



Funding for New Social Housing

Research Paper on Public Authority Pension Funds as a Source of Finance for New Social Housing



Authored by Paul Gosling

www.paulgosling.net/



FOREWORD

This research was commissioned by the Participation and Practice of Rights organisation (PPR) as part of Equality Can't Wait #BuildHomesNow! - a campaign led by families living in hostels and inadequate housing.

Equality Can't Wait was born in 2012 in response to ongoing political interventions in social housing provision in North Belfast which were leading to increased homelessness and poor housing conditions particularly impacting the Catholic community¹.

Equality Can't Wait families and supporters at the vacant Dunnes Stores/Hillview site in North Belfast - June 2016



In the foreword to their 2014 publication 'Surrounded by Land But No Space for Housing?', the Equality Can't Wait families wrote to the Minister:



"While we wait we live in hostels, in temporary single let accommodation, in housing with such poor conditions that our children are made sick. While we wait we live in expensive insecure housing with unaccountable landlords. While we wait we are homeless and sleeping rough or dependent upon the charity of family and friends. While we wait our children grow up with nowhere to play, nowhere to call home, nowhere to make friends."

We have all complained and written numerous times to you – politicians, ministers, housing providers. We have supplied detailed evidence of how our human rights are being denied. We've had politicians, doctors, social workers, advice workers, family support workers and human rights groups speak on our behalf to stress just how badly our families are affected.

We are always told it is somehow our fault because we were born in areas of high demand.

We are told there is neither the money nor the land to build homes for our families."

The #BuildHomesNow! campaign grew out of the practical need to find solutions and reflected the growth of Equality Can't Wait which had begun supporting other people experiencing housing crises from all areas of Belfast.

¹ Persisting religious inequality in housing provision in North Belfast has drawn interventions from numerous international bodies: the United Nations Committee on Economic, Social and Cultural Rights (2009, 2016), Commissioner for Human Rights, Council of Europe (2012), United Nations Rapporteur on the Right to Adequate Housing (2014). It has also been subject to interventions by the Northern Ireland Commissioner for Children and Young People (2015), Northern Ireland Human Rights Commission (2015) and the Equality Commission for Northern Ireland (2016).



With the support of PPR, the families identified that the legislative and policy framework is in place for the Executive, the Northern Ireland Housing and Executive and City Council's to take the necessary steps.

They identified that ample land exists in Belfast to tackle the growing crisis in some of the city's most deprived areas.

This report provides evidence that there are a range of options in terms of

resourcing the development of new social housing. As the Northern Ireland Federation for Housing Associations say in their contributions - 'money is not the problem'.

The opportunity to unlock the potential of the land available exists if elected representatives in the NI Executive, Assembly and in Belfast City Council want to take it.

Equality Can't Wait worked with political parties to make challenging homelessness and inequality a priority in their election commitments. PPR and the Equality Can't Wait families are willing to assist and support all political representatives in turning these electoral priorities into concrete and solution based action: Executive Ministers, MLAs, Councillors and local representatives.

Opportunities like Dunnes Stores/Hillview and Belfast Harbour in north Belfast, Mackies and Monagh By-pass in West Belfast and Sirocco Works in East Belfast must be capitalised on to address homelessness by creating vibrant and sustainable communities.

We would like to thank Paul Gosling for his rigour in producing this report and all who contributed to it for their generous time and co-operation. A full list of interviewees can be found in the report's appendix.

Participation and the Practice of Rights (PPR), July 2016



1. The social housing sector in Northern Ireland and its investment needs

There were 87,117 social housing units managed by the Housing Executive and 47,000 homes managed by 22 housing associations in Northern Ireland as at the end of March 2015. At the same time, there were 39,338 households on the NI waiting list, of which 22,097 were in housing stress. Half of these – 11,016 – were homeless.

According to the NI Housing Executive's Net Stock Model, some 1,500 new social homes should be built each year, plus an additional 500 to make up for the years in which this figure was not achieved. The current rate of building new homes is substantially below the numbers required. Some 1,658 new units of social housing were completed in 2014/15 according to the NI Housing Executive. However, UK Government figures show housing associations in NI completing less than a thousand new homes a year. (The difference is explained by differences in the way new building completions are recorded and when they are regarded as completed.)

In each of the last four financial years, less than 5,700 homes a year (of all tenures) were completed in NI. At this rate it would take more than five years to accommodate those households that are homeless, 11 years to accommodate those in housing stress and almost 20 years to accommodate those on the waiting list. The social housing sector needs to grow by a third to accommodate all those on the waiting list.

