



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Developing Sustainable Tenancies *Day 2*

Trawsnewid Addysg; Trawsnewid Bywydau
Transforming Education; Transforming Lives



www.uwtsd.ac.uk

Homework

- What factors could affect the sustainability of tenancies?
- How can housing associations help improve the sustainability of tenancies?

Croeso / Welcome

Day 2 theme

Explore and critically reflect on your understanding of the financial model which your organisation works to and investigate the impact of rent arrears and rental voids on both tenants and your workplace;

What is the financial model of housing associations?

- “We are independent social enterprises – the best, longest established, social enterprises in the country. We create profit for a purpose and re-invest that for social good.” David Orr, CEO, NHF

The wider sector

- Community Housing Cymru and the Welsh Government produce an annual report on the financial performance of the social housing sector in Wales.
- The report includes consolidated numbers and ratios, as well as analyses, a commentary and additional information. Analysis is based on returns submitted by housing associations to CHC, compiled from audited financial statements.

The 2016 Financial Statements of Welsh Housing Associations

- http://chcymru.org.uk/uploads/general/The_2016_Financial_Statements_of_Welsh_Housing_Associations.pdf
- The 2016 Global Accounts document summarises the financial position of the Housing Association sector and presents commentary on the significant issues facing the sector.

The 2016 Financial Statements of Welsh Housing Associations

- The sector has progressed to become a collection of highly capitalised organisations that own and manage long-term assets supported by long-term financing.
- Some housing associations are adopting more commercial tactics to help fulfil their social objectives.
- To sustain a role in providing new affordable housing supply, cross-subsidisation initiatives and alternative financial models are being developed that seek to extract maximum value from assets whilst mitigating associated risks.
- Requirement to meet increasing debt repayments when they fall due is crucial, so managing risk around income collection remains fundamental when undertaking new and innovative strategies

Exercise

- Work in groups to present key findings from Section 2 (Executive Summary) of the 2016 Financial Statements of Welsh Housing Associations document.

Housing Association Accounts

- **What is 'Cash Flow'?**

Cash flow is the net amount of cash and cash-equivalents moving into and out of a business. Positive cash flow indicates that a company's liquid assets are increasing, enabling it to settle debts, reinvest in its business, return money to shareholders, pay expenses and provide a buffer against future financial challenges. Negative cash flow indicates that a company's liquid assets are decreasing. Net cash flow is distinguished from net income, which includes accounts receivable and other items for which payment has not actually been received. Cash flow is used to assess the quality of a company's income, that is, how liquid it is, which can indicate whether the company is positioned to remain solvent.

Read more: [Cash Flow](http://www.investopedia.com/terms/c/cashflow.asp#ixzz4lsJL1o00) <http://www.investopedia.com/terms/c/cashflow.asp#ixzz4lsJL1o00>

Cash flow contd.

Analysing 'Cash Flow'

- The [accrual accounting](#) method allows companies to count their chickens before they hatch, so to speak, by considering [credit](#) as part of a company's income.
- "[Accounts receivable](#)" and "settlement due from customers" can appear as line items in the assets portion of a company's [balance sheet](#), but these items do not represent completed transactions, for which payment has been received.
- They do not, therefore, count as cash. (Note that the credit vs. cash distinction is not the same as it is in everyday terminology; proceeds from [credit card transactions](#) are considered cash once they are transferred.)
- The opposite can also be true. A company may be receiving massive inflows of cash, but only because it is selling off its long-term assets.
- A company that is selling itself for parts may be building up [liquidity](#), but it is limiting its potential for growth in the long term, and perhaps setting itself up to fail.
- In the same vein, a company may be taking in cash by issuing [bonds](#) and taking on unsustainable levels of debt. For these reasons it is necessary to view a company's [cash flow statement](#), balance sheet and [income statement](#) together.

Read more: <http://www.investopedia.com/terms/c/cashflow.asp#ixzz4lsJyJSmy>

Cash flow contd.

Cash Flow Statement

- Often called the "statement of cash flows," the cash flow statement indicates whether a company's income is languishing in the form of IOUs – not a sustainable situation in the long term – or is translating into cash flow.
- Even very profitable companies, as measured by their net incomes, can become insolvent if they do not have the cash and cash-equivalents to settle short-term liabilities.
- If a company's profit is tied up in accounts receivable, prepaid expenses and inventory, it may not have the liquidity to survive a downturn in its business or a lawsuit.
- Cash flow determines the quality of a company's income; if net cash flow is less than net income, that could be a cause for concern.

