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Housing Stock Options Appraisal

21 September 2023

Andy Roskell & Andy Chapman

- Scope of work
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- Key objectives / aims – defined
- Considerations
- Options explored
- Financial characteristics
- Options appraisal
- Proposed next steps



ABOUT DTP

Independent consultancy providing advice and support to housing providers, charities, commercial businesses and higher education establishments across the UK. Services include Strategy & Governance, Finance & Funding, Resources, Business Transformation, Care & Support and Compliance Assurance.



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PREVIOUS WORK FOR ISLE OF MAN GOVERNMENT

DTP previously undertook a formal housing review for IOM govt, which culminated in five formal reports being published in 2013. DTP has detailed knowledge of the Isle of Man Public Housing sector and related matters, including the Local Authority structures and funding regime. DTP currently provides financial modelling support to the DOI by way of deficiencies modelling.



ANDY ROSKELL

Managing Director of DTP

Over 30 years' experience in housing, both as a finance professional and as a strategic advisor to housing associations and local authorities.



ANDY CHAPMAN

Senior Consultant

One of the most experienced long-term financial planners, primarily on the Housing Brixx platform in the UK.

Scope of Work

- The Isle of Man Government's Council of Ministers wished to investigate preliminary stages of the development of a Housing Association for the government's housing stock.
- Department of Infrastructure (DOI) commissioned DTP to explore options, with a recommendation of a preferred option. Options to be identified / developed, with appropriate analysis and financial modelling being undertaken.
- Report to be completed between in July 2023, ahead of conference scheduled for September 2023.

Options Defined

- Housing Association for DOI stock only – Standalone
- Housing Association for DOI stock, plus other local authorities (undefined in this report) – Standalone
- Housing Association for DOI stock – with UK-based (existing) housing association parent
- Housing Association for DOI stock, plus others (undefined in this report) – with UK – based housing association parent
- Regional Housing Bodies

Key Objectives & Aims - Defined

Potential to eliminate disparities in the public housing arena and bring about long-term improvements;

- Enhancing and expanding housing services to assist in the delivery of national social housing policy needs, for example;
 - Provision of housing for care leavers
 - Homelessness
 - Housing support for vulnerable
 - Elderly housing need
- Deliver and maintain a sustainable financial business plan, including the capacity and ability to secure competitive funding in order to underpin this.
- Identify and secure economies of scale and to operate as an effective landlord and housing and assets manager.

Key Objectives & Aims - Defined

- Provide value for money in terms of the use of public funds (potentially enabling grant funding to be established where savings can be made)
- Deliver common standards in relation to property services and the maintenance of existing and new homes
- Operate effectively on the Isle of Man
 - Work within its laws, standards, and its regulatory framework (when established)
 - Assist in the establishment of regulatory framework
- Enable the Isle of Man Government to maintain appropriate oversight and influence over housing and associated policy
- Deliver new homes, working towards meeting housing need on the Island, in a sustainable development programme – targeting c.250 units p.a. – over initial 5 years
- Enable & facilitate a scalable solution which could, in time, accommodate the majority, if not all, of the Isle of Man's public housing stock

Appraisal Considerations

- None of the options appraised exist on the Isle of Man at this point in time - judgements and proxy numbers, drawn from experience, have (in some cases) been utilised to illustrate an option's characteristics and potential capacity.
- Appraisal has focused on outline assessment of each option's ability / capacity to deliver the criteria.
- Detailed legal aspects of the options are not explored - therefore financial assessment must at this stage remain at relatively high level.
- Wider consultation will be in order, following which updates and refinements can be made.

Options Explored

- Housing Association for DOI stock only – Standalone
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- Housing Association for DOI stock – with UK-based (existing) housing association parent
- Housing Association for DOI stock, plus others (undefined in this report) – with UK – based housing association parent
- Regional Housing Bodies

Option 1

Housing Association for DOI stock only - Standalone

- DOI stock transferred into a new housing association, established as an independent 'not for profit' company entity, aligned with housing association practice as seen in Scotland, England and Wales.
- All assets and liabilities transferred. Transfer Contract established, defining what transfers and what does not - includes housing and non-housing (but related) assets.
- New association governed by a skills-based board, typically populated from the community, taking account of good governance principles and reflecting the nature of the association's business and the diversity of the community that it will serve.

Option 2

Housing Association for DOI stock, plus other local authorities (undefined in this report) – Standalone

- DOI stock transferred into a new housing association, established as an independent 'not for profit' company entity, aligned with housing association practice as can be seen in Scotland, England and in Wales.
- All assets and liabilities transferred. Transfer Contract or Agreement established, defining what transfers and what does not. Includes housing and non-housing (but related) assets.
- In addition - the stock from other local authorities (undefined in this report) would be transferred, along with the DOI stock.
- New association governed by skills-based board, typically populated from the community, reflecting nature of the association's business / diversity of communities it will serve.