The waiting list probably understates the scale of demand for social housing. In some areas people do not apply as they know there is no chance of an allocation.

The Northern Ireland Executive's Programme for Government for the period 2011/12 to 2014/15 had the objective of building 6,000 new

social homes, which was slightly exceeded. (6,101 social housing units were built.)

In the period 2011 to 2015 NI housing associations delivered more than 10,000 new social and affordable homes with the backing of £300m in private finance in that period, as well as significant public funding. More than 6,000 of the dwellings were social housing and most of the units were new builds, but some existing properties were acquired by housing associations.



Mackies, West Belfast

More than 4,000 affordable homes were delivered between 2011 and 2015 through the Co-ownership scheme. Housing associations were not responsible for the construction of these homes, instead providing mortgages and purchasing a share of the property.

NI housing associations have established strong connections with banks and typically borrow from them at 3.5% to 4.0% interest rates. Some larger housing associations borrow at 2.5% or slightly above, while some small housing associations pay a bit more than 4.0%. In some instances, the rates are fixed over the medium term of five to ten years.

Lenders include the European Investment Bank, HFC, Danske and Barclays, while Ulster Bank is expected to re-enter the market. The European Investment Bank is currently making large loans to some NI housing associations at 3.0%; HFC is lending at 3.0% to 4.5%. Larger housing associations are keen on using the capital

markets, rather than bank borrowing. Smaller associations prefer bank loans.

The average cost of borrowing for housing associations across the UK is 4.59%. Only four of the 130 largest housing associations in the UK have average borrowing costs above 6.0%. The vast majority borrow at less than 5.0%. Average borrowing costs across the sector fell from 2013/14 to 2014/15, though they rose for some housing associations. Those variations may reflect perceived specific risk factors for individual associations.

There is some appetite amongst NI housing associations for development projects. As consolidation continues in the housing association sector in NI, associations are becoming more professional and ambitious in terms of leading on mixed tenure developments of the kind that some English and Scottish housing associations are engaged in.

There is limited experience of housing associations leading in mixed tenure schemes. Choice Housing Association is engaged at present in a major mixed tenure project in East Belfast and intends this type of project to be a major part of its future activities. Clanmil was engaged in a mixed tenure redevelopment of former MoD homes in Lisburn. Larger associations such as Choice, Fold, Helm, Apex and Clanmil are the most likely to have the appetite and capacity for mixed tenure developments. The Apex, Choice and Clanmil associations have borrowed from government at around zero per cent to lead on co-ownership schemes.

The main barriers to investment in new social housing by associations are, according to the Federation, the lack of suitable land with planning approval. In addition, in Belfast the main sources of available land are brownfield sites which are heavily polluted and require substantial investment to remediate. Development on this land would only be viable if the public sector were to pay for the remediation. Finance is not regarded as a barrier for social housing new build.

The Department for Social Development (now Department for Communities) agrees with this assessment, but adds that another limiting factor is the capacity of the construction sector following the financial crisis and its current focus on work in Great Britain.



Another serious challenge is emerging for housing associations. In England,

housing associations have been reclassified by the Office for National Statistics as public bodies. This is the result of government intervention in the operations of housing associations. The impact of this is that associations' borrowing must now be counted on the public sector balance sheet, potentially limiting the capacity of associations to borrow. The Office for National Statistics is now conducting the same exercise in NI and is likely to similarly reclassify housing associations in NI as public bodies. This represents a serious threat to housing associations' capacity to borrow. Much of housing associations' development activity is now being conducted through subsidiaries, in part because of the assumption that this will avoid borrowing controls.

housing associations may be better placed to invest into improvement in the short-term.

includes various public bodies, education institutions, third level educators and more than half of NI housing associations. In all, there are 179 contributing employers.



A complication is that the Housing Executive has a significant land bank that can be used for the building of future social housing. But there is an issue regarding which arm of the Housing Executive would own the land after it has been reconstituted. (The Housing Executive has been split into two divisions, one being landlord services, which is a quasi-Public Corporation, and another as regional services, which is now an NDPB, or quango.)

Housing Executive board members would like to retain the body as a Northern Ireland-wide social housing landlord and prefer an option that would allow them to build new homes. This would potentially include it being the lead body for mixed tenure developments. Borrowing for the construction of new social housing would be secured against future rental streams – inferring higher rents than are currently levied.

