Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Review of the Northern Ireland Housing Executive

26 April 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Ms Paula Bradley
Ms Pam Brown
Mr Michael Copeland
Mr Mark Durkan
Mr Alex Easton
Mr Fra McCann
Mr David McClarty

Witnesses:

Mr Stewart Cuddy	Northern Ireland Housing Executive
Mr Gerry Flynn	Northern Ireland Housing Executive
Dr John McPeake	Northern Ireland Housing Executive

The Chairperson: I welcome to the Committee the Housing Executive representatives. We have John McPeake, chief executive; Stewart Cuddy, director of housing and regeneration; and Gerry Flynn, director of housing and regeneration. Good morning, gentlemen. There are two sections to your presentation. One is on the housing market report, and one is on the review into the Housing Executive, which was carried out by PricewaterhouseCoopers (PwC). If you do not mind doing those in two separate parts, gentlemen, we will deal with them in two separate discussions. Is that OK?

Dr John McPeake (Northern Ireland Housing Executive): That is fine, Chair. Do you wish us to pause for questions after the first part and then deal with the second part?

The Chairperson: Yes, that would help. We have a retention issue with some of our members.

Mr Durkan: What was that?

Dr McPeake: I thank the Committee for the invitation to talk to you about the fundamental review. In our letter accepting the invitation, I made clear that we are not in a position to brief the Committee about the review itself, because that is really a role for the Department for Social Development (DSD). We could speak about our contribution to the consultation process and offer some of our views on it, and I understand that you are happy for us to do that. I will lead off by giving you the presentation on the fundamental review. I will then pause and take some questions. Stewart Cuddy, who is the deputy chief executive, will then talk to you about the housing market review.

The first point is that the Housing Executive welcomes this fundamental review. We believe that the time is right for such a review, because it is very clear to us that there are insufficient funds available in the public sector to meet all the demands and challenges that are being placed on social housing and housing in general, now and in the years ahead. We need a new approach, and we think that the fundamental review offers a good way forward. The case for change is compelling.

Significant issues are arising in the housing market, and Stewart will mention a number of those later. Many of those have the potential to increase demand on public finance, rather than reduce it. In the owner-occupied market, for example, affordability remains the key. There are a number of initiatives that may come forward, but they are unlikely to become successful without some investment. We think that demand for private renting is likely to continue, and, already, we see pressures in the private rented market arising from changes in housing benefit. We believe that those will also accelerate.

In General, the move towards welfare reform and universal credit is likely to change the relative demands in the housing market, and it will bring about some pressures for restructuring in the various tenures. That restructuring will not be possible without funding. We are also seeing significant increases in housing stress, and that will lead to increase demand for newbuild housing. Again, that has a financial implication. In short, all of the housing market indicators lead us to believe that there will be increased demand for public finance to support housing unless something different is done.

It is not just the housing market that creates this compelling case for change. We can see that, even with the existing housing stock, we face major pressures. The ability of the Housing Executive to invest in the improvement of its own housing stock is significantly reduced because of changes in the funding that is available in the public service and also because of the collapse of capital receipts in the land and property market. I will give the Committee an illustration of that. If we look at the funding that the Housing Executive has had for capital improvement of its own stock over the past decade, we can see that, in the first five years of that decade, we had an average of £63 million a year to invest in the improvement of our houses. In the second five years, we had an average of just £19 million a year, and, in this current year, we have just £5 million. Therefore, the amount of money that we have available to invest in the improvement of our stock is very substantially reduced. It is very clear that we cannot fund the unimproved part of our stock from within existing arrangements. The decent homes standard cannot be met until at least 2021, which is 10 years later than we first anticipated.

We believe that there is a need for investment, and we need to look at different ways of getting investment to improve that housing stock. Our maintenance investment strategy believes and estimates that we need at least £1 billion to improve the social housing stock in the Housing Executive's ownership in Northern Ireland. That may actually be an understatement, because we have significant problems with fuel poverty in Northern Ireland, and there is no doubt that there will be major pressure to retrofit energy-related solutions to the social housing stock. That is notwithstanding the very welcome additional funds that we have had for the double glazing programme, which is very popular with tenants.

Put simply, we think that public money is not available and is unlikely to be made available to meet the demands that housing faces, so we feel that significant changes need to happen. It is not just the public sector that is feeling this pressure. For the first time in 40 years, there is an increase in housing unfitness among the private housing stock. I am sure that Stewart will mention a little bit about that in a moment.

We believe that the PricewaterhouseCoopers proposals offer a way forward. It is our view that the key to a successful future is to create a different structure that allows private finance to be brought to bear to make a contribution towards solving some of the social housing problems in Northern Ireland. Providing access to private borrowing for stock investment allows the scarce public sector resource that is available to be used for other things, so we believe that there is genuinely some merit in the PricewaterhouseCoopers proposals.

The Committee will know that there were three major bits to those proposals. The first was a new regulator for the social housing family and, in fact, for the housing market as a whole. We welcome that proposal for a new regulator to look across the whole sector, not only the social housing sector but the private rented market, and provide input into rent setting, price and quality of services and value for money for taxpayers. We also support the view of PricewaterhouseCoopers that the new regulator should be independent. That would be the best solution, but we recognise that there are alternatives to that.

The second component of the fundamental review was the strategic housing authority. We agree with the proposal to establish a strategic housing body for Northern Ireland, and we firmly believe that the current challenges facing the housing sector mean that the requirement for a body that is responsible for things such as housing strategy across all tenure types is as essential now as it was 40 years ago. We are not convinced that it is necessary to create a whole new body. We believe that the Housing Executive, as a non-departmental public body (NDPB), could be that body if the landlord functions were removed to a different structure.

