

# The Economic Impact of Housing Organisations on the North: *Durham City Homes*

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# Contents

<b>1. Background and study objectives.....</b>	<b>1</b>
<b>2. Durham City Homes: an overview and key facts.....</b>	<b>2</b>
2.1. Background .....	2
2.2. Key facts .....	3
<b>3. Economic Impact of Durham City Homes .....</b>	<b>5</b>
3.1. Introduction.....	5
3.2. Income .....	5
3.3. Procurement.....	6
3.4. Expenditure .....	6
3.5. Economic Impact summary measures .....	7
<b>4. Economic Impact: Durham City Homes compared with Housing Associations .....</b>	<b>9</b>
4.1. Introduction.....	9
4.2. Durham City Homes compared with similarly sized housing associations.....	9
4.3. Durham City Homes compared with Derwentside Homes.....	10
4.4. Durham City Homes compared to HA's summary .....	10

# Background and study objectives

In 2012 the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University was commissioned by the Northern Housing Consortium (NHC), to assess the economic impact of housing organisations on the Northern economy<sup>1</sup>.

The study provides an estimate of the economic impact of housing organisations on the Northern economy based on evidence from a survey of members and detailed case study work in seven organisations. It measures the economic activity stimulated directly by the day-to-day activities of housing organisations as well as the additional activity through the intermediate supply chain.

The findings will support the NHC and housing organisations when engaging with Government, funders and other stakeholders and will underpin the case for housing in the North in the run up to the next Comprehensive Spending Review and the next general election. This study may also provide a **baseline** against which to assess the impact of the multiple challenges facing housing organisations, such as from Welfare Reform.

This case study report for Durham City Homes forms one of a suite of outputs from the study<sup>2</sup>. It provides an overview of Durham City Homes, including its vision, values and objectives and key facts relating to its day-to-day activities, before providing estimates of Durham City Homes' economic impact. The report concludes by assessing differences in estimated economic impact reported for Durham City Homes and similarly sized Housing Associations.

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<sup>1</sup> Comprising England's three Northern regions: the North East, the North West and Yorkshire and the Humber

<sup>2</sup> The main report being available at: Dayson, C. Lawless, P. and Wilson, I. (2013) The Economic Impact of Housing Organisations on the North. Sheffield: CRESR, Sheffield Hallam University.

[http://www.shu.ac.uk/assets/pdf/cresr-Economic\\_Impact\\_Housing\\_Organisations\\_Main.pdf](http://www.shu.ac.uk/assets/pdf/cresr-Economic_Impact_Housing_Organisations_Main.pdf)

# Durham City Homes: an overview and key facts

## 2.1. Background

Durham City Homes is a part of Durham County Council and manages 6,000 council homes spread across 33 discrete locations, with the largest concentration in the village of Brandon.

Its vision is *'To provide affordable, modern housing and excellent housing services in neighbourhoods that are clean, green and safe and that people want to live in'*.

This vision is underpinned by Durham City Homes' agreed organisational values:

- **P**ride in where we live and work
- **R**espect for each other, our differences and what we all contribute
- **I**nvesting in homes, communities and people
- **V**aluing homes, communities and people
- **I**nclusion of customers, our staff and people
- **L**istening and learning from customers, each other and from excellence elsewhere
- **E**quality of access and reflecting diversity in what we deliver
- **G**reen, energy efficient and sustainable
- **E**fficient, value for money service delivery
- We think it is a **PRIVILEGE** to work on behalf of you.

Durham City Homes has three main objectives to provide:

- excellent services
- modern homes
- and communities and places that people are proud of.



## 2.2. Key facts

Key facts about Durham City Homes day-to-day activities in the financial year 2011/12 included:

- it employed, on average, 45 people per month, equating to 44 full time equivalent employees; this excludes the Direct Labour Organisation within Durham County Council
- it managed 6,000 dwellings; all of which provided general needs housing; 60 per cent were houses, 32 per cent were bungalows and nine per cent were flats
- 24 per cent of dwellings were 1 bed, 42 per cent 2 bed and 32 per cent 3 bed
- between 1 April 2011 and 31 March 2012 Durham City Homes provided 21 fewer units, the outcome of 26 demolitions and 5 net conversions
- it provided no new build completions and had no units in development at the end of March 2012
- total income received was £19.315 million, 98 per cent of which came from rent
- incomes not realised due to current arrears and voids were £0.624 million and £0.193 million respectively
- Durham City Homes brought 664 homes up to the decent homes standard in 2011/12; works undertaken included 505 door replacements, 488 window replacements and 473 heating replacements; tenants scored Durham City Homes 7.7 out of 10 for satisfaction with their Decent Homes work; at the end on the financial year 100 per cent of units managed met the decent homes standard

- the organisation committed a direct financial input of £644,000 and £47,000 of staff cost towards community investment<sup>3</sup> activities
- its work was supported by 40 volunteers; Durham City Homes has four tenant involvement target measures which are reported within annual reports
- it has a 2012/13 capital works programme with budget of just under £6.950 million; this will involve work on 1,299 properties and will include 505 refurbishments, 425 heating systems and 369 windows and doors replacements.



