social needs but also is also exceptionally effective at creating employment for local people and stimulating the wider economy. The budget for social housing development should therefore be substantially increased.

B. Although the published paper is silent on this point, several sources have confirmed that press briefing by DFP officials shortly before the Budget announcement stated that the draft budget assumes a contribution of £20 million per year from the reserves of registered housing associations. The Federation considers this to be a very poor way of conducting public policy because:

   - The process was anything but transparent
   - It ignored the facts that government has neither the legal power nor the moral right to take reserves from independent charitable organisations
   - It misled elected representatives, the media and the general public by disguising a cut in the grant for social housing production.

C. The Federation hopes the attached paper will help all interested parties understand the purpose and nature of the reserves held by registered housing associations.

D. The misguided assumption about housing association reserves must be eliminated from the final version of the Budget and the NI Executive as a whole, not just the DSD, must share the cost of this serious error in the Executive's draft budget.

Draft Budget Issued by the DSD on 12 January 2011

1. The Federation welcomes the proposed continuation of funding for the Supporting People programme (whose purpose is to help vulnerable people live as independently as possible).

2. NIFHA also welcomes the capital and revenue budget lines marked "Bamford". Housing associations look forward to increasing the provision of community-based accommodation with housing support services that maximise the independence of the people living there. Some of the funding will need to be switched, however, from the first and second year to the third and fourth because it will take some time to bring forward the additional projects.

3. Although the capital budget is grossly inadequate to deliver the number of general-purpose homes required to meet need, the housing associations are determined to think creatively and "sweat their assets" even more vigorously to mitigate the social and economic impact of severely curtailed public expenditure.

4. The estimated value of this housing association initiative is £31 million over the four years. It comprises:

   - £14 million – the "in kind" contribution of expertise willingly donated by 400 voluntary Board members
   - £15 million – the capital grant saved because associations have offered to develop schemes with only 95% of the grant to which they would have been entitled if the schemes had been approved in 2010/11
   - £2 million in efficiencies and grant savings achieved by housing associations with no housing development plans.

5. The success of this impressive housing association initiative will depend on a number of conditions, of which the most important are:

   - continuity of the capital grant budget over the four years
   - modest but steady annual rent increases no less than the rate of inflation (as measured by the Retail Price Index) plus half of one percentage point

Submitted on behalf of NIFHA by:

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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 insignificant. 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.