That brings me to the third bit and the part that, I suspect, the Committee is most interested in, the new social housing landlord that PricewaterhouseCoopers propose. In making its submission to PwC, the Housing Executive supported the idea of a social enterprise landlord to be structured as a mutual, owned by its tenants. The main advantage that we saw from that was that the model would provide access to private borrowing to allow investment in social housing stock to happen, with the assets still being retained in public sector ownership. However, even at that time, we felt that more work was needed on how that would fly from the perspective of lenders, who would provide the funding. A number of lenders have made their views known, and it appears that a mutual-type organisation would not be a favoured option for the financial industry. They believe that a housing-association-type model would be more appropriate. The Housing Executive believes that there is viability in a housing-association-type model to provide the landlord services. This is still a social enterprise, but it would not be a mutual. We believe that it would give a lot of the advantages that PricewaterhouseCoopers originally anticipated.

Of course, it is not just the advantage of getting access to private finance that we are interested in, although that is a very major part of it. There are a number of other things that we think would come from the greater freedoms associated with such a structure combined with the scale of landlord that we currently are — a 90,000-unit landlord. There are four things that I want to briefly mention. First, we would be able to sell maintenance and improvement services to private property owners on our estates. Anyone who walks around our estates can see properties that look run down, but they are not ours. They are privately owned or privately rented. When we invest in our own stock, we believe that, as a social enterprise, we could sell, at marginal economic pricing, those services to the private sector, and we could use the extra income to support community development activity. That would be a win-win situation. We would improve the wider environment, and we would also generate additional money, not from the public service, that could be used to invest in community development.

Secondly, we think that we would be able to sell housing management services to landlords privately, because one of the most common complaints that we get in our district office is about non-responsive private sector landlords in our estates. The complaints are to do with private tenants who do not behave well and landlords who do not act responsibly. We believe that, as an experienced housing landlord, we could sell a housing management service to private landlords, manage those private tenants on their behalf and address a number of the issues that our residents are already facing.

Thirdly, as a large social enterprise, we think that we could work in partnership with others to create a microfinance agency to address the scourge of predatory lending that exists in our estates. Time and time again, we hear about doorstep and payday lenders who approach our tenants and charge exorbitant interest rates of 3,000% or 4,000% for short-term loans. The people who pay those sorts of interest rates cannot pay their rent, and we believe that, as a social enterprise, we should be in that space and squeeze those predatory lenders out of the market. As an NDPB and a public body, we cannot do it, but, as a social enterprise, we could.

Lastly, the other thing that we are very conscious of is that the Housing Executive is a big landlord, and four in five of our tenants live in households where no one is in paid employment. Personally, I think that that is a disaster of public service in Northern Ireland. As a social enterprise, we want to do something about that, and one of the things that we could do with the greater freedoms of this type of structure is to use our scale and purchasing power to help to foster the growth of community-owned businesses on our estates. We could then contract with those community businesses to deliver services. It seems to me to be ludicrous that an organisation that spends hundreds of millions of pounds a year could not use its purchasing power more creatively. As an NDPB, we are heavily restricted. As a social enterprise, we would have more flexibility, and I honestly believe that we could bring very significant community benefits through that type of an approach.

I will say a few brief words about implementation and make a few final comments. Given the pressing nature of the problems that we face, we believe that these new structures should be implemented as soon as possible. We believe that the time is right to do that. We accept that legislation will be needed and that the implementation will probably take several years to complete. In our view, that is all the more reason to get on with it. We believe that the implementation should be done under the auspices of an agreed plan and timetable that covers all of the services and functions. We accept that it makes sense to take it forward on a phased basis, but we do not believe that there should be cherry-picking of services. There must be a coherent plan that gives confidence to the staff, tenants and other stakeholders about how the change programme would work.

In closing, we think that the Housing Executive has been a success story in public administration in Northern Ireland. We are not naive enough to say that we have always got it right, but, by and large, we have delivered a good service to your constituents, our tenants and the general population. We think that we have an enviable reputation for fairness, impartiality and objectivity. Whatever happens here, those things must be maintained.

We have had more than 40 years' experience in managing housing in a very complex environment, and we need to build on that experience and not throw it away. The change programme has to reflect where the strengths lie in housing in Northern Ireland. Whatever happens by virtue of the fundamental review, we need to ensure that we continue to deliver good, value-for-money services to all our customers. In doing that, we think that scale is important, because it is through scale that we have been able to deliver a consistent service across Northern Ireland, whether in urban or rural areas. That consistency needs to be maintained. Scale also guarantees accessibility and responsiveness to our stakeholders.

Subdividing the landlords into a number of organisations would increase costs unnecessarily, fragment the service, reduce the scale benefits, which would make the organisations less attractive from a lending proposition, and reduce the ability of the new structures to deliver on some of the more innovative things that I have talked about.

That, in a nutshell, is the essence of the comments we made to PricewaterhouseCoopers as part of the fundamental review. Like many other stakeholders, we are waiting anxiously to hear about the Minister's direction of travel. We understand that something may happen in the relatively near future.

I will pause at this stage. If you have any questions, we will do our best to answer them. Stewart will deal with the next part, when you are ready for it.

The Chairperson: Thank you for that gallop through your submission, John. A lot of work and thought was put into it, and it contained a lot of good suggestions, observations and what were almost warnings around delay and so on. Some discussion has been rattling about the place about some aspects of it, such as current Housing Executive stock, for instance, and maintenance contracts being farmed out in advance of a totality arrangement here. I think you have addressed it in some way. Are you worried about the scale of that? You have already referred to it, but you covered it in a broader sense.

Dr McPeake: Yes, we are conscious that the review is the Department's initiative. We are a stakeholder, as are many others, so all we can do is offer our views and opinions. As the review is focusing on the Housing Executive, we believe that we have a legitimate concern about how that might develop. Our primary interest is in making sure that services to residents in Northern Ireland are maintained at a high-quality level. My closing comment was that there should be a coherent plan that covers all of the service areas and a timeline established for all those things. We do not want to see one or two things being picked off, and then a hiatus, where nothing seems to happen for a long time. That would not be in the best interests of housing in Northern Ireland. That is our view, and we are conscious of the fact that we live in a democracy and that part of the Department's role is to consult widely on these issues.

