ctBRIEF
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Matthew Bailes Homes and Communities Agency
Your sector needs you

"Occasionally I get asked why I do this job. The story goes something like this. There's less grant, welfare cuts, a much more complex funding market and a sector that is responding to all of the above by doing new, complex and varied things. Against that backdrop, the regulator needs to retain a grip on governance and viability and do so within the constraints which come with working in the public sector while the government addresses a structural economic deficit. Is it really a 'doable' role?

The answer is always yes, but of course it is not easy. We need to change to keep pace. And change is never straightforward, even in the most benign environment.

But we are on track. For a start, we are very clear about what we are here for. Sounds like a 'no-brainer', but I've been around long enough to have seen plenty of examples of organisations that really weren't sure. We protect social housing assets and we are aligning our business with that objective.

We've made a good start, but the next few months are really important to us. We need to achieve four things. First, we need to complete the job we have started to revise the regulatory framework - a pre-requisite for giving us the teeth we will need to spot and deal with providers that are off-track.

Second, we are finishing off our planning for a major financial failure and starting work to review our insolvency powers. Having lived through the Cosmopolitan saga, I am certain that robust preparations are absolutely essential. I am also 100% behind the recommendation in the 'lessons learned' report to look again at the statute.

"And I am pretty clear that we will be tougher on those organisations that are not up to the mark, and less tolerant of those that don't provide the assurance we need."

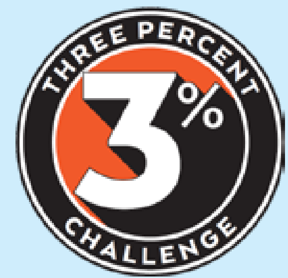
Third, we need to revise our operational strategy, factoring in the two things above. We know we will be probing the more complex and risky businesses more deeply, including by using the stress-testing required in the new framework. This might mean seeing other providers less frequently, but when we do, making sure we lift up the bonnet and have a good look. And I am pretty clear that we will be tougher on those organisations that are not up to the mark and less tolerant of those that don't provide the assurance we need.

Last, but definitely not least, we have some really important appointments to make. Last year we changed our structure so we now have three times the senior staff we did and, more importantly, clear accountability right across the business. The HCA is backing us to take this further, reinforcing our capacity with additional senior financial and governance skills. So alongside the investment we are making in existing staff, there is a chance to bring in some new people. We want people who can get to the heart of issues quickly, spot weaknesses where they exist, and have the confidence and grip to make the right judgements.

Continued on page 2

THIS ISSUE

'Promoting debate, sharing best practice'



The 3% Challenge 02-05
'What do other stakeholders think of it?'
'Can ALMOs meet the 3% challenge?'
and more...

Also inside
Fixing the Good Governance Code 06
Managing the risks of diversification 07
What it means to be 'commercial' 08
A message to politicians (build more homes) 08
and more...

Annual Conference 2014 and Social Housing Exhibition IDEAS • INSPIRATION • INNOVATION 17-19 September 2014, ICC, Birmingham

Attending the Social Housing Exhibition 17-19 September? Join us at **STAND 21**

Edited by James Gahagan & Stuart Macdonald

Continued from front page

This won't be an easy ride, so anyone wanting a stress free life should look elsewhere. But those of you that like a challenge might be interested. We are regulating a sector in transition, in a market that is increasingly in the public spotlight. Working here provides a great insight into the wide range of business models across the sector. You also get an insight into what 'good' looks like and, sometimes, how businesses go wrong.

That's why I work here. I think there is a great opportunity for bright people to come here, make an impact and learn a lot. There will be new opportunities to do so soon.

Matthew Bailes is director of regulation at the Homes and Communities Agency.

Lydia Stockdale Freelance journalist
ALMOs and building new homes

"It's good to challenge yourself every now and again. When Campbell Tickell and Grahame Hindes, chief executive of Octavia Housing, launched 'The 3% Challenge' the aim was to help housing providers focus on making a real and conscious difference to communities by committing to a 3% annual increase in housing supply.

The 3% Challenge - 'What do other stakeholders think of it?'

Registered providers in England own 2.3 million social housing units. If they could reach a compound annual growth rate of 3%, it would mean 800,000 extra homes would be added to the country's housing stock over the next 10 years.

