

The NHF Conference 2012



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Overview—a more positive mood at this year’s conference



Despite the difficulties in the economy and the threat to the income streams of housing associations posed by welfare reform, this year’s NHF Conference had a more positive feel, with the government now shifting policy to support an increase in house building, while accepting that many of these new homes should be for rent, even if not at the social housing rent that many delegates would prefer.

Mark Prisk, the new housing minister, delivered a confident speech, although he wasn’t brave enough to answer questions. He appeared to be reaching out to the social housing sector, while calling on housing associations to be bold in order to help deliver the new homes needed to meet need and boost the economy.

The NHF also appeared more confident, boosted by their success in getting additional support for new build while, at the same time, managing to retain Section 106

agreements, which have delivered a good proportion of many associations’ development programmes. David Orr majored on mission, mechanism and message. The core mission remained unchanged: homes, health and well-being, while he predicted closer working with the health service to deliver our shared objectives. The mechanism was changing, as illustrated by many recent large bond deals, but we needed to improve the message at a time when welfare reform still enjoys widespread public support.

As the sector develops, the regulatory system must change to deal with the new mixed economy, the social value generated by our activities must form part of the Value for Money agenda and intermediate housing will play an important role. This is not the death of social housing, but it must continue to evolve.

The political arena

The conference was notable for quite a high level of consensus about the way forward for the sector, although there remained many areas of disagreement. Politicians of all parties want to work with housing associations and even the Conservatives, at least in London, accept the need for housing at below market rent. There was significant support for capital subsidy to be retained, with Jack Dromey for Labour proposing that this should be funded by a tax on bankers' bonuses. He was also in favour of moving taxation towards land, which Mervyn Jones of Yorkshire Housing suggested could be used to fund infrastructure.

Both Labour and the Conservatives continue to support the aspiration of many to become home owners, although Mervyn Jones said both parties were guilty of overselling this product. Private house building to meet this demand might return once mortgage availability improves but history shows that major boosts in house building have always been driven by the public sector.

Other than Claire Fox of the Institute of Ideas who wanted most planning policy to be scrapped, all speakers supported the retention of Section 106 agreements, although Andrew Johnson for the Conservatives said that affordable housing should not have to be provided on site. The NHF will be seeking assurances that sites where these agreements are renegotiated will be built out straight away. Hilary Benn said that reform of Section 106 would delay development further while new legislation was put together.

There was also general agreement about the important role of the private rented sector in meeting housing need, although Labour believe that it needs more regulation and that the involvement of housing associations should not be at the expense of their existing role. Richard Donnell of Hometrack observed that it is not a universal solution, since private rental markets are inactive in many areas.

There was even an acceptance that housing associations needed to deliver even more value from their assets. The new housing minister, Mark Prisk, recognised that the sector needed long-term certainty for the sector on funding and rents, while David Orr accepted his call to be bold, citing £250 million bond deals as evidence of how the sector's mechanism for delivery had changed.

There was less agreement about welfare reform, with David Orr describing the "bedroom tax" as an outrage, which would cause havoc to people's lives without saving any money. Welfare reform currently has overall public support, which the NHF hopes to change with the results of a research project into its impacts. Hilary Benn could not guarantee that these measures would be reversed under Labour.

The NHF is gearing up to make housing an election issue and will be launching a *Homes for Britain* campaign at the forthcoming party conferences. Shaun Spiers of the Council for the Protection of Rural England called for a proper debate on how to increase supply, with Andrew Johnson observing that we need the right kind of land, with infrastructure already in place, to deliver new homes. Finally, Mark Prisk called for associations of all sizes to get involved in new delivery, noting that smaller organisations were often more innovative.