Mr Copeland: I am sure everyone around the table would join me in asking you to pass on to your staff, particularly at district office level, our sincere thanks for the help they give to us daily. I have dealt with six district offices, far and wide. Essentially, we are trying to construct something that has access to borrowing money. When you borrow money, the person you are borrowing from requires a few things. First, he will want to know how safe the money will be when you have got it, and, secondly, when he is going to get it back. That generally requires the security of an asset or a guarantee. The Northern Ireland Housing Executive assets will be broadly broken down into property, some of which may be an asset and some of which may be a liability because it needs money spent on it to bring it up to standard. Then there is the question of land. In your view, will the new organisation have to do some footwork around the assets that it has to enable it to successfully borrow money against other competing requests?

Dr McPeake: Yes, Mr Copeland, I think you are absolutely right. We have acknowledged that, and at this point, all we have is a broad indication of how this might shape up. A lot of very detailed work will be needed to flesh out those specific issues.

The PricewaterhouseCoopers report was structured on the basis of a mutual idea, so the assets of the organisation would have stayed with the strategic housing body, and the Housing Executive — reformed as a social enterprise — would have borrowed against its rental income stream. The financial institutions seemed to regard that as not particularly workable, and so their belief, which we support, is that if we were going to create a landlord that could borrow privately, there is a tried and tested model in the housing association. That has the confidence of the industry. We think it would be sensible to look at that.

My understanding is that that type of model would mean that the housing association would own the Housing Executive's houses and flats, but it is anticipated that the land would remain with the strategic body, because it supports things such as the newbuild programme and various other initiatives.

Mr Copeland: So, essentially, it then breaks down into what the net asset value of the stock is, which might not be as high as some people may have concluded?

Dr McPeake: We believe it is around £2·2 billion to £2·5 billion. Our current loan debt is around £600 million, so there is significant equity in the Housing Executive's property assets. The real test is when you go to the market for those sorts of issues, and that is why I say that we believe this is a viable model because there is significant equity there. It makes absolute sense in my mind to sweat those assets; I hate that term, but it describes it very well. A lot of money has been invested in those assets over 40-odd years, in fact, many more years than that, because the Housing Executive inherited a good number of those assets from former authorities. It makes sense in my mind to look for a way in which you can get extra value out of them, and this proposal does that. It would give you the ability to borrow against the income stream, and our income stream is £280 million a year. It also gives you the benefit of borrowing against stock assets, which is what most people do when they invest in their home. If you take a mortgage out, you might extend it to invest or renovate it after 15 or 20 years, whatever the case may be.

Mr Copeland: John, can I ask you to clarify something? You said at one stage that four out of five people in properties were on benefits. Does that mean that four out of every five properties has someone on benefits or four out of every five people? You could have three people in one property who are all on benefits.

Dr McPeake: The figures we have state that 77% of our tenant households — which is roughly four out of five or three out of four, depending on how you round the figures — have nobody in paid employment in that household. That does not mean to say that they are all on benefits; some would be elderly and may be on state pension, or whatever the case may be. However, the key point I am trying to make is that the Housing Executive is dealing with some of the most vulnerable people in Northern Ireland. They are, by and large, low-income households, and we believe there is still an important social policy goal to be delivered here. Even though we are looking towards changing to become a social enterprise, which is a private company with a social heart, that it is perfectly consistent with the market we are in. The advantages come from the fact that we would be able to do things that we cannot do as an NDPB.

Mr Copeland: Is that 77% of the 90,000-odd properties, or are there properties —

Dr McPeake: No, it is occupied stock. We have a small number of vacant properties, but it is in that order. That is a survey-based estimate from the continuous tenant omnibus survey.

Mr F McCann: I am sure that David will be glad to hear me say that I will be as brief as possible.

The Chairperson: No, that strikes fear in all of us.

Mr F McCann: Thank you for your presentation; it was extensive and to the point. I will just pick up on something that Michael said about borrowing. I read somewhere, and I am not sure whether it was in the PricewaterhouseCoopers report or one of the other submissions, that if the properties in the present ownership of the Housing Executive were passed to a landlord, it would be done on a lease basis. There were some discussions around the length of time that those leases would last. I am just talking about being able to borrow money; some say it is 20 years or 25 years. There was an argument that, the shorter the terms of the lease, the less likelihood there would be of borrowing money. Will you elaborate on that?

Dr McPeake: Yes, that is exactly right. The PricewaterhouseCoopers report suggested that it would be a mutual organisation, so the physical assets — the houses, property and land — would stay with the strategic housing agency, which would be a public body. The social enterprise landlord would be a leasehold landlord and would borrow against a lease. I made the point in my initial comments that the finance industry seems to have taken the view that that model would not be particularly workable. The shortness of the lease would be one of the issues, but it also believes that the fact that it is a mutual would be problematic. We supported the mutual organisation idea because we thought it had a lot of advantages, but, at the same time, we flagged up our concerns in our submission that we would want to be convinced that it would work from a viable borrowing perspective. It does concern us that a number of the major institutions are suggesting that there are difficulties with that approach. That is why we think that a housing association-type model would be a better solution. It is a tried and tested model, and it has the confidence of the lending industry. I would not say that it is a perfect model, but it is a model that is well understood. You would not be breaking new ground by doing that. Everyone knows exactly how that system works. In that case, the physical assets, the property, would be owned by the association, not by the strategic body.

Mr Stewart Cuddy (Northern Ireland Housing Executive): There is one issue I should mention in relation to the assets. The assets are clearly very important, as John has said, but remember that John also spoke about £280 million of income, a lot of which is through housing benefit. A lot of lenders will work on the basis of cash-flow income, so, although borrowing may be more difficult, that is not to say that it cannot be accessed through that level of cash flow.