Option 3

Housing Association for DOI stock - with UK-based (existing) housing association parent

- DOI stock transferred into a new housing association, established as an independent 'not for profit' company entity, aligned with housing association practice.
- Proposal would see the new housing association established (from the outset) as a subsidiary of an (as yet to be determined) existing UK housing association / group – which would become the 'parent' of the new association.
- Provides for level of autonomy for board of the new association, as not possible for parent for subsume the new association into the rest of the group.
- Parent must recognise and operate within two separate legal jurisdictions and two separate regulatory regimes – once established.

Option 4

Housing Association for DOI stock, plus others (undefined in this report) - with UK-based (existing) housing association parent

- This option would see the DOI stock, plus others (undefined in this report) transferred into a new housing association, established as an independent 'not for profit' company entity, aligned with housing association practice as can be seen in Scotland, England and in Wales.
- Provides for level of autonomy for board of the new association, as not possible for parent for subsume the new association into the rest of the group.
- Parent must recognise and operate within two separate legal jurisdictions and two separate regulatory regimes – once established.

Option 5

Regional Housing Bodies – wholly government owned and funded

- The Housing Bodies would work with each other and with DOI to deliver a high quality and cost-effective housing service across the Island.
- The Housing Bodies would set up and lead a joint procurement service. This is considered essential in order to deliver the improvements in service and reductions in costs that are detailed in the separate Procurement Review report.
- The Housing Bodies would consider sharing others' services and developing specialisms that are available to each other.
- For example in relation to Older People's services it will be essential that the Bodies work together and share expertise.

Financial Characteristics & Modelling

Option 1	Option 2	Option 3	Option 4	Option 5
Housing Association for DOI stock only - Standalone	Housing Association for DOI stock plus other local authorities (undefined in this report) - Standalone	Housing Association for DOI stock with UK-based (existing) housing association parent	Housing Association for DOI stock plus others (undefined in this report) – with UK-based (existing) housing association parent	Regional Housing Bodies
Modelling Assumptions				
<p>DOI stocker transfers into newly established Housing Association.</p> <p>DTP has used proxy numbers from UK –provided £2m management costs and similar for repairs.</p> <p>Capital costs – annual allowance, uplifted by growth and CPI assumptions to current day figures. Current levels of works assumed.</p> <p>No payment for national debt – balanced by delivery of 250 new homes over first five years.</p> <p>Debt aligned to conventional housing association loan covenants – assumed to be repaid over a 40-year term.</p> <p>Draft business plan appears sustainable on EBITDA (interest cover) loan covenants.</p>	<p>Similar to Option 1 – but with addition (including debt) of two authorities of reasonable scale.</p> <p>Current position shows associated with additional stock.</p> <p>The options assumes delivery of 250 units, over five years, but the business plan projects (notional) loan breaches in the early years.</p> <p>Option 2a does not represent a viable option, largely due to the assumed debt carryover.</p> <p>DTP modelled on Option 2b – assuming payment of an annual dowry from IOM Government of £2.3m – not inflated, throughout the 40 years. Subsidy compares favourable with annual HDP subsidy of c.£4.4m – which would not be paid in this option.</p>	<p>This option is similar to Option 1 – but assumes notional savings / efficiencies modelled, assuming what could be achievable in this type of option, drawing on typical economies of scale which might be envisaged from a partnership with a reasonable size UK-based (existing) housing association group/parent.</p>	<p>This option is similar to Option 2, but assumes (as with Option 3) this is within a group structure, in a partnership with a reasonable sized UK-based (existing) housing association group/parent.</p> <p>Option 4a is not a viable option, as loan breaches occur in the early years of the business plan.</p> <p>DTP modelled an Option 4b – assuming payment of an annual dowry from IOM Government of £1.7m lower than in Option 2b. Cost of dowry is c.38% of the assumed cost of HDP payments which would not be paid in this option. This represents an annual saving of c.£2.7m.</p>	<p>DTP has not created a business plan for this option, which assumes moving all housing authorities to a regional arrangement. This would include regional bodies in North, South, East and West plus Douglas.</p> <p>Assumptions have been modelled using the HDP model. When consolidated, the DOI stock, around £8.9m of HDP subsidy is assumed to be required, from current plans. When DOI stock is added, it is estimated that around £3m would be reduced from the HDP requirement.</p> <p>DTP modelled additional costs, drawing on existing costs for the DOI management team and assuming economies of scale (at say 10%), we can see a</p>

