

## **Briefing Paper**

### **REGISTERED SOCIAL LANDLORDS AND THEIR FINANCIAL RELATIONSHIP WITH LOCAL AUTHORITIES**

**Adrian Waite – July 2004**

#### **Registered Social Landlords**

Registered Social Landlords, otherwise known as Housing Associations, are providers of Social Housing for rent. A significant number of properties have been transferred to Registered Social Landlords under Large Scale Voluntary Transfer – this is considered in more detail in Section 14. It is expected that by 2007 half of all social housing will be in the Registered Social Landlord sector.

To be accepted as a Registered Social Landlord, organisations must satisfy a number of conditions and provide the Housing Corporation with ongoing information relating to these areas and to financial and management performance. The conditions are:

- Non-distribution of surpluses, which are retained by the organisation to be applied to social housing purposes.
- Setting of rents that are affordable to people in low paid employment.
- High standards of housing, business and financial management.
- A minimum of seven shareholders. Each member of the Board of Management, that typically has fifteen members must be a shareholder, and must be elected at the Annual General Meeting usually for a term of two years.
- Board membership must be voluntary, and non-executive Directors must not be remunerated.
- Independence from other organisations, including a limit of 20% on local authority ownership or representation on Boards of Management.
- A right for the Housing Corporation to replace Board members or transfer functions where it appears that management is unsatisfactory.

Best Value applies to Registered Social Landlords in a similar way to local authorities. Performance Indicators and Standards are emphasised as part of Best Value. They also:

- Introduced a common core framework for Best Value Performance Indicators between the Local Authority and Registered Social Landlord sectors.
- Reviewed existing Performance Indicators to ensure that they are relevant and useful to the Best value framework.
- Extended the Performance Indicator framework to other areas.

## Sources of Finance

Registered Social Landlords have four principal sources of finance:

- Rents and other revenue income
- Loans from the private financial sector
- Grants from central government via the Housing Corporation
- Local Authority Social Housing Grant

Rents and other income is raised as part of the normal activity of the Registered Social Landlord as a landlord.

A Registered Social Landlord can also borrow money from the private financial sector. This borrowing does not count against the government's 'Public Sector Borrowing Requirement' and so is not controlled in the same way as local authority borrowing.

Associations can also apply for grants direct from the Housing Corporation. Each year the government allocates a budget to this organisation to finance its Annual Development Programme. The Corporation has adopted a policy of strategic targeting of the Annual Development Programme. It is expected that more use will be made of the Private Finance Initiative. This is in some respects similar to the process used for distributing resources to local authorities. It uses the same indicators of 'Housing Need' as the GNI although the weighting given to those indicators is different. It is called the Housing Needs Index (HNI). The total size of the Approved Development Programme is increasing, and stands at over £1,200million for 2003/2004.

## Local Authority Social Housing Grant

In the past local authorities provided housing associations with significant levels of funding for capital investment through local authority social housing grant. However, the government has recently decided to phase out Local Authority Social Housing Grant in favour of funding housing associations through, regional housing pots'. Some commentators have suggested that elected regional assemblies, where they are established, could assume this responsibility.

Local Authority Social Housing Grant is now only provided if it falls within the transitional arrangements that are as follows:

- The government has made resources available for transitional schemes totalling £478million for 2003-04 to 2005-06
- £433million has been made available to fund schemes directly by debt free local authorities
- £45million has been made available to reimburse with debt local authorities for loss of investment income and extra (General Fund Minimum Repayment Provision) costs
- In future, local authorities will not be reimbursed any financial assistance they give to housing associations. It will be an investment decision like any other.

**Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria CA16 6QH**  
**Telephone: 017683-52347 or 52165 Mobile: 07971-321863. Fax: 017683-52546.**  
**E-Mail: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Website: [www.awics.co.uk](http://www.awics.co.uk).**

**Director: Adrian Waite MA CPFA ACIH FIPSM**  
**Company Number: 3713554. VAT Registration Number: 721 9669 13**

## **Local Housing Companies**

Local Housing Companies can be formed under the Housing Act 1996.

The first Local Housing Company was established in March 1998. Since then most Large Scale Voluntary Transfers have involved creating a Local Housing Company.

A Local Housing Company can be defined as follows:

- They are regulated as landlords.
- They are "not for profit".
- There is private sector status combined with significant local authority involvement.
- They are structured to be formally accountable to the local authority, tenants and others.
- Opportunities are available for private sector involvement whether as a partner in Urban Regeneration or a provider of commercial skills at the board.

The level of council ownership needs to be considered in the context of Part V of the 1989 Local Government and Housing Act and the Local Authorities (Companies) Order 1995. While local authorities have always been empowered to create companies, this power is constrained especially in relation to company structures and borrowing powers.

In the case of Local Housing Companies the limit on size of transfer was initially set at 8,000 where multiple transfers were involved, with an average of 5,000 envisaged. This was to avoid a monopoly situation being created, but led to concerns about fragmentation of housing services in urban areas.

The Local Housing Company is similar to a Large Scale Voluntary Transfer to a Housing Association, but the shareholders of a Local Housing Company consist of local authority nominees, tenants and independent directors. The Company can be structured to be independent of the authority for the purposes of capital controls and so can borrow privately in the same way as a Housing Association. The Local Authority therefore retains influence, but has to surrender control and ownership of the housing.

Ownership arrangements need to be approved by the Secretary of State and the Housing Corporation.

**Adrian Waite**  
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