Octavia, L&Q, Riverside, Curo, Ducane, Circle, Derwent Living, Family Mosaic, Halton Housing Trust and many other housing associations are supporting the campaign, but what do other stakeholders think of it?

We asked a lender, politician, tenants and representatives from a local authority and arm's-length management organisation what the 3% challenge means to them. This is what they had to say:

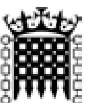
Clive Barnett
Managing Director and Head of Housing Finance, The Royal Bank of Scotland

'I think the campaign - if one doesn't take the 3% literally, as some can do more than this - has its message in exactly the right place. From my perspective, I see great opportunities for all housing providers to focus on the art of the possible and seek to add to the fabric of the housing stock in the UK.

'With interest rates so low and access to private finance so readily available – including support from RBS, which we are most keen to provide – then more should be looking at the art of the possible, rather than leaving to others to increase the supply of housing stock.'

'The 3% Challenge is a worthwhile challenge to all of us.'

Emma Reynolds MP
Shadow Housing Minister and Labour MP for Wolverhampton North East



'The housing shortage is affecting people across the country. For many people, owning their own home is becoming more difficult, renting privately is increasingly more expensive and there is a severe shortage of social homes.

'Labour has committed to increasing housebuilding to at least 200,000 homes a year by 2020. To achieve our goal, large developers, small builders, housing associations and local authorities will all need to be play their part in getting the homes we need built.

'That's why I welcome this campaign to get housing providers building more homes year-on-year.'

Continued on page 3

campbelltickell.com/3percent **@campbelltickell1 #3percentchallenge**

Continued from page 2 - ALMOs and building new homes

Keith Clancy

Tenant board member, Family Mosaic and board member, Tenant Participation Advisory Service

"Housing is a very long-term game and needs people of real courage to be honest about the maths that a realistic housing policy costs. 3% is far below what housing associations could achieve if everyone involved agreed to work together and be intelligent about the maths.

'The government is pushing up housing association rents in order to build more properties, which leads to a hopelessly inefficient system of housing benefit top-ups.

'Building housing for market sale to cross subsidise building more low rent houses is an option, but it means is that housing associations are always looking for house prices to rise.

'If you were to ask a mathematician what, in the long-term, is the most financially sensible housing policy, they would tell you it is subsidy at the supply end. Unfortunately, though, politicians are not prepared to look 20 or 30 years into the future.'

I support The 3% Challenge, but not at the rent payers' expense."

Michael Gelling

Chair, Tenants' and Residents' Organisations of England

'I support The 3% Challenge, but not at the rent payers' expense. We've just done a survey of tenants and what it tells us that what tenants want is a decent home to live in and for repairs and maintenance to be done well.

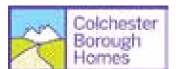
'We had 4,000 responses, nearly 40% of which said that landlords are not doing repairs properly. My rent shouldn't subsidise building if my landlord can't provide the services it should be delivering.

'But if their landlord is doing a good job, I think that tenants would be behind The 3% Challenge, so that their children and grandchildren have the option to live in rented housing.

'I'd rather large housing associations spend their surpluses on building homes than all of the other things they do, such as getting people into work and building football stadiums.'

Greg Falvey

Chief Executive, Colchester Borough Homes



'The 3% Challenge is a great campaign as it sets a useful benchmark by which organisations can challenge themselves to make a judgement, within the context of constraints particular to themselves, about whether they can aspire to or exceed the target.

'At CBH we are on site assisting our local authority with building 34 new homes this year – the first of what we hope will be a rolling programme. This is a far cry from a 3% increase, but our contribution goes toward the ALMO sector's development of 2,000 new units to date, with a further 3,000 units scheduled for development over the next five years.

'We are lobbying alongside the National Federation of ALMOs for the lifting of the borrowing cap on local authorities. The NFA has said that, if councils and ALMOs were able to make best use of their assets, a further £7 billion could be raised to build 60,000 homes over five years

Paul Ellis

Cabinet member for housing, Wandsworth Council and Chair of the Association of Retained Council Housing

"Wandsworth Council welcomes and supports The 3% Challenge. We encourage all housing providers to step up to this challenge where they have the capacity and resources to do so. We particularly encourage housing providers to undertake asset reviews of their land and stock holdings where we believe considerable 'hidden' opportunities lie.

