HACT

NED Network

Bi-weekly Mondays
16:00 - 17:00

Briefing Notes

In partnership with

PlaceShapers
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Adecco

Does the Social Housing sector hold itself back by boards being too financially conservative?

Monday 24 October 2022

Introduction

In this session, David Brooks, Non-Executive Director of Futures Housing Group, considered whether the social housing sector is holding itself back by being too financially conservative. The uncertainties within the market at present, brings this question to the forefront.

David spent 20 years in senior executive roles in the food industry prior to his NED career from 2009. David is an accountant, past CEO and now a NED on Futures HG, an NHS funded organisation and three others. David Brooks confirmed he was speaking in his personal capacity.

External perspective of the sector

The housing sector does great things with great people, all within a complex context. Funding relationships are complicated, the background of customers may also be complex and the relationship with stakeholders may also raise complexities. The sector manages these complexities well.

This, however, can be a double-edged sword, as these strengths may hold the sector back. There is always an opportunity to do more and there is desire and demand from people for RPs to do more too.

Topics for discussion

Regulation

- Whilst the housing sector has a regulatory regime which manages through ‘soft-fear’ and hindsight, it is what the board thinks that matters i.e., is it the right decision for us, our members and our customers? Poor management rather than failure to follow regulation seems to be an issue. Do poor managers tend to ignore the regulator (RSH) in any event?
- RPs are required to have triggers for taking action. There are 18-month liquidity demands, triggers, golden rules and layers. It’s important that RPs don’t rely on market sales and commercial income, but capacity could be used to deliver more with less layers.

Opportunities

- RTB – RPs often voice concerns about the RTB but this could be re-framed to appreciate that, whilst some may take advantage of the system, those wishing to buy should not be disadvantaged. Should RPs allow the customer to live where they wish?
- Section 106 v First Homes v Community Interest Levy – There are opportunities to work alongside the developer to help them invest in CIL in ways that are helpful to them and the stakeholders.
- For Profits – These increase competition, and they have an advantage in not having a track record of less than perfect decisions made and a restrictive, existing business model; they have less history. However, RPs should think about what we can learn from that and how non-profits can challenge the status quo.
- Unique or Identical – Are RP’s unique or the same? Commonly, all customers are looking for good, well-maintained housing so the more that can be shared, the better. For example, many RP’s invest millions in similar digital platforms instead of working efficiently and collaborating.

Funding

- RP’s have significant capability to fund a lot themselves so the starting point is to say ‘what can we do?’ and then push as far as dared, seeking greater support from stakeholders. For example, creating a base line of what can be delivered before asking local authorities for consent.

Summary of questions to be considered

1. Can we encourage more proactive implementation of regulation?
2. Dare we embrace everything as an opportunity?
3. How brave dare we be with our balance sheets?

Open group discussion session

- RPs may feel that they most regulated by their funders. For example, worrying about breaching a golden rule in several years' time ends up controlling the actions taken. For example, opportunities are assessed within the risk framework which impacts on the entrepreneurialism and culture of the sector.
- Compared with other regulators, some considered the RSH is not very demanding and is supportive rather than first assuming blame. The risk appetite of the RSH is far more open when risks are well thought through, well-reasoned and justified. Positive risk is needed. Any sector with 20+% margins is attractive, but RPs need to consider what social good could be done if focusing on lower returns.
- Boards look at a mix of skills in appointing individuals, but should they also look at a mix of risk-appetites to encourage entrepreneurialism? If boards and businesses have a clarity of defined purpose and risk, then this is more achievable. However, vague aspirations breed risk adversity.
- The sector has let the RSH drive it, rather than the other way around. For example, getting core delivery right helps in driving the RSH, showcasing that things can be done for the benefit of the tenant. 22% surplus may not be necessary if 12% can be made, the RP remains safe with lenders but then continues to deliver an excellent service for tenants.
- People actively sharing things in the sector is common, but doing things collaboratively is not, which is odd considering there is little to compete about. Pooling understandings of IT could be helpful in reducing costs, that can then be invested in other ways, such as improved services.
- Being risk averse is different to knowing risks and managing them in the right way. Flexibility on covenants and business plans might be possible if the sector starts asking for it, as people are more open than we often first think, and it is important to challenge them.

- Despite increased complexities, quality of reporting hasn't increased at the same level which can make the RSH nervous. For example, a 20% margin for a business with market sales, PFI and more risk may reflect it as a poor business. The key is ensuring that the core business remains safe which ring-fencing may have helped with (if it had been introduced?)
- To what extent is the sector seen as complaining where there is an attitude of: if you do not ask for money, it gets given to someone else. In reality, can organisations first meet demand and then respond to the decarbonisation agenda - but they can do more of that with government money. Instead of saying we can't do X Y and Z without more money, we should explain the value that we can give, whether that be more housing or quicker decarbonisation.
- Creativity should be shown in negotiations with banks rather than expected them to be the creative ones. There is plenty of money out there, such as Legal & General, but there is little incentive for them to give the money to RPs when they can do this with positive financial returns. RPs and banks typically do what they have always done on funding rather than changing the focus from the usual covenants to, say, the size of the asset pool and making new suggestions for greater flexibility and different covenant compliance to banks. Should RPs be more prepared to negotiate and with imagination to give them greater flexibility?
- Should we be prepared for some RPs to fail, as this allows for alternative models to be tested? There will be forms of diversification that do and do not work, which is where the RSH steps in. RPs have not "gone bust" but rather have been taken over. Does the sector need an appetite to see some fail?
- There has been deregulation of the sector which now permits asset sales without consent. But we have no changes to valuation methodologies so this is potentially hiding value on RPs' balance sheets that can be positive risk hedges in themselves.
- Much of the cash collected by RPs is tax-payer funded so governments will want to ensure the sector is risk adverse to some degree so that the investments are not lost. However, sitting on surplus instead of handing it back to tenants is not tenant centric. Is the sector sufficiently dynamic and should existing tenants be focused on?

Closing thoughts

The big take away is the comment on being 'softly regulated'. If RPs allow themselves to be managed by soft fear, that is their responsibility, and it is not the regulator doing that. Changing mindset might be key.

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Bi-weekly Mondays
4.00pm - 5.00pm

Register for our next session

Your resident's resilience to rent increases

Monday 07 November 16:00 – 17:00

Your decisions on rent increases in 2023 will include the impact it will have on your income, but do you have a data-driven approach to how the rent increase will impact your residents? We will be joined by HACT Head of Services, to discuss the work we have done in measuring resident resilience and what data you will be using to make a decision on rent increases.

Speaker: Frances Harkin, Head of Services at HACT

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