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<sup>3</sup> Community investment has been used within this report as a collective term to cover services, facilities and environmental improvements which housing organisations provide for their tenants and the wider communities in which they operate. It encompasses what has previously been termed 'housing plus', 'added value' or regeneration work.

# Economic Impact of Durham City Homes

## 3.1. Introduction

This section provides estimates of the economic impact of Durham City Homes. Economic Impact for 2011/12 has been assessed for three key economic measures:

- expenditure (output)
- Gross Value Added (GVA): the value of output produced minus intermediate output
- employment.

The study incorporates both **direct and indirect impacts**:

- direct impact: the value to the economy directly attributable to the activities of Durham City Homes: money flowing into the economy through expenditure on day-to-day activities
- indirect supplier effects: the ripple effect through the immediate supply chain providing goods and services to housing organisations
- indirect income induced effects: arising outside the immediate supply chain as a result of expenditure by employees of both Durham City Homes and of organisations in the immediate supply chain.

Before summarising the economic impact of Durham City Homes on the Northern economy three preceding sections look at factors affecting economic impact: income, procurement and expenditure.

## 3.2. Income

The amount of income<sup>4</sup> which Durham City Homes received is important in assessing economic impact as it affects the level of gross expenditure. In the financial year 2011/12 Durham City Homes' income was £19.315 million:

- £18.947 million (98 per cent) from rent
- £0.229 million (1 per cent) from non-social housing rental income.

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<sup>4</sup> This study uses a more inclusive definition of income than that within financial statements. The study includes all 'incoming', including loan funding and income earned from non social housing activities.



### 3.3. Procurement

Procurement policies are important in determining leakage of expenditure out of the local economy. Durham City Homes adopts Durham County Council's procurement strategy. This strategy is underpinned by 11 principles, including:

- community engagement; to ensure priorities of local people are considered in all major works
- local wealth creation; whilst they are unable to specify or discriminate in favour of local suppliers the council and Durham City Homes have contributed to the success of local suppliers and communities by, for example, including evaluation criteria designed to assess positive economic and social outcomes; they have also created a Procurement Action Group to lead on supplier engagement to ensure local SMEs are well equipped to bid for work
- transparency and accountability; for example publishing all purchases over £500
- value for money; balancing economy, efficiency and effectiveness.

Durham City Homes use North East Procurement when acquiring works. North East Procurement provide:

- value for money solutions for each activity, that will also deliver the required quality of product
- training and employment opportunities for local people through support of industry and contactors
- additional social, community and environmental benefits to improve the overall living conditions for local people
- the opportunity to explore future possibilities for further collaboration between organisations.

### 3.4. Expenditure

The value of gross expenditure<sup>5</sup>, the percentage of expenditure going to local suppliers (net expenditure), and the composition of expenditure (i.e. how money has been spent) are all relevant to economic impact calculations.

In 2011/12 Durham City Homes had a gross expenditure of £18.628 million. Of this £14.133 million (76 per cent) went to suppliers based in England's three Northern regions.

How this money was spent affects economic impact calculations through the magnitude of the indirect effect. Certain types of expenditure, such as that on construction, are associated with a larger 'multiplier effect', that is they stimulate a greater ripple effect through the supply chain than do other types of expenditure. Analysis of how Durham City Homes spent its money reveals:

- expenditure on refurbishment and purchase of housing properties (£5.839 million) accounted for nearly a third of gross expenditure with 98 per cent (£5.710 million) of this going to suppliers based in the North

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<sup>5</sup> This study uses a more inclusive definition of expenditure than that for operational expenditure outlined in financial statements. The study includes expenditure on items such as construction and refurbishment which usually feature as capital, rather than operational, expenditure.

- routine and planned maintenance made up the second largest component of gross expenditure (£4,505 million), nearly all (99.8 per cent) of which went to suppliers based in the North
- financial and business services comprised 10 per cent of gross expenditure (£1.928 million), 99 per cent of which went to suppliers in the North
- £0.822 million was spent on direct staff costs all of which went to employees residing in the North.

### 3.5. Economic Impact summary measures

Table 3.1 summarises Durham City Homes' economic impact on the Northern economy. This study estimates that in 2011/12 Durham City Homes:

- supported £29.750 million worth of expenditure (output); £14.133 million directly and £15.616 million indirectly through the intermediate supply chain
- created an estimated GVA of £12.522 million; £1.620 million directly and £10.901 million indirectly through the intermediate supply chain
- supported 258 FTE jobs; 44 directly and a further 214 indirectly within the intermediate supply chain.