3. NILGOSC

NILGOSC (the Northern Ireland Local Government Officers' Superannuation Committee) is the largest funded public sector pension scheme in NI. (There are two other small schemes, for the NI Assembly and NI Water.) It manages the pension fund and investment strategy for local government workers and for those in some other public sector professions. Employer membership

The value of the NILGOSC fund at 31 March 2015 was £5.85bn, an increase of £790m - 15.6% - on the previous year. NILGOSC is in a strong cash position to pay existing pensioners, but needs to generate high investment returns to meet projected future liabilities. NILGOSC demands high rates of return, but is willing to accept higher risk than would be the case with some other pension funds. The rate of return target for NILGOSC is 5% over CPI.

Decisions on the fund's asset allocation are normally taken at a meeting in October and there is a collective approach to the decision-taking.

The Chief Executive/Secretary, David Murphy, is responsible for the operational management of the organisation and for providing strategic advice to the Committee. (The full list of committee members is attached as an appendix.)

Fund managers are appointed to manage and invest funds on behalf of NILGOSC, in accordance with the agreed strategy. NILGOSC agrees overall investment objectives with the fund managers; sets targets for asset allocation; monitors investment performance; and monitors transactions. The allocation of the fund between asset classes is determined by NILGOSC at its annual strategy meeting, normally held in October each year.

NILGOSC has about £120m invested in NI, mostly in property. It has some strong index linked assets in NI. NILGOSC's property investments are fund managed by LaSalle Investment Management. There has been an agreement in principle by NILGOSC to invest £150m in infrastructure over the medium term.

Equality Can't Wait families with Sinn Féin



It has so far allocated £40m to Antin Infrastructure Partners Fund II and set aside £40m for KKR Global Infrastructure Investors, of which £33m has been drawn down.

While NILGOSC has a long track record of investing in property, it does not regard the NI property sector as being appropriate for additional investment at present. It withdrew from NI property shortly before the crash, although returned afterwards with index-linked assets. Potential investment returns from NI are regarded as weaker than those in Great Britain and international markets. NILGOSC operates on a global investment basis.

NILGOSC has examined investing in housing association schemes, but concluded the returns are inadequate. The rate of return required by NILGOSC is significantly above housing associations' existing borrowing costs.



Green Party endorses Equality Can't Wait campaign, 2014

4. Potential for the use of public sector pension funds for social housing construction

Research conducted in Scotland by Dave Watson for UNISON concluded there were viable opportunities for public sector pension fund investment in social housing.

There are three distinctive differences between the situations in Scotland and NI, which mean

that the prospects for pension fund investment in social housing in NI is much poorer than is the situation in Scotland.

Firstly, housing associations are borrowing at much lower rates of interest in NI than is the case with some Scottish housing associations, which were borrowing at 7%. (This probably represents historic borrowings, dating from before the current low interest rate environment.)

Secondly, social housing rents are significantly higher in GB than they are in Northern Ireland. This means that the rate of return for investing in either social housing or privately rented accommodation is significantly higher in GB than in NI.

Thirdly, NILGOSC has particularly high expectations on returns, at 5% above CPI.

There is a clear mismatch in NI between the prevailing rate of interest paid by housing associations and the return expectations of NILGOSC.

A mixed tenure housing development in Greater Manchester (which includes 'affordable' housing, but does not include social housing) is a partnership between Places for People and the Greater Manchester Pension Fund. A key attraction of this scheme is that local authorities agreed to cover the risk. The pension fund achieved a low risk profile and a reasonable

high medium term potential return of 2% above CPI per annum. Local authorities made a £250m commitment to support the project.

Other local government pension funds have invested in social housing schemes in their areas. These include Lancashire's joint venture with Assettrust, which created Heyho Housing; the Berkshire LG fund joint venture with Housing Solutions; and Islington's £150m investment commitment to local social housing and infrastructure. While pension funds have a fiduciary duty to maximize returns, it can be assumed that trustees in these instances have also been motivated to support their local communities through pension scheme investments.

L&G is investing in homes for rental, though a Build to Rent partnership between L&G Capital and Dutch pension fund manager PGM. This creates a total capital commitment of £600m to build more than 3,000 new homes for private rental in England.

NILGOSC has taken legal advice on its scope to invest to support the NI economy and social infrastructure. The advice was that it may invest locally only if the projected returns are at least as good as those elsewhere. Councillors on the boards of local authority pension funds in GB may be particularly motivated to encourage local investment. The focus of NILGOSC is on maximizing financial returns in line with its fiduciary duties.

NILGOSC commissioned the Smith Institute to report on local investment by local authority pension funds in GB. This did not lead to an

increase in NILGOSC investing in infrastructure in NI. However, NILGOSC has invested £25m in the Invest NI's Growth Fund promoting NI SMEs.