'The 3% Challenge should not just be constrained to the development of social housing. Most housing providers now develop mixed-tenure schemes in order to provide financial resources to support affordable housing in an environment of declining public subsidy and also to address a range of housing needs.

'Wandsworth Council's commitment to the delivery of new housing in one of London's highest land-value boroughs is demonstrated by its proposal to increase its housing targets by 58%,

from 1,145 new homes per year to 1,812 per year over the period 2015/16 to 2029/30.

'We encourage other housing providers to follow us by stepping up to the challenge.'

Grahame Hindes Chief Executive, Octavia Housing

Achieving 3% growth - a second bite...

"The principle of a benchmark development rate of 3% additional social and affordable housing each year from each provider has a growing number of supporters. It is a hard target for many housing associations and very few local authorities (if any?) achieve it. But there is seemingly no one that does not support the view that asset bases of all sizes should be stretched where possible with long-term steady growth from all.

The precise number of what should be achieved, has been the source of some debate but in truth is not the key point. What really matters is simply an agreed consensus on the need for a standard of expected growth and then the development of systems and policies to support it.

That said, in this debate, the latest regulation proposals from the Homes and Communities Agency are unhelpful.

Laudable as it might be never to lose a social housing unit as a result of poor decision-making, this is a standard that has potentially far-reaching consequences.

As a sector we have been making such disposals for years. Indeed it was the weapon of choice for consultants (and indeed some who have since become regulators) advising on restructures. And so be it. It would be hard to argue that developing 100 extra units accompanied by the loss of half a dozen was a bad deal for the public sector.But this is a step beyond what we are currently considering. Rather the draft regulatory guidance puts above all else the need to 'protect social housing assets'. An ambition with a price, in terms of the options foregone.

"What really matters is simply an agreed consensus on the need for a standard of expected growth"

The easiest way of eliminating problems linked with expansion is to do nothing. And if the price for failure is always to be public humiliation for those that try, then this too is a disincentive. Absolute risk aversion would make the role of regulator easier, but fails a test of best value in terms of asset use. Better to concentrate on protecting individual tenants and promoting the full and active use of assets.

Which brings me back again to my original point. The focus for governance should not be confined to the dangers of losing social units, but on how we collectively operate to expand the stock over the long term, whilst protecting residents. That way the regulatory arm of the HCA can work in concert, rather than pull against, the development arm.

Chloe Fletcher Policy Director, National Federation of ALMOs

Can ALMOs meet the 3% challenge?

"I think most ALMOs would jump at the chance to try to meet The 3% Challenge set down by Grahame Hindes from Octavia Housing that social housing providers should commit to increasing their housing stock by 3% a year. But under the present financial limitations set down by government they will struggle to provide that amount over the next 10 years!

We have been lobbying for government to allow councils to invest their future rents to build thousands more council homes across the country. We think, conservatively, that English councils could build at least an extra 60,000 homes over the next 5 years (which is adding about 4% to the total council stock of 1.68 million homes in that time) if the government lifted the current debt caps on council borrowing and allowed them to properly plan their investment.

"I think ALMOs would rise to The 3% Challenge, but in the meantime they are doing what they can."

ALMOs currently manage 552,182 council homes and 558 ALMO homes, a total of 552,740 homes and so to increase that by 3% we would need to be building 16,500 homes per year – a long way from our current levels of just under 600 homes but rising.

To give ALMOs their due, they have not been building homes until very recently and from a standing start they have done very well indeed, building over 2,000 new homes to date. Last year 10 of our members built 450 new homes and 14 ALMOs acquired an additional 131 homes, many of which were empty properties, totalling 581 new affordable homes for councils with ALMOs.

As the new self-financing system for local authorities beds down and councils and ALMOs work together to develop sustainable business plans, the number of ALMOs planning to build is set to increase threefold this year. 36 ALMOs have plans to build for the council or the ALMO in the current year and 21 ALMOs have plans to acquire more properties.