**Table 3.1: Summary of economic impact on the Northern economy, 2011/12**

	Direct Impact	Indirect Impact	Total Impact
<b>Output:</b> £thousands	14,133	15,616	29,750
<b>Gross Value Added:</b> £thousands	1,620	10,901	12,522
<b>Employment:</b> (FTEs)	44	214	258

Source: CRESR survey (2012)

Table 3.2 summarises the economic impact of Durham City Homes on both the North East and Durham County Council local authority area. Here it is estimated that in 2011/12 Durham City Homes:

- supported £25.263 million worth of expenditure (output) both directly and indirectly in the North East
- created an estimated £10.440 million worth of GVA both directly and indirectly in the North East
- supported 205 FTE jobs both directly and indirectly in the North East
- supported £7.755 million worth of expenditure (output) directly in the Durham economy
- created £1.620 million worth of GVA directly for the Durham economy
- supported 44 FTE jobs based within the Durham County Council local authority area.

**Table 3.2: Summary of economic impact on the North East and Durham economies, 2011/12**

	<b>Direct Impact</b>	<b>Indirect Impact</b>	<b>Total Impact</b>
<b>North East</b>			
<b>Output:</b> £thousands	12,787	12,476	25,263
<b>Gross Value Added:</b> £thousands	1,620	8,819	10,440
<b>Employment:</b> (FTEs)	44	162	205
<b>Durham</b>			
<b>Output:</b> £thousands	7,755		
<b>Gross Value Added:</b> £thousands	1,620		
<b>Employment:</b> (FTEs)	44		

Source: CRESR survey (2012)

# Economic Impact: Durham City Homes compared with Housing Associations

## 4.1. Introduction

Differences in economic impact achieved by council and housing associations (HAs) were explored as part of the Durham City Homes case study. This analysis comprised two forms of assessment:

- comparison of the economic impact on the Northern economy of Durham City Homes and the mean impact for eight HAs each of which managed a similar number of units as did Durham City Homes
- supplementary work comparing Durham City Homes with Derwentside Homes to identify differences in key economic impact measures; this included estimates by Derwentside Homes of net additional capital investment since it became a HA in 2006.

## 4.2. Durham City Homes compared with similarly sized housing associations

Table 4.1 summarises the mean economic impact on the Northern economy achieved by eight housing associations which each manage a similar number of homes to Durham City Homes.

Comparing these figures to those in Table 4.1 for Durham City Homes reveals that total - direct and indirect - economic impact was considerably lower for Durham City Homes:

- total impact on output expenditure was £29.7 million just over half that for the average of the eight HAs
- total impact on GVA was £12.5 million, half that for the average of the HAs
- total FTE jobs supported by Durham City Homes was just over two-fifths the average for the comparator HAs.

**Table 4.1: Summary of average economic impact on the Northern economy by the comparator HAs, 2011/12**

	Direct Impact	Indirect Impact	Total Impact
<b>Output:</b> £thousands	27,233	29,550	56,783
<b>Gross Value Added:</b> £thousands	8,318	16,700	25,018
<b>Employment:</b> (FTEs)	196	414	610

Source: CRESR survey (2012)

### 4.3. Durham City Homes compared with Derwentside Homes

Derwentside Homes was established in December 2006 when it took over ownership and management of around 6,700 properties formerly owned by Derwentside District Council in the North West of County Durham. Derwentside Homes is a useful comparator for Durham City Homes as it:

- manages a similar number of units, next to Durham City Homes in the same local authority area, with a similar profile of stock and tenants
- is a recent Large Scale Voluntary Transfer (LSVT) organisation, so may be able to provide insights as to any additional impact which Durham City Homes might have been able to achieve should it have transferred ownership at a similar time.

Key differences to emerge from a comparison of economic impact measures in 2011/12 include:

- Derwentside had an income of £26.272 million; if loan funding is also included this increases to £34.538 million; in comparison Durham City Homes' income was £19.315 million with no additional loan funding being available
- gross expenditure by Derwentside Homes in 2011/12 was £32.866 million compared with £18.628 million by Durham City Homes; excluding expenditure on bad debt and depreciation, Derwentside Homes (£28.892 million) spent double that of Durham City Homes (£14.464 million)
- with regards to construction activity Dewentside Homes completed 4 new builds and had a further 41 homes in development at the end of the year; Durham City Homes built no new homes and had no dwellings in development at the end of the financial year
- since the stock transfer to Derwentside Homes in December 2006, capital investment up to 31 March 2012 was £92.7 million compared with Derwentside council's proposed spend in the same period of just £27 million: an estimated additional capital investment worth £65.7 million occurred.

### 4.4. Durham City Homes compared to HA's summary

Drawing on evidence presented above it is clear that similarly sized housing associations are able to provide a far larger economic impact than can council housing organisations, such as Durham City Homes.

However, caution is needed here in assuming that this scale of additional economic impacts would occur if Durham City Homes should transfer in the future, because:

- the availability of finance to fund transfer and subsequent loan financing is likely to be on less favourable terms: over shorter periods and at higher interest rates
- it is not known what the impact will be of new guidance on transfers or the adjustment to self-financing of council housing
- Durham City Homes has already achieved the decent homes standard with its properties, therefore there would not be the need to undertake significant additional investment in the housing stock which has often served as a catalyst by recent LSVT housing organisations for additional community investment works.