Financial Characteristics & Modelling

Option 1	Option 2	Option 3	Option 4	Option 5
Housing Association for DOI stock only - Standalone	Housing Association for DOI stock plus other local authorities (undefined in this report) - Standalone	Housing Association for DOI stock with UK-based (existing) housing association parent	Housing Association for DOI stock plus others (undefined in this report) – with UK-based (existing) housing association parent	Regional Housing Bodies
Conclusions				
<p>No saving of public funds – but 250 units being delivered over the first five years.</p> <p>On the face of it, this appears a reasonably practical / achievable option.</p>	<p>This options assumes 250 units being delivered over the first five year, but his is only viable with an annual dowry, as modelled in Option 2b. The annual dowry required would be less than the current HDP assumption saving c.50% of HDP (c.£2m – and growing – as the assumed dowry of £2.3m would be flat (not inflated). More saving would be possible if more authorities were to be included.</p> <p>Current DOI surpluses would be lost to DOI – as these would subsidise the business plan, when consolidated with the two authorities.</p> <p>This can be seen as a sustainable option (Option 2b), albeit with a greater degree of consultation required than would be the case for Option 1.</p>	<p>This options assumes 250 units could be delivered over the first five years – possibly more.</p> <p>There is no saving of public funds in this option.</p>	<p>This options assumes 250 units being delivered over the first five years, but this is only viable with an annual dowry, as modelled in Option 2b. The annual dowry required would be less than the current HDP assumption, saving c.38% of HDP. More saving would be possible if more authorities were to be included.</p> <p>This option needs a dowry, but a lower dowry than required in Options 2b, due to the assumptions made regarding economies and efficiencies through being part of an existing group.</p> <p>Current DOI surpluses would be lost to DOI – as these would subsidise the business plan, when consolidated with the two authorities.</p>	<p>Would save c.£3m p.a. (until loans are repaid) in HDP, due to subsidy from surplus in DOI stock. This is lost revenue to DOI however.</p> <p>No delivery of 250 units assumed, other than what is already in the Pink Book.</p> <p>All stock, excluding DOI is negative in financial terms. Combining authorities does little therefore. Combining non-DOI stock with DOI stock, there is an obvious improvement, because they may surpluses. In 2024/25 this would amount to £2.9, savings (HDP saving of £8.7m from £5.8m). However DOI surpluses would be lost, although there would be saving on HDP – assumes (say) 10% economies of scale on management costs (including procurement savings) – this amounts to just £350k.</p>

Options Appraisal

- If **Option 1** was selected as a preferred option and seen to be successful in achieving its key objectives, there would appear to be potential for this model to be scaled up, with further consultation and the support of key stakeholders.
- **Option 2**, on current assumptions, would only be viable with the provision of a dowry.
- **Option 3** has less attraction as a viable option if **Option 1** can be progressed effectively. **Option 3** is similar to **Option 1** but with the involvement of a UK-based housing association / group. If **Option 1** was considered viable and practical therefore, without the requirement of a partner / parent, then it would, in our view, make sense to select **Option 1** as a preferred option.

Options Appraisal

- **Option 4** requires a lower dowry than **Option 2**, assuming that economies and added-value can be generated from the inclusion of a UK-based housing association / group. Whilst a dowry would represent a lower contribution than current HDP subsidy levels suggest, **Option 2** and **Option 4** would, it is considered, present greater challenges in securing stakeholder support, than **Option 1**, which only assumes the transfer of DOI housing stock.
- As **Option 3** and **Option 4** both assume involvement of a UK-based (existing) housing association / group, whilst considered potentially capable of offering additionality, such as broader service potential, experience in regulation and other benefits, we consider these options may prove challenging in terms of their capacity to secure the wider support of key stakeholders.

Options Appraisal

- As such, whilst potential could be achievable in the longer term, effort and resources deployed in these options (**Options 3 and 4**) in the short term may generate little practical progress and could inhibit and stall progress towards the achievement of the aims envisaged within the defined criteria.
- **Option 5**, as currently defined, exhibits weaknesses when compared to the other options, including an apparent lack of capacity to deliver new homes and a continued requirement for HDP subsidy, although these proposals do envisage improvements in other areas, including potential for introduction of common standards and services, greater sharing of expertise and experience and, through the establishment of a joint procurement body, some potential for economies of scale and efficiencies.

Options Appraisal

- As with some other options (**Options 3 and 4**, in particular), there would, on the face of it, appear to be significant challenges in being able to secure enough stakeholder support to make early progress for **Option 5**.

Options Appraisal

- A basic assessment of 'Fit' with established criteria was undertaken – without application of any weighting.
- Table shows Option 1 as 'Best Fit'.

Ref	Criteria - shortened version	Option 1	Option 2	Option 3	Option 4	Option 5
1	Potential	1	2	2	2	1
2	Financial / Funding	3	1	3	1	1
3	Effective landlord / Assets and Housing Manager - economies of scale	1	2	2	2	2
4	Value for Money and Public Funds	3	2	3	2	2
5	Potential to deliver common standards	3	3	3	3	3
6	Capable of operating within IOM legal framework and regulation	3	3	1	1	3
7	IOM Government - oversight / influence	2	2	1	1	3
8	Potential to deliver new homes	3	3	3	3	1
9	Potential scalability	3	3	2	2	2
Scores		22	21	20	17	18
Ranking		1	2	3	5	4

Proposed Next Steps

- Adopt Option 1 as the preferred option, for wider consultation and further, more detailed, examination.
- It is proposed that this report is circulated for initial consultation and discussion with key stakeholders, to establish whether the aims of the commission have been addressed.
- It is proposed that, following initial consideration of the report, that wider consultation with stakeholders, is undertaken, with briefings provided, to ensure the best possible understanding is achieved – of the options, the current assessment of these and the recommendation that have been made.
- It is proposed that key matters arising from initial and wider consultation are gathered and considered for potential input into further analysis proposed in the recommendation above.



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