Although ALMOs are not the volume builders of the social housing world, they add a lot of additional social value to their building programmes by building on land in which no other developer is interested - land that is deemed to have little or no value and often costs local authorities money to maintain and manage. They have made use of under-utilised public assets and helped to improve areas that were often used for fly-tipping or anti-social behaviour.

In time and under a long-term framework to support the building of new council and ALMO homes, I think ALMOs would rise to The 3% Challenge, but in the meantime they are doing what they can.

Calum Mercer Director, Million Homes, Million Lives

The housing finance challenge

"The 3% Challenge asks housing associations to increase the supply of new homes by 3% a year. Our work at Million Homes, Million Lives could be called the Housing Finance Challenge: will you finance those extra homes without simply charging current tenants excess rents?

Most housing associations have increased rents at the maximum allowed year after year. In recent weeks there has been strong response from the sector that it is 'necessary' to charge excess rents in order to build more social homes. Our work at Million Homes, Million Lives demonstrates that it is not the case. Housing is self-financing over its lifetime and housing investment produces sensible returns to investors by setting reasonable, not excessive, rent. In any event, the sector isn't even using these excess profits to invest just in social housing: £2.4 billion has been spent on commercial activities which deliver lower profit margins than social housing. The equivalent expenditure would have produced 18,500 extra social homes.

"We have developed a Million Homes Toolkit which harnesses investment to provide more of the homes people need and want across all tenures."

In March we published Nation Rent, which sets out an alternative self-financing model. We have developed a Million Homes Toolkit which harnesses investment to provide more of the homes people need and want across all tenures. This approach would allow housing associations of all sizes to manage properties and support people and communities, without stretching their own financial capacity or that of their tenants.

Financial capacity of tenants is being stretched more than it needs to be under the current model: our work shows that rent increases on social tenants over recent years may be equivalent to £500 excess rent. Consumer group Which? puts the above inflation cost to social tenants at an extra £450 a year.

In our report, A Better Deal for Nation Rent, published in August, we set out a social impact tool to help boards balance social value and financial value. The three pillars are: Business Value, Housing Value and Housing Social Value. Business Value is the value to the national economy and to the local economy. Housing Value is the value to residents, such as affordability, financial stability, quality of life and wellbeing. Housing Social Value is the value to the residential family unit as a whole, including education and training, money management, care and support, work and volunteering.

By thinking about where we raise money from and by working together differently we can make a bigger positive impact on homes and on lives.

Million Homes, Million Lives downloads:
www.millionhomes.org/downloads/nation-rent.pdf
www.millionhomes.org/downloads/a-better-deal-for-nation-rent.pdf

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Radojka Miljevic Senior Consultant, Campbell Tickell
Rosie Chapman Senior Associate Consultant, Campbell Tickell

The code is cracking – let's fix it

"When the Good Governance Code was introduced in 2005, it set a benchmark for what good governance should look like for charities, voluntary and community organisations. It was intended that it should apply to all voluntary and community organisations.

Almost a decade on, in our view, the current code no longer provides sufficient rigour to assure large or complex charities' funders, commissioners, beneficiaries and other key stakeholders, or assist those charities in direct competition with private and public sector peers.

It's time to update and sharpen the code to reflect the realities of the demanding environment in which charities are working. We suggest the following steps:

Appropriate actions

The need to place greater emphasis upon board behaviours, team dynamics and for boards to be actively involved in discussions around how to get the best out of them resonates across all sectors. Dipping in and out of an organisation through formal board meetings alone is unlikely to create the conditions for high-quality thought.

Outward-looking board

The current code of governance has a strong focus on the fiduciary or stewardship aspects of governance, inviting the danger that boards see their role reactively, diligently understanding scrutiny as effective challenge. An updated code should emphasise a board's outward-looking role so it engages in deeper enquiry and reflection, working collaboratively with executive staff.

'An updated code should emphasise a board's outward-looking role so it engages in deeper enquiry and reflection, working collaboratively with executive staff.'