*Mervyn Jones
Yorkshire Housing*



*Jack Dromey MP (Labour)
Shadow housing minister*



*Andrew Johnson (Conservative)
Hammersmith & Fulham Council*

The economic environment

Christophe André of the Organisation of Economic Co-operation & Development (OECD) kicked off the debate on the economy by observing that the decline in construction had been the major driver of negative growth. Doug McWilliams of the Centre for Economics and Business Research (CEBR) expressed some optimism about the economy, saying that despite official figures, the economy is probably actually growing, although there are vulnerabilities, the world economy could still be derailed by the US, the Eurozone or China.

Hamish McRae of *The Independent* noted that the UK was the only large country in Europe whose population was expected to grow, creating pressure for more housing. Christophe André called for more investment in housing, adding that land was available, while Peter Schofield of the DCLG said that house building was at the heart of the government's growth strategy.

There was significant agreement that reforming the planning system would not help with new supply. As Paul Mason of the BBC pointed out, the public don't believe that new communities will be of good quality. Shaun Spiers agreed, although he thought neighbourhood planning could play an important role and called for house builders to improve the quality of new homes, using brown field sites where possible. Shadow communities minister Hilary Benn called for local people to decide what should be built, where and for whom.

Picking up Hilary's point that we need to obtain public consent for a house-building programme, the NHF is launching a *Yes to Homes* campaign, using social media. Many of these homes will not be for sale since, as Christophe André noted, countries that had pushed home ownership, e.g. Ireland, were now suffering badly. Peter Schofield said that the government wants associations to work with builders and investors to develop for market rent, using government loan guarantees.

Paul Mason called for a new economic model based on investment, rather than consumption, changing the psychology from getting a bigger house to improving skills. Alexandra Jones of the Centre for Cities agreed that skills were the key to growth, while Peter Schofield called on housing associations to help produce a flexible, well-educated workforce. David Orr pointed out that many were already taking part in apprenticeship schemes.

Doug McWilliams pointed out that public expenditure had not yet been cut significantly; the adjustment to the economy will be painful, especially in the North and for the poor. As Peter Schofield pointed out, welfare reform will be a key element in deficit reduction; he called for associations to help to move people from dependency back into work.



Christophe André, OECD



Doug McWilliams, CEBR



Hamish McRae, The Independent



Paul Mason, BBC Newsnight



Peter Schofield, DCLG



Alexandra Jones, Centre for Cities

Regulation



Julian Ashby, Chair of the HCA's Regulatory Committee (pictured), began by saying that the social housing world was changing rapidly, so the regulator needs to keep ahead of the curve. New government guarantees are not for the Affordable Housing Programme or for refinancing; boards must ensure that they refinance in good time.

The regulated sector is becoming a mix of public, private and voluntary bodies. Many housing associations have unregistered entities, while some have unregistered parents. The HCA's remit does not include unregistered bodies, but it will closely scrutinise for-profits and those with unregistered parents. The failure of one association would affect the whole sector so the regulator must remain vigilant.

Risks are increasing so we need to improve risk management, keeping an iron grip on treasury matters, and governance. The HCA has no view on the right governance model but associations must stick to their code of governance and seek to constantly improve their governance.

Julian Ashby delivered a clear message that boards need to take responsibility for managing a higher risk situation than existed previously. In particular, this applies to the need to manage cash flow and ensure that sufficient facilities are in place to deliver the business plan.

The choice of a particular governance framework will be up to the individual association, but you should consider how to get the most effective challenge to the executive over strategic decisions, while giving tenants a loud voice in challenging poor operational arrangements or delivery.

Organisations with complex structures, particularly with unregistered parents can expect a higher degree of regulatory scrutiny from now on.

Value for Money

Ross Fraser of HouseMark and Liz Potter, Chair of the Orbit Group, introduced a new approach to Value for Money (VFM). In the government's view, the sector needs to up its game on VFM, so we need a coherent message in this area.

