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Time for the social housing sector to use its ballast to build homes rather than balance sheets

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In this article, a version of which was first published in March 2013, Peter Hall says it's time for the social housing sector to start delivering on its main purpose rather than bolstering its balance sheets.

The perfect storm of the bedroom tax, direct payments, the benefit cap and universal credit are almost upon the housing sector, with much speculation but general uncertainty remaining over how bad the storm will be.

Even with the recent concessions on the bedroom tax, we do know the sector faces collecting an additional £0.5bn p.a. in rent from those affected from April 2013. The full annual impact of direct payments (based on a doubling of arrears in the pilots taking place) could result in an additional £1.5bn of rent arrears across the sector– at least initially. These will have inevitable impacts on organisations business plans.

Can the sector absorb these while still delivering its main purpose of developing secure and affordable homes?

The evidence says yes. Savills and Policy Exchange have demonstrated the significant latent capacity across the sector which effective asset management strategies could unlock. The £1.4bn surplus revealed in 2011-12 housing association global accounts supports the government's contention that housing associations could use more of their own resources to pay for the development of new housing. Analysis shows these surpluses have been thanks to above inflationary rent increases and low interest costs rather than efficiency. While the vast majority of the population face declining real incomes, average rent increases this year across the HA sector will be 3.1% and in council housing 5.1%.

As David Hall pointed out recently, both the housing association and council sectors also have comparatively low levels of debt per unit, and the latest HCA 1/4ly sector report shows housing associations with £12.1bn of undrawn loan facilities. Institutional investors are not shying away from lending to the sector at affordable rates either – despite the recent downgrading of credit ratings by Moody's. Aviva's MD Phil Redding outlined his view earlier this month that social housing investment represents a win-win situation at a National Association of Pension Funds Conference, and L&G also announced £1bn of funding for the sector. This April also sees a doubling of the amount Local Government Pension Schemes can invest in assets such as housing.

There will be those who say the climate is too risky and a recent survey showing more than half of social landlords plan to slash their development programmes is bad news for those in desperate need of accommodation - none the least of which being those affected by the bedroom tax who need one bedroom accommodation.

At a time when there is a desperate need for new homes surely the sector should be working to unlock its capacity rather than shutting up shop?

Increase efficiency from within

Rather than shut up shop waiting for some golden goose laden with grant which isn't going to arrive, the sector should be focussed on reducing risk by increasing efficiency from within. Published data shows the sector spends at least £1bn a year on non housing activity such as resident involvement and community development. IT systems spend is in the region of £1bn, and repairs and maintenance £6bn. Saving 20% on those alone would just about cover the additional 'risks' from welfare reform, and as a joint L&Q and PWC report found, every £1 saved on global operating costs could generate £3bn in additional borrowing capacity.

There are plenty of modern ways to achieve those savings while enhancing the value generated too. There are some great examples via @bromfordgroup, @haltonhousing and at Monmouthshire Council of how social media is being used to reduce costs but deliver better engagement with customers and real, tangible improvements in community development and resident involvement. @HelReynolds at Monmouthshire sums up the need for organisations to grasp this;

"as smartphone technology gets more accessible and cheaper, social media will become normal for all ages and incomes, just as texting became 'just another way to talk'"

The online basis of Universal Credit will also require the sector to go digital, and don't be surprised if Apps for Universal Credit appear in the next couple of years.

Repairs and maintenance, especially planned maintenance, also offers significant scope for savings. Organisations using framework contracts procured more than a couple of years ago should seriously consider renegotiating them. Savings of 30% for the same level of service and quality are achievable given the depressed state of the construction industry.

A Return on Assets Linked to Purpose

The Homes and Communities Agency's regulatory standard requires the sector to have an 'in the round' strategic approach to value for money by maximising the return on their assets. Many such as Trident have chosen to focus on the social return they deliver. That's laudable given the impact of welfare reform and wider changes on customers - provided the social return stands up to scrutiny and is in keeping with their purpose.

The wider sector's return on assets needs to be more than just a simple % profit, increase in operating margin or £'s contribution to the local economy though. It should and will be judged by the use that return has been put to in delivering the sector's main purpose.

There remains uncertainty over what the rent setting regime will look like post 2015, but at a time when private social purpose organisations such as Million Homes and Houses4Homes are getting on with delivery of homes for rent, the social housing sector needs to address the risks and follow suit. Surpluses may well the ballast that keep the sector afloat and deliver the security lenders require but there doesn't seem to be a shortage of willing lenders or partners to move forward. 'Sink or Swim' as an influential figure in the sector recently said.

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