Mr F McCann: Obviously, the longer the lease, the easier it would be to borrow money. When representatives from PricewaterhouseCoopers were here, I had some concerns about the mutual aspect of what they were proposing, because they could not give any clear indication of where it has worked effectively. You said that the strategic arm should be separated and should remain with what would be left of the Housing Executive. How would you see that being run and who would it be run by?

Dr McPeake: The point I was making was that PricewaterhouseCoopers recommended that a new strategic housing body should be created, and we support that principle. We think that it should be independent of government, because that gives a greater transparency to the policy. We did question whether you needed to go as far as creating a new body, because, if you take the landlord parts out of the Housing Executive, what you would have left is an NDPB that delivers strategic functions. We were simply saying that, from a pragmatic point of view, that might be a way forward, but we accept that that would be an issue for the Department and for the wider consultation to decide on. However, we do believe that the strategic body should be outwith government. It should be an NDPB, as PricewaterhouseCoopers has recommended, and it should not be part of the mainstream Civil Service. That is our perspective.

Mr F McCann: There seem to be moves afoot to move some of the aspects of that strategic arm into the Department. Given what you are saying, that may pose its own difficulties, but what I am trying to get to is that you would then have the landlord arm standing alone. You said that that should be formed on the basis of the rules that cover housing associations at present. Then you have the strategic arm. Who would that be governed by? Would it be a board, or would it be a new type of structure that would allow different types of thinking to come into the present and future trends in housing?

Dr McPeake: Again, PricewaterhouseCoopers's recommendation was that it should be an NDPB. As an NDPB, it would have an independent board and an independent chair. That is the model that PricewaterhouseCoopers anticipated, but we recognise that there are a variety of models that could be advocated. For example, it is not inconceivable that it could be constructed as an arm's-length organisation, like a next-step agency, for example, but we believe that PricewaterhouseCoopers was right in suggesting that it should be an independent body to promote those issues. We recognise that there is a fine distinction between policy and strategy, and we have always believed that policy is the imperative of DSD and should remain with DSD. We see policies as providing the main guidance and direction for housing, and the strategies are the ways in which those policies are implemented and delivered. At the end of the day, it is a fine distinction. However, we feel that the strategic authority should be outwith the Department. The Department will still have ultimate responsibility for policy. Again, that is for the Department and the Minister to decide.

Mr F McCann: The third of four elements is who funds the whole thing. Obviously, the landlord might be funded through the money raised, but where do you see the regulator fitting in?

Dr McPeake: Again, PricewaterhouseCoopers's recommendation was that the regulator should be independent of government. There is a lot of sense in that, but, at the same time, we recognise that Northern Ireland is a small place. In other conversations that we have had with the Department and others, we have heard that there are already a number of regulatory bodies in Northern Ireland, so it might make sense to think about a regulatory service that regulates a number of different functions, of which housing could be one.

The regulator clearly has an important role in the new arrangements, because one of the most important things is rent. There is a bit of a strange situation with rent at the moment. Housing associations set their rent on the basis of their investment plans. As an NDPB, our rent is determined politically. If you are going to the market to try to borrow against future investment plans, one of the issues that concerns the finance industry is whether there is arbitrary rent setting or whether the rate of rent is based on objective criteria. The regulator is one of the safeguards that the financial services industry would look for.

At the end of the day, the regulator should be independent of the Department, but that is not the only model, and we are very conscious that in GB, for example, and other parts of the UK there are regulators that operate successfully from within government. So, we are not going to die in the ditch over that. Much of the discussion will be about principles that are subscribed to, the openness and transparency of that process and the objectivity of it. That can be delivered more or less regardless of whether regulator is independent or not, even though we believe wholeheartedly that the independent regulator is the best solution. It is not the only solution, and the other systems are workable.

Mr F McCann: The other question that I asked was about financing the strategic arm. Where would the finance come from?

Dr McPeake: At the moment, the Housing Executive's finance comes from two major sources: the rental income we get, which is in large measure supported by housing benefit, and direct grants from government. If the NDPB strategic authority remained as a public sector body, it would be funded through the direct grant route. One of the issues that would be open for debate would be whether housing authorities in Northern Ireland, including other associations, should make a contribution to the cost of the strategic authority. I believe they should. The Housing Executive would certainly support the argument that all social landlords in Northern Ireland should contribute to the cost of a regulatory body and a strategic body. Of course, the strategic body is exclusively a public sector function, so the principle funding is likely to come from government.

That is an example of where a lot more detailed work is need on the mechanics. At this stage, all we really have is a broad indication of direction. Your points are very well made, and I have no doubt that my colleagues in DSD will be thinking carefully about those issues.

Mr F McCann: I have one final question. In one of their responses, the officials from the Federation of Housing Associations were near enough saying that there is no real rush into this and that the setting up of a landlord organisation could be done over 10 years or more. What is your opinion on that?

Dr McPeake: That is completely wrong. That is why I made that point about the funding, and I gave you the figures about the capital investment in our stock. We just cannot do that work now. We have an obligation as a major landlord to improve the stock for the benefit of tenants. We are very aware of the other issues that we have talked about, such as the rising problem of fuel poverty and worklessness. Those are affecting many households in Northern Ireland and are serious issues that we are facing right now. It would be wrong for us to end up taking a complacent approach here.

This is an important issue, and we need to get a coherent plan together for dealing with it. I fully accept that there may well be a staged or phased basis for implementing it, but, as I said before, there needs to be a coherent plan to give confidence to staff, tenants and all of the stakeholders involved. If we wait, it will be a disaster.

The Chairperson: Thanks for your brief contribution, Fra.