NILGOSC typically invests in chunks of £20m to £30m. If, theoretically, it were to invest in social housing it would probably require a packaged solution that brought some housing associations together in a way that both created a reasonable size of loan and also spread risk. An investment vehicle would need to be constructed before NILGOSC could consider any proposal. It would also need a very supportive framework of government financial support to make any scheme viable, in the view of NILGOSC.



In Scotland, pension funds have been interested in investing in district heating and renewable energy schemes. This option does not seem viable for NI. Tenants, and therefore landlords, are hostile to district heating schemes because of their

inflexibility. NILGOSC is unsympathetic to investing in renewable heating projects following government changes to financial support arrangements.

Political risk is an important consideration for NILGOSC.

Another concern about the future of social housing is the introduction of universal credit. Housing benefit will cease to exist as a separate benefit, so it is highly unlikely that landlords will continue to be paid directly the rental element of tenants' benefits. Until now, NI has been exempted from the arrangements in Great Britain which ended the direct payment of rent to landlords. The change is likely to increase rental arrears and non-payment.

5. Conclusion regarding the potential for use of public sector pensions for social housing construction.

Universal credit payments will also not include the full cost of housing rental. Tenants will have reduced benefit income, further increasing the risk of late payment and non-payment of rents. Social housing rents will in future be subject to caps in line with the Local Housing Allowance, which could depress social housing rental income.

As a result of these changes, lenders may regard social housing landlords as representing a higher risk proposition and increase interest rates on loans. At present there is no indication that this is leading to higher interest rates.

Private sector pension funds are unwilling to invest in NI social housing. Representatives of Legal & General and Aviva met with DSD to discuss opportunities for pension fund investments in social housing in NI. The advisors to the two funds

concluded that the rate of return would be unattractive. They would expect a 5% to 8% rate of return, with government underwriting all project risk. DSD regarded this proposal as unattractive unless pension funds brought with them additional resources, such as a land bank that created the prospect of low cost land for new builds.

However, one housing association reported that tentative conversations with private sector pension funds indicated that they might be willing to invest in mixed tenure housing developments at rates of return below 5%.

There are two identified opportunities to attract pension fund investment into NI social housing: longer term financing; and mixed tenure developments.

1. Longer term financing. Low cost, bank financing to housing associations in NI. These are typically on five to ten year terms. Some associations would like to lock in low rates over longer terms. One large housing association says it could issue bonds over a 25 year period at less than 4%. A second housing association made a similar observation.



Housing associations might find pension funds attractive if they required less onerous security than those of banks, which limit other development opportunities. HFC requires

security cover at one and a half times the interest payment due. So while the interest rate is good, the borrower needs to provide a substantial amount of security to achieve it. A pension fund investor that required less asset cover could be attractive, providing the required rate of return was affordable.

In Wales, there are moves to arrange bonds for housing association developments. Some NI housing associations are also interested as bonds would provide fixed interest rates over a longer period and consequently greater certainty of future costs.

This environment creates possible opportunities for some pension fund investment into NI social

housing. However, housing associations would still be looking for financing at interest rates below the rate of return required by NILGOSC. Other pension funds might find the option more attractive, though this study has not identified any.

2. Mixed tenure developments offer the most attractive opportunity for pension fund investment into housing associations in Northern Ireland. Developments that include mid-market properties for sale offer a good opportunity for strong returns.

It is now fairly common for English housing associations to take a lead on mixed tenure developments, which offer a higher return for developers. Because they are also higher risk, they warrant a higher interest rate from investors. A model for this is in Manchester, which was backed by public authorities underwriting the scheme. The Department for Communities has indicated it would not do this in NI. It does not want to be involved in underwriting a major development. Moreover, the department (as DSD) prioritized co-ownership schemes over mixed tenure developments.

The motivating factor in England for mixed tenure schemes has been housing associations' loss of support grant from government, which has forced them to act more commercially and engage in higher risk activities. Mixed tenure schemes may provide affordable housing for rent and also co-ownership homes, but will not necessarily include any social housing.

The main limiting factor in NI for similar developments is the lack of appetite and experience amongst most housing associations

in leading on mixed tenure developments. Choice is one of a few associations currently involved in mixed tenure developments. It expects to undertake many more of these schemes. Clannmil includes leading on mixed tenure developments as part of its strategic plan for the future.