VFM should go beyond efficiency to include social value, so Orbit's VFM framework is outcome-based, encompassing economy, efficiency and effectiveness. It should be a rigorous process, led by the Board, to demonstrate added value. Housing associations need to value their social benefits in the context of the strategic objectives in their business plan. This will depend on priorities; you will need to explain them and be accountable. The benefits of associations' activities include those to the association themselves (financial), tenants (social, economic, service) and to the wider population (environmental).

A VFM approach led Orbit to sell its care homes and to rationalise its stock. Good enough data on assets is better for decision making than complex models. It is also selling its shared services to third parties through its Service Matters division. It has invested heavily in its human assets, through leadership and management development; VFM must capture the added value from these assets.

In conclusion, Ross said that the Value in VFM is perhaps more important than the Money while Liz said we needed commercial heads and social hearts.



Liz Potter, Orbit Group

The NHF / HouseMark approach to VFM has much to commend it in moving away from simple efficiency to incorporate the delivery of the organisation's non-financial objectives. There is no established methodology for measuring social value but we would advise taking the simplest possible approach. Ultimately your values are defined by your objectives and the resources you are prepared to use in order to deliver them.

Using this approach will generate some difficult strategic decisions and the new framework should help you arrive at a clear rationale for the decision made. The objective should be to deliver the best outcomes more efficiently and effectively than anyone else.

Intermediate housing

Richard Donnell of Hometrack identified that there was high demand in the intermediate market, but products can be unclear, creating confusion for customers. He advised intermediate market providers to consider micro markets and demand for specific property types in order to manage sales / letting risk.

Brian Johnson of Moat Homes (pictured) noted that, although affordable housing targets are set by the DCLG, the funding is now mainly controlled by the DWP. Moat has a high proportion of low-cost home ownership (LCHO), which delivers social value by reducing housing costs in old age and creating capital to fund care costs. He estimated this value at £50,000 per unit.



Although real incomes of shared owners are rising, unlike social renters, staircasing rates are low because values are not rising. In Moat's view, people should be able to stay in their homes but should no longer receive a subsidy if they don't need it. Every 5 years, a tenant should prove they still need a subsidised rent, while those who can afford it should pay market rent or move to LCHO.

The constrained mortgage market, particularly for first-time buyers and for shared ownership homes, produces a significant level of risk for house sales, increasing with the distance from the capital. However, it is still a valid strategy to develop for sale, subject to Richard Donnell's advice to understand your specific local markets, both in terms of area and property types.

With rents moving closer to the market level, the same advice is becoming more applicable to development for rent.

Moat's approach to trying to reclaim the subsidy raises interesting issues about the charges levied for accommodation: it would be clear that you would need to "pay to stay" from the outset. However, there is a danger of creating a perverse incentive not to increase your household income, so the right balance must be struck.

The death of social housing?

This was the subject of a debate involving Anne Power of the London School of Economics, David Robinson of Community Links, Julie Fawcett, a tenant activist and Claire Fox of the Institute of Ideas. Anne opened by identifying the strengths of the housing association sector as its asset base, its community roots and the high demand for its services. However, better mobility schemes are needed in social housing, since home owners can move to access better schools.

David Robinson's view was that communities need readiness, rather than the more popular but negative concept of resilience, and that this required subsidised housing for public benefit as a community asset.

Julie Fawcett asserted that communities had broken down over the last thirty years, although she had still achieved more as a local tenant activist than by sitting on a government body. She criticised spending on bureaucracy and PR as taking away from front-line services like education, thus contributing to last year's riots.

Claire Fox said that people needed to become victims to access social housing. In her view, social landlords should stick to providing decent homes and let people be free to sort out low-level anti-social behaviour, reducing dependency.

From the floor, Matthew Gardiner of Trafford Housing Trust said that we needed to sort out the interface with health and social care to avoid "death in social housing." He cited examples of people being discharged from hospital without a care package.