Risk and accountability

The new and complex relationships of some charities as primary or sub-contractors are reshaping their risks, accountabilities and management of their trustees' conflicts of interest. 'Outcomes-focused' agendas involve charities undertaking work at risk, sometimes pouring in resources with uncertain rewards. Boards need to scrutinise new ventures for opportunities and risks more thoroughly and engage in regular stress-testing. They should also take the following steps on transparency: public reporting of targets and performance; clear structures of horizontal accountability (routes for beneficiaries and other stakeholders to hold the organisation to account); and a predisposition to disclose information rather than withhold it.

Board membership

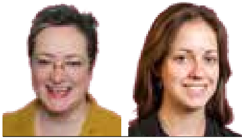
Unlike codes elsewhere, the Good Governance Code offers no guidance on good practice norms for the size of a board and length of board membership. This should change as, in our experience, these indicators can help boards perform better. Also, setting some expectations can still embrace a 'comply or explain' approach

Reflect diversity

A specific aspiration in an updated code could help maintain charities' solid focus on diversity (35% of trustee places are held by women in the top 100 charities). As good practice, boards could also disclose their policy and the effectiveness of this on boardroom diversity.

Social responsibility

A new code might expect an effective board to be transparent (like their corporate equivalents) in reporting on how wider corporate responsibilities are discharged. Despite a history of embracing environmental and sustainability policies, few charities talk about their ethics, their role in the marketplace and as employers.



Sue Harvey Assistant Director, Campbell Tickell
Alice Smith Researcher, Campbell Tickell

Brave new world: Managing the risks of diversification

"Housing associations operating in a low-grant environment are diversifying their activities to cross-subsidise core business. But high returns come with risks. In the past, associations had a self-righting mechanism - if one became financially distressed, it could simply stop developing and the position would improve. But for those relying on cross-subsidy from sales, this no longer holds true.

Looking back at cases of financial distress, common themes emerge. The warning signs tend to be similar: poor governance, shiny new offices and messianic visions. Root causes often include failing to understand the economics of a key business area and failing to see the risk portfolio as a whole. Another danger is that associations going into commercial areas to obtain subsidies for development overlook the fact that these new businesses will need significant capital in order to grow to a viable size - even if they are very successful, they may not be cash positive for a considerable time.

To make it work, housing associations need to understand the risks of the for-profit world, where the stakes are high and counterparties not always nice. Associations' basic risk asymmetry puts them at a disadvantage in the for-profit world, as they cannot be cavalier with investments from the charitable side. Here are some tips on how social landlords can approach diversification.

1. Be clear about why

Associations need to be very clear about why they are planning to diversify – is it to cross-subsidise the core business? What is the risk/reward trade-off? A charity trustee's duty of prudence is greater than that of a for-profit company director and this will affect the organisation's risk appetite. Equally, associations need to be clear about the 'why not?', ensuring that that they are not using social housing assets to subsidise for-profit adventures.

> **"housing associations need to understand the risks of the for-profit world"**

2. Model the risks

It is crucial to fully understand the field of any new business activities: the market, trends, drivers of income and costs, the working capital necessary, appropriate expectations of returns and what could go wrong. New risks must be modelled and stress-tested. Associations should not assume market-average returns, at least in the early stages, as new activities often need to reach scale before they deliver returns.

3. Beware complexity

Housing associations must take care that on-lending is within permitted limits and that an appropriate return is generated. On-lending from the parent to a for-profit subsidiary should not be at the marginal cost of capital but should be priced commercially to reflect risk. Beware off balance sheet arrangements, since the governance structures needed to achieve ring-fencing can be very complex and if they fail (see the experience of Cosmopolitan Housing Group) any liabilities will fall back on the core business.

4. Have an exit strategy

The diversification plan should always have an exit strategy, for which the costs are understood. For example, is the cash available to support the transfer of units developed for sale to market rent?

5. Really understand the contracts

For associations providing services under contract, it is necessary to understand and model the contracts in detail, especially any uncapped liabilities, escalation clauses, claw-back arrangements and performance related payment.

6. Insist on excellent governance

Good governance is essential for minimising strategic risks. Past cases of financial distress may have had different symptoms, but the underlying cause almost always comes down to poor governance. Board renewal can provide fresh thinking and help to identify the emperor's new clothes. It may be necessary for existing board members to step down to allow the recruitment of members with the appropriate expertise, however any new board members from a commercial background must have a strong induction to understand the mission of the overall business.