Mr Durkan: Welcome to the panel. I am a firm believer in the adage, "If it ain't broke, don't fix it". The previous Minister's announcement about his plan for this review was not so much a condemnation of the Housing Executive as broken but more a recognition that it could be made to work better. I am sure that you would agree with that. Ideologically, I am opposed to privatisation, which is how this will be portrayed. Practically, however, I think it is vital that we look at how to remove the shackles from the Housing Executive or whatever new body there is and to maximise its ability to draw down finance, not only to bolster government money for much-needed newbuild but to enable you to maintain and improve existing stock.

As it is, the stock is becoming not just dilapidated but depleted. When the Housing Executive does not have the money to renovate housing, it hands over responsibility for doing so to housing associations. Although that is very much a win for residents — I see people from Rinmore in my constituency sitting behind you — it is not a cost-neutral one for government. What stock has been given or gifted to housing associations in such a manner to date?

Dr McPeake: It is a relatively small number. The stock that we have transferred over the years has largely been derelict and vacant. I guess that the number would be in the hundreds. As a pilot example, Rinmore was the first stock transfer of tenanted property. We are close to finalising a protocol with the Department to bring together a programme for around 2,000 properties that could be transferred in that way. That is happening because there is recognition that the Housing Executive does not have the capital to do it. However, we do not believe that that is the best solution. When we stopped the multi-element improvement (MEI) programme, we had 5,600 properties to improve. I do not have the exact figures, but if you assume, for the sake of argument, that, conservatively, it costs about £1 million to improve 40 properties, you can see that we are talking about in the region of £150 million to £200 million, if not more, to improve those properties. If large numbers of properties transfer to a housing association movement, questions will generally be asked as to whether the capacity exists to take them and to service the newbuild programme as well.

We fundamentally believe that the review itself is focused on giving a mechanism that allows the Housing Executive to borrow money privately and to invest in its own stock. To be honest, those 5,500 properties are the tip of the iceberg. I used to use the example of the Forth Bridge: however, I understand that different paint is used now, so the bridge does not need to be repainted continuously. Nevertheless, our stock investment is like that example. The same goes for your home: you might do work on it after 25 years, but that property has a 100-year life, and it will need reinvestment several times during that life. The fact that we have invested previously to improve property does not mean that the job is done for ever. Given that there are 90,000 units, I think that there is a serious investment risk ahead. Although the housing associations could certainly make a contribution through small-scale transfers, we do not believe that that is the best way forward.

We believe that a fundamental review offers a significant advantage. It also allows the Housing Executive landlord to stay intact. All the values that have underpinned the organisation over 40 years are still there. The ones that I would emphasise in particular are the fact that I do not think anybody has any difficulty contacting the Housing Executive — we are accessible and responsible — and that there is a respectful relationship with politicians. None of those things will change if you change the structure. However, if you divide and subdivide the role of the landlord or cherry-pick bits and pieces on a large-scale basis — doing it on a small-scale basis will not make much difference — we will end up throwing out a lot of the things that have worked well for Northern Ireland over the years. We all have the same view that we need a smarter way of doing this. As you say, rightly, it is all about getting access to private money. We think that this is the least painful and most efficient way of doing it.

Mr Durkan: I was interested in the ideas mooted around the social enterprise model, particularly the microfinance proposal, which would ease suffering for a lot of your tenants and a lot of people throughout our communities. That will become more of an issue following the impact of welfare reform, which is coming fast. Do you think that the Executive have the capacity to fulfil such a function?

Dr McPeake: As an NDPB we would not be legally allowed to do that, but, as a social enterprise, absolutely. We have seen a couple of examples where that has happened, so we would not be breaking new ground, but we believe that it is the right way forward. It may seem a little odd to be saying it, but it makes financial sense for us to lend tenants money to pay the rent. If they are already borrowing money from somebody else who is charging them an extortionate interest rate, it would make sense, from our point of view, to squeeze that extortionate and predatory lender out and look for a way in which we can get a win-win situation. We can help the tenants, we have an honourable, trustworthy method of doing that, and we benefit because we get our rent paid.

We are also concerned about that because, with the proposed changes in welfare reform and universal credit, one of the big issues is that you may not — it depends on what happens — get direct rent payments to the landlord. If the benefit payments for all sources go directly to the household, it is going to work for some of them, there is no doubt about it, and I am sure it will be a good thing for a lot of people, but, equally, there will be a large number of people who will find that very difficult. Our conservative estimates are that our rent arrears are likely to go up by between £10 million and £15 million a year in that sort of scenario, so we would need to look for ways in which we can help tenants to better manage their resources. We are already putting a lot of time and effort into financial inclusion work, budgetary advice and things like that. That is going to become a critical part of our future business. We think that microfinance would work alongside that as another tool in our toolbox.

Mr Durkan: Finally, I was wondering whether the Housing Executive has had any, or much, dialogue with the Minister or the Department. Do you have any inkling of the Minister's view on the review?

Dr McPeake: We do not. The Department has been very fair with us. It involved us in the early stages, when PricewaterhouseCoopers was first commissioned. There were a number of joint seminars with the Housing Executive, and the departmental officials worked hard to make sure that they understood our views, and gave us an opportunity to present our input to the PricewaterhouseCoopers review, which is what I have given you today. Like the other stakeholders, we do not know what the final version of the PricewaterhouseCoopers report is like, and we do not know what the Minister's thoughts on it will be.

Mr Durkan: Join the club.

Dr McPeake: We are interested to see what happens. We believe that there is a pressing issue of time. We know that it is not going to happen overnight, but that is all the more reason why we should be trying to get on with it, and it is why I said earlier that we do not think that people should be complacent about it and that we cannot afford to wait. There is a job of work to be done. I am concerned about the fact that legislation is going to be needed for it. There is a lot of work happening at the moment with the review of public administration. You could very easily lose the slots in the legislative timeline, and you could see extended periods of delay. We believe that there is a time pressure.