Mixed tenure developments would be led by subsidiaries of the main housing associations. The assumption is that this would mean that they are not subject to the same controls on borrowing as are expected to apply to parent housing associations after the Office for National Statistics has completed its review of the status of housing associations in Northern Ireland. However, this assumption does not seem to have been tested, nor is it clear that housing associations have taken legal advice to confirm that the subsidiaries would not be subject to borrowing controls after an ONS reclassification.

Some associations would be interested in borrowing from pension funds for mixed tenure schemes, including those that provide a mix of homes for sale and those for market rental. While short term, low cost bank finance is suitable to fund homes for sale, pension fund investment

is more appropriate to finance properties for rent using a market rent model.

A rate of return of 5% above CPI might be acceptable for investment in the homes for private rental element of mixed tenure schemes. But there are some grounds for believing that some private sector pension funds may be willing to invest in this type of project at a projected rate of return below 5%.

British housing associations may be interested in engaging in mixed tenure activity in NI.



Alliance Party addressing event in support of Equality Can't Wait, 2014

However, given the weak property market in NI compared to that in much of Britain, and the lower rents, British housing associations may not find this an attractive environment.

The Northern Ireland Executive has not supported mixed tenure developments as a way to support social and affordable housing. Instead it has used Financial Transactions Capital to support co-ownership schemes.

The broader policy agenda is positive with regard to NI housing associations' engagement in development projects. One of the DSD Housing Supply Forum's recommendations was that *"There should be increased encouragement and support from Government for joint ventures*

between housing associations and private developers, including 'design and build'."

Recommendation

Future work should focus on encouraging Northern Ireland housing associations to become lead developers on mixed tenure schemes. Once the interest and capacity has been built within housing associations, then it may be possible to attract pension fund investment. The 'Manchester model' may be used as one example of how this can work. Larger NI housing associations are the most amenable to this approach, have the greatest capacity to undertake it and are more attractive to lenders, including pension funds.



**Mackies Site
North & West Belfast**



**Dunnes/Hillview
North Belfast**



**Monagh By-pass
West Belfast**



**Sirocco
South & East Belfast**



**Belfast Harbour
North & East Belfast**



APPENDIX

List of contributors

NILGOSC - David Murphy (Secretary and Chief Executive)

Northern Ireland Public Service Alliance - Bumper Graham (Assistant Secretary and member of the NILGOSC committee); Alison Millar (General Secretary); Paddy Mackel, (Assistant Secretary with responsibility for housing).

Northern Ireland Federation of Housing Associations - Cameron Watt (Chief Executive); Jennie Donald (Deputy Chief Executive)

Department for Communities (formerly Department for Social Development) - Stephen Martin (Housing Policy Officer)

Northern Ireland Housing Executive - Roy Baillie (Programme and Enabling Manager)

Choice Housing Association - Michael Rafferty (Finance Director)

Clanmil Housing Association - Jonathan Boggs (Finance Director)

Newington Housing Association - Anthony Kerr (Operations Manager)

UNISON Scotland - Dave Watson Scottish Organiser (Campaigns and Bargaining)

Paddy Gray (Emeritus Professor of Housing at University of Ulster)

National Institution of Chartered Surveyors - Jim Sammon (construction sector)

Author

Paul Gosling is a journalist, author, researcher, public speaker, lecturer, copywriter and broadcaster. He specialises in the economy, accountancy, the co-operative sector, public services and personal finances.

A freelance journalist for 27 years, Paul has written for most quality UK and Irish national newspapers. He has written the weekly *Questions of Cash* column for *The Independent's* personal finance section for more than a decade (now published online only) and contributed to *The Independent* titles for virtually every week for 26 years. Paul's work has also appeared in the *Financial Times*, *The Times*, the *Irish Times*, the *Sunday Times*, the *Mail on Sunday*, the *Express*, the *Daily Telegraph*, Ireland's *Sunday Business Post*, the *Irish Independent* and in more than a hundred magazines. Paul has worked with several universities to produce research publications, to copy edit academic blogs and as an occasional lecturer.

Paul's books include *Abuse of Trust*, written jointly with BBC Parliamentary reporter Mark D'Arcy, which describes the notorious case of child abuser Frank Beck. The book is shortly to be republished in electronic format, with a new chapter inserted on the role of Greville Janner in the scandal. Paul

has written several books and booklets on various subjects, including the use of information technologies and public policy development.

A frequent commentator on the economy and politics for BBC Radio Ulster and Radio Foyle, Paul has also appeared on BBC1, BBC2, Radio 4, Radio 5, UTV, RTE, in several television documentaries and on Russian and German radio.