CAPTION COMPETITION

This photo was taken at the Great British Beer Festival - starring our friends **Howard Webb**, Director, Treasury Solutions, Capita Asset Services (Left) and **Austen Reid**, Head of New Business, Catalyst Housing (Right).

Send us your best captions to jamesg@campbelltickell.com or tweet them to @campbelltickell1 before 26 September '14 for a chance to win a mystery prize!

Greg Campbell Director, Campbell Tickell

Being Commercial - What does it mean?

"Commercial - it's the buzzword for housing and other not-for-profit providers. Everybody wants to be commercial. Everybody wants commercial skills on their boards and executive teams.

Why do people want commercial? It's understandable: less grant; contracts increasingly procured on lowest price (regardless of what's claimed to be the quality/price split for tender evaluation); and traditional income streams under pressure. Plus the risks of failure are greater and the safety net has larger holes. And for good measure private sector competition is now established for grant, in registered provider status and as competitors for contracts.

People who understand how to build, sustain and grow a business in such an environment are very much needed.

In seeking commercial skills though, how many know what 'commercial' means? And where should they go to find this magic bullet?

I see different routes for people to develop commercial skills. It's perfectly possible, for instance, that somebody with a track record in a non-profit where they've been bidding for care and support contracts, may have a more commercial grasp than somebody who's worked in an accountancy role for a 'Big Four' firm. The point is to be clear on the skills you seek and to recognise that commercial expertise may have been acquired in different ways.

> **"...where should they go to find this magic bullet?"**

What about the balance between on the one hand commercial expertise of different kinds, and on the other, people familiar with the business and regulatory environment, the organisational ethos and the services it is there to deliver?

One high-profile housing provider some years ago reached a point where it had no members of its executive team with housing sector experience and no members of its board either. I believe this represents an unacceptable level of risk. Some organisations we've seen get into trouble have fallen over because their boards simply didn't understand the problems they were getting into, and didn't recognise deficiencies on the part of key executives.

One housing CEO I know believes that his organisation should have a wholly commercial non-exec board. His argument is that people with housing sector experience are not needed because he and his exec team already have those skills. I disagree: I believe it's crucial for a board to be able to understand the business in sufficient depth to provide constructive challenge to "Trust me: I'm a housing professional".

In my experience, the best-balanced boards have a mix of skills and experience, in order to understand between them the sector environment, the regulation, the business operations, the finances, the risks, the potential paths to growth and the range of strategies that might be considered in different circumstances. Moreover this has to be balanced with a comprehensive approach to risk management and business assurance - reported to the board (and not just the audit committee) - which recognises the potential problems and challenges the organisation could face, and is clear how business assurance is provided in each area.

Penny Young Chief Executive, NatCen Social Research

A message to politicians: it is time to talk seriously about building more homes.

"With just nine months of election campaigning to go, now is the time for our leaders to engage in talking about building new homes. As our research shows, the tough housing market is changing attitudes and the public are increasingly receptive to the idea.

Rising prices and poor supply mean that it's become much harder for young people to buy in many areas of the country. This translates to a staggering increase in just four years in the number of 16-35 year olds renting privately - up 14 points from 31% in 2008-9 to 45% in 2012-13. And pretty much everyone (82%) agrees that there is a shortage of affordable homes in England.

Politicians trying to solve the housing crisis have traditionally worried about voters opposing the building of new homes, particularly within their local area. But this is now less risky, electorally speaking, than in the past. In our British Social Attitudes survey, we ask people how they feel about new homes being built in their own local area. Our most recent wave of data shows almost half (47%) to be positive about local building in 2013, up from only 28% in 2010. Opposition fell from 46% to 31% in the same period - a dramatic change in just three years.

Not surprisingly, home owners are more resistant than renters. But what interested us is that the age group whose attitudes have changed the most is not the youngest group, it is actually those aged 65 and over, many of whom will be home owners, where overall opposition has fallen from 52% in 2010 to 30% in 2013. One credible explanation for this is that these are the parents of the so-called 'Generation Rent', who other research suggests are paying as much as £2 billion a year to help their children get on the property ladder. So concern about their own families may have replaced concern about any impact on their local area of new housing.