Mr Brady: Thanks very much for the presentation. In the last mandate, the Department basked in the reflected glory of the Savills report for quite a while. What you are saying is that that is now obsolete, in a sense, because, the older the stock gets without proper maintenance, the worse it gets. You were talking about £1 billion over five years at least. You seem to be saying that it needs to be done much sooner, rather than later, so there is an urgency about that. In terms of the approach, I think you are saying — correct me if I am wrong — that that consistency needs to be maintained. If it is fragmented, that will not be maintained. That seems sensible. What is the main issue about maintenance? Is it financial or is it about getting the work done? Finally, in terms of the current social housing programme, have you any idea of the numbers that have been, or are likely to be, completed in the current year?

Dr McPeake: First, we are well resourced for maintenance. I have to say that, to be fair, when Minister McCausland took up his position, he was very clear that he wanted to rebalance the investment across the housing family to move to a more balanced position of investing in stock as well as investing in newbuilds. That is clearly what has happened. We have been well funded for our day-to-day maintenance work and our planned schemes. Maintenance is a revenue expenditure, so, in the year just passed, for example, it would be fair to say that we have had record levels of investment in planned maintenance. If you count heating, external cyclical maintenance (ECM) revenue and kitchen replacement, we have done work in more than 19,000 properties. That is a 10-year high for investment in stock, but that is revenue money.

We focused on the need for capital improvement in the stock, and there are big issues with that because a lot of our stock was built in the 1960s and 1970s and is small, needs to be restructured and extension costs are involved. That is not cheap, and it cannot be done with a few thousand pounds. It needs a lot of investment.

The Savills report still has currency, and a lot of issues in that are very relevant to us. Our maintenance investment strategy, which is maybe incorrectly titled because it includes that improvement work, is informed by the Savills review, and we say that it will cost about £1 billion on the basis of that. However, we think that, given the way things have moved in the past several years, with fuel poverty and energy issues, that is probably a conservative estimate now.

You asked me about fragmentation. That is right; that is our belief. We think that the Housing Executive, warts and all, has at least been a consistent service across the whole of Northern Ireland. It brings value, I believe, to local communities. They know what they get with us and how to deal with us, and we think that we offer a value-added service. We want that to be maintained as a single landlord entity.

I cannot comment on what the newbuild completion figures for this year will be, but the Programme for Government has a target of 1,350 for this year. We believe that sufficient resource is being allocated to the Housing Executive and, in turn, to housing associations to deliver that. The key is making sure that associations bring their scheme proposals forward on a timely basis, and our current priority is to make sure that, having just got finished one financial year, people do not just step back and take a deep breath. They need to make sure that they maintain momentum and bring their schemes forward. That is one of our focuses at the moment.

Mr Copeland: John, you recently attended the Public Accounts Committee, and I will ask this question with tongue in cheek. It is largely based around stock transfer and corporate debt. The Housing Executive, like any body, will have a bottom line of what it owes; that is, its assets less its liabilities and corporate debt. However, if you have 90,000 properties and you sell 1,000, one ninetieth of the corporate debt is attached to those properties. If you transfer those properties, you will increase the corporate debt owing against the rest of them. Might that occasion raised eyebrows in the Committee that I referred to?

Dr McPeake: Stewart is offering to comment on that as an accountant. I will say a couple of things first. We have good information on the Housing Executive's debt, and we have the historic cost information on all properties. So, we are able to provide a more accurate figure than that.

Mr Copeland: Is there an enforcement of establishment charges on those or is it just the hard cost?

Dr McPeake: We have full information on that. We are very conscious that, if the Minister wants to conclude that the landlord should convert to a housing association-type model, one of the issues would be what to do with the overhanging debt. The overhanging debt has been coming down very substantially over the years, and we believe that there is significant equity to enable us to resolve those issues without too much problem. Stewart may want to add a few more technical points.

The Chairperson: Could we be conscious of not straying into matters of accountancy or into another Committee's work? We are trying to deal with the review and the restructuring.

Mr Copeland: It is fundamental to the review.

The Chairperson: I am conscious of straying into another stream of work that does not apply to us.

Dr McPeake: Dealing with that debt will need to be worked out in detail.

The Chairperson: Are we happy enough, Michael, to leave it at that?

Mr Copeland: I will talk to them afterwards.

Mr Cuddy: It is not a show-stopper, let us put it like that. It is one issue that has to be tackled.

Mr Copeland: I am curious about how it can be done, because I can imagine what it will mean somewhere else, possibly.

The Chairperson: No other members have indicated that they want to speak. Are members and witnesses happy enough to move on to the second item?

Dr McPeake: I will pass over to Stewart Cuddy who will take you through that, Chair.

Mr Cuddy: As you know, we have just published the 'Northern Ireland Housing Market Review and Perspectives 2012-2015'. It is, obviously, set against a pretty uncertain and bleak economic context because, as you will know, any market, particularly the housing market, is very much influenced by the overall strength of the economy. You will have heard yesterday, of course, that two quarters of negative growth in the economy means a double dip. So, effectively, we are in recession. You will also be aware of the whole question of the Euro and sovereign debt, and that issue probably still has not been resolved. Again, looking ahead, it is a very uncertain economic context, and, potentially, it is a pretty bleak one.

The review then goes on to look at the various tenures and what is happening in those tenures. The biggest tenure is owner-occupation, but, interestingly enough, as a percentage of total stock, owner-occupation is coming down. It is going up in numerical terms but decreasing in percentage terms. In 2006, 66·5% of housing stock was in owner-occupation. According to the latest house conditions survey, which was done in 2011 and has just been published, that is now down to 61·7%. Again, that is related to the market, and, as you will know, people are having difficulty funding owner-occupation. That is to do with availability of finance and is also linked to employment. One of the contradictions in the market that the housing review picks up is the fact that affordability has actually increased very significantly. In fact, the review's figures show that the average house price in quarter 4 of 2011 was £137,000. That has been a 45% reduction since the height of the market in 2007, yet first-time buyers are still struggling to access finance and also have no great confidence that the market has bottomed out. They do not want to end up buying an asset that may end up in negative equity. That goes back to the issue of uncertainty in the economy and the question of unemployment despite the fact that house prices are very affordable.