Read more: <http://www.investopedia.com/terms/c/cashflow.asp#ixzz4lsKi6pny>

Exercise

- Explain the key financial terms covered in section 3 of the 2016 Financial Statements of Welsh Housing Associations document.

Risks and Challenges

- Housing associations face a number of business risks in undertaking their operations.
- Whilst there are many common themes, there will be specific risks that only affect individual associations due to their business planning activities.
- The regulatory framework in Wales requires each association to undertake robust self-assessment that includes ensuring an effective governance framework, whereby Boards and Committees review key business risks and ensure that executive management teams put in place appropriate risk mitigation and management strategies.

Risks and Challenges

Key Risks

- Whilst housing and social care are devolved responsibilities and fall within the scope of Welsh Government, UK Government policy continues to have a significant impact on the risks facing the sector.
- In particular, welfare is non-devolved and inextricably linked to housing and social care so any major reforms to welfare provision at UK level will acutely impact the Welsh housing sector.
- The majority of the Welsh sector's income, over 80%, comes from social rents and service charges and despite diversification into other business areas by some individual associations, the sector is still exposed to inherent risks that include:
 - Revisions to the current Welsh Government Rent Policy
 - The capping of housing benefit to LHA rates
 - Other welfare reform measures such as Universal Credit

Key Risks and Challenges

- Analyse section 5 of the 2016 Financial Statements of Welsh Housing Associations document
- List and explain the key risks and challenges highlighted in the document?

Behavioural Economics

- The standard (neoclassical) economic analysis assumes that humans are rational and behave in a way to maximise their individual self-interest. Whilst this 'rational man' assumption yields a powerful tool for analysis, it has many shortfalls that can lead to unrealistic economic analysis and policy-making.

New Economics Foundation

Behavioural Economics contd.

The seven principles:

1. Other people's behaviour matters: people do many things by observing others and copying; people are encouraged to continue to do things when they feel other people approve of their behaviour.
2. Habits are important: people do many things without consciously thinking about them. These habits are hard to change – even though people might want to change their behaviour, it is not easy for them.
3. People are motivated to 'do the right thing': there are cases where money is de-motivating as it undermines people's intrinsic motivation, for example, you would quickly stop inviting friends to dinner if they insisted on paying you.
4. People's self-expectations influence how they behave: they want their actions to be in line with their values and their commitments.
5. People are loss-averse and hang on to what they consider 'theirs'.
6. People are bad at computation when making decisions: they put undue weight on recent events and too little on far-off ones; they cannot calculate probabilities well and worry too much about unlikely events; and they are strongly influenced by how the problem/information is presented to them.
7. People need to feel involved and effective to make a change: just giving people the incentives and information is not necessarily enough

Exercise

- Read the New Economics Foundation document 'Behavioural economics: seven principles for policy-makers'
- http://b.3cdn.net/nefoundation/cd98c5923342487571_v8m6b3g15.pdf
- Each group member to choose one key principle to summarise and present to the group

What happens when it all goes wrong?

- Cosmopolitan Housing Group
- Altair report for Sanctuary and Homes and Communities Agency

How is Coastal performing?

- Financial Viability Judgement
- Report and financial statements
- <https://www.coastalhousing.co.uk/Pages/financial.aspx>

Further reading

- **The impact of welfare reform on social landlords and tenants – Joseph Rowntree Foundation**

<https://www.jrf.org.uk/report/impact-welfare-reform-social-landlords-and-tenants>

- **Cosmopolitan Housing Group Lessons Learnt**

<https://www.gov.uk/government/publications/cosmopolitan-housing-group-lessons-learned>

- **Sector risks and regulatory expectations**

<http://gov.wales/topics/housing-and-regeneration/publications/sector-risks-facing-housing-associations/?lang=en>

- **Asset and Liability Registers and Stress Testing**

<http://www.housing.org.uk/resource-library/browse/asset-and-liability-registers-and-stress-testing-safeguarding-your-business/>