There was something to learn from all of the speakers in this debate, although they came from many different points of view. Anne Power highlighted both the strength of the sector and the difficulty for social housing tenants to move when circumstances require. More flexible arrangements are needed to improve this. David Robinson highlighted the value to the community of social housing, while Julie Fawcett showed the value of tenant involvement in achieving change at a local level. Claire Fox reminded us of the need to reduce dependency and to empower people to deal with low-level problems. Matthew Gardiner's intervention was linked to David Orr's point that health and housing need to work together to deliver better outcomes at lower total cost.

The HRS Membership Service

Hargreaves Risk and Strategy has been active in the housing association sector since 1996, working not only with landlords but also with funders and regulators. Most of our clients belong to our membership service, which allows much of the cost to be shared between members, while allowing for a specific programme of work for each organisation, based on their individual needs and objectives.

The shared element of the service consists mainly of research—into the key risks facing the housing sector and the strategies that may be employed to manage them. The framework for this process is a set of standard sector risks, for each of which we maintain a set of best practice controls, as well as a risk assessment for a typical association. All of these are regularly updated and changes are communicated to members via our monthly publication, the *HRS Review*.

This magazine contains updates on the movement of key risks in the sector, such as changes in government policy, together with ups and downs in the economy, in addition to examples of innovation and good practice by housing associations. We also give advice as to how an association might respond to the changes, aiming principally at the board / strategic level. Each issue is part of a quarterly cycle, with a focus on either Strategy, Regulation & Governance, Finance & Development or Housing, Support & HR.

There is an annual conference for members, focussing on issues of strategic importance, many of the speakers being housing association chief executives, along with academics, regulators, lenders, journalists and risk specialists. The conference also provides opportunities for networking with the other members.

Membership also gives the right to use our risk management software, which has been developed with members over many years to provide a range of risk reports for both single entities and groups, while also enabling benchmarking between the client risk map and our standard sector risks and controls. Links to audit recommendations and risk events are also included.

At the start of each membership year, we agree with you a programme of work specifically for your organisation, at a significantly discounted rate. Typically, this involves some of the following activities:

- A Risk Review, comparing your risk map with that of a typical association as the starting point for a conversation with the risk owners on whether to add or delete risks from the risk map and whether to amend the assessments. Once completed, we issue you with a letter of assurance confirming that your risk map is fit for purpose.
- A Controls Review, in which we compare the controls in place for a number of selected key risks with our own best practice controls. From this, we are able to identify a level of assurance on the controls that are in place as well as an action plan to implement further controls, as necessary. The results from this exercise would also feed into the letter of assurance mentioned above.
- Seminars on the risk environment, strategic choices and / or technical risk management issues.
- Training in the use of the software or bespokeing of the system to meet your specific requirements.



Networking at the HRS Annual Conference

Widening your horizons

The final speaker was Magnus Lindkvist, a Swedish futurologist and trend spotter. He pointed out that major events were easy to track, but we need to look out for small, almost imperceptible changes over long periods of time, which have major impacts on how we live. He differentiated between horizontal processes, like globalisation, which he described as “copy and paste,” with vertical changes, which can sneak up on us. He argued that technology needed to become universal and boring to change the world.

Magnus said that we had a choice as to whether to compete or create. Competition was the easy option, involving doing the same things only cheaper; creation involved challenging the status quo and upsetting people. He advised us to concentrate on five things:

- Take the long-term view
- Blend ideas—create friction, disagreement is good
- Experiment—throw away the manual
- Recycle failure—it may have been done before but its time may now have come
- Be patient and persistent.



The nature of housing is such that it is already important for social landlords to consider the long term. Housing associations also have a good track record in innovation; we are at our best when being creative and challenging government policy and public opinion, not simply being a delivery vehicle for the latest set of policies on housing and welfare.

We need to continue to make the most of technological advances to improve VFM but also to communicate with tenants. We will need to be patient and persistent, as the sector as a whole has been in challenging the government over the need for more housing. Over the coming year we will see how successful we have been in taking advantage of this change of heart.

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