The other thing that we pick up on is private sector construction. That has slowed considerably. It is around 6,000 units per annum, whereas, a couple of years ago at the top of the market, it was well above 12,000. Again, that reflects the downturn in the economy.

The private rented sector is, increasingly, a very important market for housing and for tenants and prospective tenants. The private rented sector has grown significantly over the past number of years. Our latest figures are that it represents 16·5% of the market, which means that one in six properties is in the private rented sector. If you take vacant properties, it is actually one in five. Increasingly, we will rely on the private sector to deal with a number of our applicants. Increasingly, we will be dealing with people who are in greatest housing need. That may mean that single people and young people may be looking to the private rented sector to provide their accommodation. The chief executive talked about welfare reform, the impact of which is likely to mean that the private sector will be asked to respond to a lot of those applications. The private sector continues to play a vital role in meeting housing need, whereas the Housing Executive will focus primarily on the people who are in greatest housing need. As I said, ongoing changes to the housing benefit system, particularly the reduction in local housing allowances and the extension of the single room rate to include young people up to the age of 35, will have an impact on that sector. There may be an increase in houses in multiple occupation, where, increasingly, young people have to share their accommodation.

On the issue of housing conditions, John alluded to the fact that, for the first time, there has been a slight increase in unfitness. It had been coming down. The previous house condition survey in 2009 indicated that unfitness was at 2·4%. It has now gone up to 4·6%. Having said that, I would point out that that is primarily the case in the private sector, particularly the private rented sector, and it is also particularly associated with vacant stock. There has also been an increase in vacant stock. Again, that possibly reflects the fact that people are perhaps not able to carry out the improvements and repairs, and it could also be that people wish to do improvements in transition to tie in to the private rented sector.

I turn to social housing. Increasingly, housing need is a major issue for us. The waiting list continues to grow. Over 40,000 applicants are now on the list, over 20,000 of whom are in priority housing need. As to the newbuild programme, we estimate through the net stock model that we need at least 2,000 new stock per annum. The chief executive alluded to the Minister's rebalancing between revenue and newbuild. The problem is that, because we do not have funds for all our priorities, there will be increasing pressure on newbuild. If we need a minimum of 2,000 per annum, and we have got a programme of around 1,300 or 1,400, that backlog will inevitably increase.

Again, the chief executive raised a point in relation to whether we can rely on the housing associations to do all the capital improvement through transferring our stock and delivering the newbuild programme as well. That is why we do not think that is feasible. We need a new model for the Housing Executive so that it can deal with not only its own capital improvement in the short term but, hopefully, the newbuilds in the medium to longer term as well.

The final point I would like to make is about the demographics in the Province. We are increasingly seeing a rise in the number of older people and those over 75. That will bring with it a number of significant implications for housing in the design of dwellings and the demand for supported housing and care to help those people remain in their own homes. Another advantage of the social enterprise model, although it is not a panacea for everything, is that it can help with local employment as well. If you are an elderly person, and your garden is overgrown or you need some maintenance carried out, that could be done through a local enterprise, through a handyman-type service. You could employ people to do that and charge an affordable price for those services. A lot of these problems can be alleviated or mitigated by the type of model that we and PricewaterhouseCoopers have advocated.

It is against that background that the review was carried out, and it indicates that we are in for a very difficult time. There are a number of challenges on the horizon that arise from welfare reform, the economy and the availability of funding for housing.

The Chairperson: Stewart, against that somewhat bleak perspective, what, in your view, are the priorities and what should we be doing ?

Mr Cuddy: My personal view, and I hope that the chief executive will agree with me, is that we really need to sort out the model in the PwC report. That will give us some certainty. That will enable us then to deal with some of those priorities; the clear priority being improvements to our stock. It will allow housing associations to continue to focus on newbuild. It will allow us to work out a finance model to determine to what extent we can also get involved in newbuild and after what period of time. It will help us to embed the new social enterprise in the community, because it will be a community-based organisation. Again, clearly we will not be able to deal with everything. We will have to work very closely with the private rented sector. We will have to work with our colleagues in the Department who are working out a strategy for the private rented sector in terms of regulation and registration, rent deposit schemes and signposting to help those people who may be struggling, under welfare reform, to find suitable accommodation.

The Chairperson: OK, Stewart, thank you very much. I think you gave the right answer there, judging by the vibes I am getting from your colleagues.

Mr F McCann: Chair, I will be brief. It was certainly interesting to listen to your presentation, Stewart. The information that was coming through yesterday about slipping back into recession will have a knock-on effect on house prices. You spoke about the average price, but, certainly in the area that I live in and represent, a former Housing Executive flat is going for £20,000. Three-bedroom houses that were going for £160,000 are now going for £40,000, so there has been a huge drop that has forced quite a number of people into negative equity right across the board. All the indications are that that is going to increase as different forms of mortgages start to come into play. That will have a knock-on effect on the waiting lists. The housing rights people have indicated that there will be a serious increase in the numbers on waiting lists. Have you had any discussions on how you deal with people losing their homes and turning to yourselves to be housed? Have you been looking at any ways to help people in those circumstances? There have been arguments about it costing more money for someone to lose their home and leave it, go onto a waiting list and go into a hostel than for them to stay in the house under some different type of tenure, whether it is to rent and buy back or whatever.

Mr Cuddy: There are a number of initiatives. The chief executive is involved in a number of discussions and groups looking at how to mitigate the impact of welfare reform on housing. A number of issues are being explored on how we deal with that.