It's not all plain sailing, in that not everyone is convinced that building more houses will totally solve the problem of affordability: 40% agreed that building more homes would improve affordability of housing in their local area, but 34% disagreed. Nor is there (quite) yet a clear majority in favour of building more local homes. So our research has shown a real shift, but not yet a consensus.Even so, 2015 presents a real opportunity. The burden of Generation Rent is starting to change attitudes. The message to politicians is that building more homes will appeal both to the young and the old.

Filling the important roles

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Penny Pilzer Pension Policy Consultant

Managing pension debt in a "last man standing" scheme

"One of the thorniest issues confronting registered providers of social housing today is what to do about pension debts when they participate in a 'last man standing' scheme.

A LMS scheme is a multi-employer pension scheme in which employers share the risks and costs of providing pensions to their employees. The Social Housing Pension Scheme, used by most English housing associations, is an example of such a scheme.

Properly managed, spreading risks of providing pensions across a larger population benefits all of the participants. For example, in an LMS scheme, longevity risk (the risk that a particular member will live longer than expected and therefore be expensive) can be shared and investments pooled so that they can be better diversified. However, the participating employers also take a risk that the other employers will not be able to pay their share. When an employer can no longer pay, the others must fund the pensions for that employer's employees.

Employers' choices in these schemes have been more dramatic since 2005, when scheme funding requirements were tightened and the government introduced special rules for LMS schemes. These rules are intended to reduce the risks associated with being the last man standing. They do reduce some of these risks, but the way they work can mean that big expenses arise that were not anticipated when the employer joined the scheme.

> **"Under the updated rules a large debt to the scheme arises when an employer no longer has an active member in the scheme."**

Under the updated rules a large debt to the scheme arises when an employer no longer has an active member in the scheme, even if the employer could continue to pay its contributions due for past service. This debt, called a 'section 75' debt, is based on the cost of buying annuities from an insurer for all of the members of the scheme the employer has employed, along with a proportion of members that can't be allocated to any employer (called the 'orphan debt'). Orphan debt can arise where an employer left before the rules requiring payment on exit were in place, or where records are not available to show which employer the members worked for.

The simplest thing to do as an employer and member of a LMS scheme is to pay a debt of this nature if it arises. Once it has been paid, there will be no further exposure to any of the risks of the scheme.

But this is easier said than done. The section 75 debt will be a good deal higher than the amount needed to pay benefits from the scheme . If your organisation has been struggling to pay its past service contributions, it would have even more trouble paying the section 75 debt.

There are ways to spread or decrease the payment required. The scheme's trustees may be willing to accept an extended payment plan and there are provisions under the rules for apportioning some of the section 75 debt to other employers (with their consent) or to a guarantor. Some employers transfer their members from the LMS scheme to a new scheme. However, all of these arrangements are highly regulated and can be expensive to put in place.

The least expensive short-term solution is to prevent the debt from arising by continuing to employ an active member of the scheme, even though this means higher liabilities in the long run due to members continuing to accrue benefits in the scheme. In the meantime, you will want to devote resources to monitoring the funding level of the scheme, the debt attributable to your organisation (which will fluctuate with investment returns, interest rates, etc) and the way that the departure of other employers is being managed. The stakes are high.

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James Tickell Director, Campbell Tickell

The Peasant's Revolt gets under way?

A version of this article first appeared in 24housing magazine (June 2014)

"Things must be getting better. A flat in central London has recently been sold for a stonking £140 million - a record price by all accounts. Given today's grant levels, £140 million would be enough subsidy for as many as 10,000 new 'affordable' properties. Three each for every delegate, exhibitor and visitor to the National Housing Federation's annual conference in Birmingham, with quite a few to spare.

This skewed distribution of wealth plays out in a myriad other ways. The income multiplier between a frontline worker and a corporate chief executive can be 1,000 or more. A generation ago, the comparable figure was nearer to 100. In even the largest housing association, incidentally, the multiplier would be well below 30. Let's not confuse our targets here – this is about the ultra-rich, not about the merely well-off.

