

An Emerging Imperative For Partnerships?

The need for Scottish Housing Associations (“HAs”) to diversify income and build resilience into their business models continues to grow. HAs are responding in a range of interesting ways to uncertainty on the future grant environment they might face post 2021, volatile macro-economic conditions and continuing pressure to deliver on development objectives. New approaches are proactive in recognising the potential that Scottish HAs may face similar pressures to those of English peers and so need to further leverage their capital base.

Where in England this has been addressed primarily through increasing focus on development for sale, shared ownership and market rent there has also been a greater propensity to both HA mergers and developing partnerships with other organisations. HAs are well positioned to consider such partnerships; they are widely viewed as a trusted partner, have strong existing relationships, remain community rooted and often have a strong capital base, established infrastructure and deep skills pools.

Partnering opportunities may not be appropriate for all organisations or in all circumstances but where a HA can exploit an existing comparative advantage and has the capacity to manage the opportunity effectively, including retaining cost control, they offer an opportunity to deliver more for tenants and support the existing organisation.

QMPF is seeing an increasing number of clients, both HAs and others in the quasi public sector, looking at partnership approaches. Some of the possibilities for Scottish HAs are considered briefly below.

Potential Partners

Partnerships are not new to HAs and many have existing relationships to leverage. There is a belief that the relative size of HAs in Scotland has made it more difficult to achieve the ‘critical mass’ to support partnering. Yet successful examples exist. HAs could consider options to partner with:

Local Authorities:



HAs already work with the Local Authorities in their areas of operation, but formalising that relationship alongside other relevant agencies (e.g. Fife Housing Partnership) can improve operational certainty. Joint venture arrangements, development partnerships, on-lending from Councils and land transfers could all offer opportunities to Scottish HAs and have been pursued more actively in the rest of the UK.

Other Housing Associations:



Mergers or creation of group structures have been less common amongst Scottish HAs but can offer opportunities for efficiencies where operational approaches are aligned. Wheatley, Link and Caledonia have all succeeded in retaining identities with a group structure. Less formally, Strategic Collaborative Working Agreements, of which Fife Housing Association Alliance is a prominent example, can offer similar benefits and opportunities from development and wider community partnering perspectives. Other collaborative working and shared services approaches may also be attractive.

Wider Public Sector:



Other public sector bodies (e.g. NHS Boards, Universities, Blue Light services) can have a housing need for staff, trainees, students and patients, as well as availability of surplus land. HAs can provide a partner with expertise in developing and managing relevant assets and through this diversify their existing business and enhance placemaking. QMPF is actively advising on such a collaboration for a Scottish HA.

Other Partnerships:



A number of our clients have successfully collaborated with other entities, for example Eildon HA’s partnership with Hart Builders has delivered development efficiencies and clearer community benefits, and Berwickshire HA’s delivery of renewable energy assets with Community Energy Scotland offered an innovative way to diversify income. These opportunities require suitable due diligence, both financially and more generally, but can offer real benefits for HAs and their customers.

Considerations

Partnering opportunities are not a panacea. HAs are too often viewed as homogenous entities, but what suits one organisation may not fit with the culture, financial position or objectives of another. As with any change to strategy, and similar to considering new opportunities for non-charitable subsidiaries, it is essential that HAs evaluate the opportunities and risks associated with any partnering opportunity.

A range of factors to consider include if it offers:



- Creation of more diverse income streams?
- Efficient use of existing capital, human resources and assets?
- Opportunities to create diverse communities?
- Cross pollination of ideas?
- Fostering of a collaborative approach and avoids unnecessary competition for land and other resources?
- Opportunity to deliver jobs, apprenticeships or trainee programmes within the communities served?
- Where relevant, effective outsourcing of risk?
- Opportunity to leverage more efficient funding?
- Clearly demonstrated enhancement of value for the organisation?
- Dilution of focus on the HAs stated purpose?
- Potential for diversion of management focus?
- A comparative advantage for the HA in any new area of operation?
- Risk that diversifying reduces focus on core customers.



- Does the opportunity concentrate risk, rather than diversify it?
- Associations should consider the impact of any changes on its credit position, financial risk and regulatory risk.
- Is any ‘early adopter’ risk relevant and appropriate?

QMPF have experience of a range of partnering approaches often providing clients with preliminary advice as part of existing treasury advisory mandates. We can also offer more formal structuring and evaluation support.

How can QMPF help?

QMPF has extensive experience advising the public sector on considering, evaluating and financing of a range of partnering structures. More widely, we offer a range of other services to the HAs sector including:



Fund Raising and Debt Advisory Services

- Debt options appraisals and liquidity requirement evaluation
- Capital programme reviews and affordability analysis
- Funding strategy development and market testing
- Debt raising: RCFs, term loans, private placements, aggregator funding and government supported finance
- Grant application support



Strategic Advice

- Independent project appraisal
- Partnering options review
- District heating / Other renewables financial evaluations



Treasury Advice

- Retained advisers: market data provision, swap valuation, counterparty assessment, negotiation support
- Treasury policy development
- Annual treasury strategy: development or review
- External treasury reviews
- Board Training



Development Appraisals and Business Cases

- Bespoke financial model development:
 - Supporting financing solutions and project appraisal
 - Financial forecast support and sensitivity analysis
- Business case development

Some Recent Credentials



Berwickshire Housing Association

Loan Refinancing and Treasury Advice

April 2019 and Ongoing

QMPF advised Berwickshire HA on the refinancing of borrowing for the Hoprigshiels Community Wind Farm project, including an options appraisal, project financial model review and negotiation support. QMPF was subsequently appointed to provide retained treasury advice to the Association and continue to provide advice under that remit.



Private Sector Housebuilders

Social Housing Delivery

September 2017 and Ongoing

QMPF has advised several private sector regeneration specialists and housing contractors on bidding and financing offers for delivery of new social housing. The completed projects involve a Local Authority granting long lease (or a series of long leases) in order to deliver new housing. The Local Authority also set an affordability cap for the project.



Eildon Housing Association

£40m Debut Private Placement

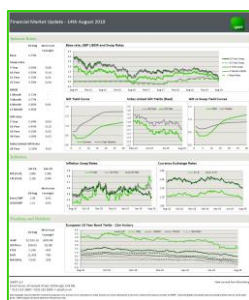
June 2019

QMPF provided pre-launch planning and analysis, procurement support, Board training, independent challenge to the lead arranger and quantitative assessment of funding bids received for Eildon HA's debut private placement. The financing will support the delivery of over 750 new homes by 2021, with the funding drawn in two tranches.

Regular Market Updates

Would you like fortnightly funding and market data and commentary, direct to your inbox?

- Swap and gilt rates
- Libor rates
- Inflation swap rates
- Bond yields



If you would be interested in receiving this free update service please email info@qmpf.co.uk or contact one of our team.

What Our Clients Say

QMPF supported Kingdom Housing Association's £85m private placement:



"We found the team at QMPF to be extremely knowledgeable and experienced providing excellent guidance and support as and when required to officers and the Board of Kingdom, not least when evaluating offers made to Kingdom. This was invaluable during the process, especially given the short timescale within which we completed the deal."

Nick Pollard, Director of Corporate Support Services

We would be delighted to speak to you...



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