On the issue of housing, we are also in discussion with the Department about different forms of ownership, such as shared equity, intermediate measures and more affordable housing. We are looking at those models in addition to the co-ownership model. So, those will be additional models that other housing associations will be able to provide.

In terms of intermediate measures, we are running a number of pilot schemes that involve contributing land to allow a developer to develop low-cost and affordable housing. Again, we are doing that to try to deal with the transition from social housing to some form of owner-occupation. So, quite a number of things are being looked at.

Also, we have been asked to carry out some research by the Department. Something we are particularly interested in is the whole question of mortgage rescue. Clearly that is a policy issue to be taken forward, if it is deemed appropriate, by the Minister and DSD.

Dr McPeake: I will briefly comment. One of the things that is unusual about the current recession compared with the previous housing market collapse in the UK is that repossession levels have been relatively low. So, a lot of lenders, because of the seriousness of the issue and the sheer numbers that are involved, have realised that it is in their interests to allow people to remain in their homes and that repossession should be an absolute last resort.

One of the points that I made in my comments about the fundamental review was that we recognise that there are so many pressures in the housing market, all of which are likely to result in an increased demand for some form of public intervention to help. Those public interventions are, by and large, not costless, which is another reason why we think that being able to take £1 billion out and convert it to private borrowing rather than public money leaves the money that is left to support those other sorts of things.

Those sorts of initiatives to deal with people who are in serious negative equity usually involve some form of tenure transformation. There are a couple of examples in Scotland that our colleagues in the Department have been looking at, there have been a couple in England and there is an interesting example down South. I know colleagues in DSD are looking at those issues. Very few of the interventions are costless; they usually involve some form of public help. It is just symptomatic of the fact that there are more needs and challenges than there is resource available. On the table, we have a fundamental review option that would go a long way to solving our problems but which, as a consequence, would free-up the money that we otherwise would have had to get from the state to support those other sorts of things.

Mr F McCann: Running through not just all your presentations this morning but even the questions that have been asked has been the fact that uppermost in people's minds is the impact of welfare cuts made under the guise of reform. You mentioned the shared room allowance but did not touch on underoccupancy and the impact that that could have across the board. Are you looking into ways in which that could be dealt with? Have you even looked at an impact assessment on how it will affect people in Housing Executive properties?

Mr Gerry Flynn (Northern Ireland Housing Executive): Yes, we have been doing a lot of preparatory work on the direct impact. The implication of the shared room rate is that people who want to continue to live in the accommodation will have to find the difference. By the very nature of these cases, a lot of the people involved are relying on benefits and are not able to find the difference. There is some early anecdotal evidence that such people are starting to present as homeless. So, the system ends up picking up the tab, because we have a statutory duty to place people who present as homeless in temporary accommodation. The direct cost of that temporary accommodation to the public purse is greater than the original cost of renting the homes that the people were living in. We are doing some work on the analysis of that.

Earlier, Stewart talked about our research work with the Department to try to get a handle on the numbers of people who will be directly impacted. We have also had discussions with Mickey about how this impacts across the sector. We need to get a handle on the detail of all of the numbers, which we do not yet have.

As the chief executive mentioned, we have also looked at the read across of the impact of welfare reform on our tenants, in particular what people call the "bedroom tax" on people who potentially underoccupy. That has serious implications, and John referred to the potential for arrears to go up by between £12 million and £15 million a year. That will happen where you have a group of people who are not refusing to pay their rent but are just unable to do so.

We are not alone in facing that challenge, because the rules are the same across the UK. We have been working with other jurisdictions to find out how they are attempting to deal with that. We need to find creative ways of bridging that gap, either through some form of assistance — John talked about microfinance — or changing our rent scheme to try to abate that in circumstances where people are unable to pay their rents. That is because, in the current position, as a lender of last resort, people unable to pay our rents will potentially end up on the street. We have a statutory duty to pick up the tab for the homeless. This is not about people who are misbehaving as tenants; it is about people who find themselves in circumstances where they cannot afford to pay their rent. So a revolving-door situation may be created, and we do not want them to get into that.

A range of interventions need to be looked at. To be honest, we do not have the answers yet. However, we are doing a lot of detailed research to try to plan for this, and, as I said, we are not unique; virtually every other local authority in the UK is facing the same problems, albeit on a bigger scale.

Mr Copeland: I want Stewart to clarify a matter, and it is a drum that I always bang. You mentioned a waiting list of 40,000, of whom 20,000 were in housing stress. May I take it that you can confirm that those are 40,000 applications, not 40,000 people, and the people figure would be higher because an application can include, one, two or 10 people?

Mr Cuddy: Yes, absolutely.

Mr Copeland: There is a slight difference, so do the figures in both cases relate to applications?

Mr Cuddy: That is right.

Mr Copeland: Thank you.

Mr Durkan: It is outside your remit, but you touched on mortgage relief, so I thought that I would ask for your angle on the NewBuy scheme. Are you aware of that?

Mr Cuddy: There is a NewBuy scheme in the UK that does not apply here. John may want to come in with further information. I recently read that the uptake of that scheme was extremely low. In fact, the rates on offer from the accredited bodies or banks were higher than those you could get elsewhere. That was one of the reasons why it was not being taken up. I have no other information on that because it is specific to GB as opposed to Northern Ireland. It does not apply here yet.

Mr Durkan: That is fine.

The Chairperson: Gentlemen, as no other members have indicated that they wish to speak, I thank you for your very informative presentation and for dealing with our questions. I remind you that the Committee has asked to receive an early response to the Housing Executive review. Further to that, it has asked for a comprehensive housing strategy to be produced that deals with housing in the social, private rented and housing association sectors. We need an over-arching strategy that deals with those three components. However, I thank you, John, and your colleagues for your evidence. I have no doubt that we will return to this issue very soon.