Anyway - the gains of 'recovery' following the 2008 financial crisis have accrued almost exclusively to the top 1% of earners, with the lion's share going to an even smaller fraction of those. Of the other 99%, the great majority have actually seen real incomes drop. The 85 richest people in the world – a single bus load, or more likely 85 Learjet loads - have more wealth than the planet's three billion poorest combined, who live on around £2 a day for a family. In the UK, the rise of the zero-hours contract, minimum wage job seems a continuing trend for now – little short of being a new form of economic enslavement.

Overall, these are jaw-dropping statistics and, in the last few months, inequality has at last risen up the political and media agenda. Some excellent recent reports and learned tomes set out the trends and issues. Just google names such as Piketty and Stiglitz, or surf the excellent Oxfam and Joseph Rowntree Foundation websites.

The core issue here is a pragmatic one. Never mind social justice, values and fine words. The unavoidable future problem is that very unequal societies are inherently unstable, destructive and dispiriting. A society where those who work in fast food restaurants can't afford to buy the very burgers they flip is simply not sustainable for long.

Henry Ford understood very well that he needed the workers in his plants to be able to buy the Model-Ts they were producing, and paid them several times the going rate to achieve this. Fairly self-evidently, consumerism needs consumers. Although even the ultra-wealthy can't insulate themselves forever against social instability, the enlightened self-interest of 1920s Fordism seems to be in short supply right now. A fully equal society could never be achieved of course, but even a somewhat less unequal society would have a better chance of seeing through the 21st century without major mishap.

> **"The 85 richest people in the world have more wealth than the planet's three billion poorest combined"**

So how does all this play into the NHF's 2014 conference? Well, for a start, tenants in social housing are very much at the sharp of end of inequality, with benefit reform, rising energy and transport costs and the squeeze on low salaries. At the same time, austerity measures are restricting their access to social services and leisure facilities. Frontline staff salaries and lifestyles are also under pressure, most notably in care and support, as the 'contract culture' demands ever-higher productivity to allow for lower profit margins.

Also, we all know that without decent affordable housing, it becomes impossibly hard for most people to escape from poverty and deprivation. If current trends towards inequality are to be halted, and even reversed, social landlords must have a major part to play in the fight back. It's about housing, neighbourhoods, civil society, life chances and more. I doubt that the NHF's event next week will feel quite like the start of a new Peasants' Revolt. But would it really be so revolutionary to demand enlightened self-interest from those who already have so much?

THEDIARY

NHF Annual Conference and Social Housing Exhibition 2014

17-19th September 2014
Birmingham

The Annual Conference and Social Exhibition 2014 is a platform for great ideas. It will be a conference which will look at the future and the way that we think, work, live and operate.

Visit our stand '21'

www.annual.housing.org.uk

CIH East Region Conference

11th November 2014
Stansted

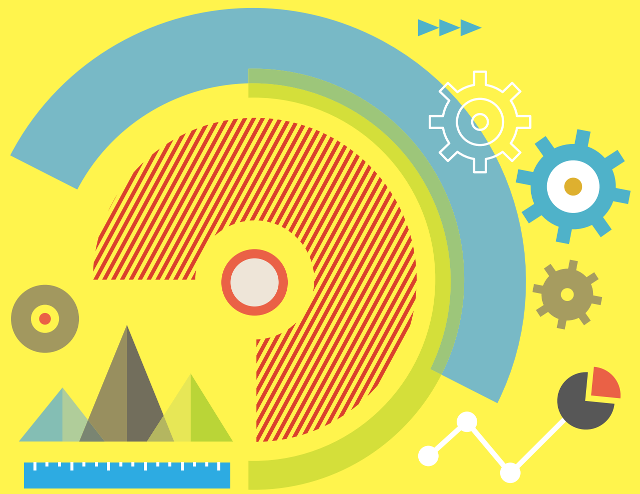
Campbell Tickell Director, Greg Campbell will be speaking on Risk & Business Assurance with Elspeth Mackenzie CEO of Thrive Homes.
www.cih.org

Social Housing Magazine Annual Conference

13th November 2014
London

Campbell Tickell Director, Greg Campbell will be speaking at a session titled 'Ensuring your Board is fit for purpose'
www.socialhousing.co.uk

BUSINESS ASSURANCE HOW GOOD ARE YOU?



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- Producing a straightforward service evaluation;
- Recommending improvements.

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