DTP VIEWS

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Like markets, registered providers don't like uncertainty

– Sam McGrady, Director, DTP

Following June's shock EU referendum result, there were a number of phrases doing the rounds which threatened to become the new cliches of our time. "We are in unchartered territory" certainly received its fair share of utterances. And among the business correspondents we were constantly reminded that "markets don't like uncertainty". I suspect markets are not alone in this dislike. Most of us don't like uncertainty and try our best to minimise it where we can; fully aware of the fact that (aside from 'death and taxes') we can never fully eliminate it. I'm certain registered providers (RPs) share the general gloom which has been fostered by the increasingly foggy nature of our future prospects.

Leaving aside the rights and wrongs of the collective decision taken on June 23, it has without doubt heaped a whole load of new uncertainty on the social housing sector. Please note the word 'new' – we already had plenty of other things to be unsure about before the country decided to leave the European Union.

DTP's first Weather Forecast Group report, published in spring, revealed a number of uncertainties even then which were causing unease in the sector. The report, produced jointly with HouseMark, offers a current snapshot of the experiences of RPs – around the impact of government policy changes and the mitigating strategies they are adopting in response.

We spoke to senior housing professionals (Chief Executives, Finance and Housing Directors) from the housing association, local authority and ALMO sectors across the English regions. Their insights were illuminating; we aim to produce two more similar reports before the end of 2016.

One area we focused on was financial viability, and not surprisingly we found a varied picture. Some are clearly finding this more of a struggle than others. Overall, however, I would say that we found a sector which is generally maintaining financial stability in the face of rent cuts, welfare reform and right to buy. (I will come to the threat which Brexit could pose to that in a moment).

All said they had reconfigured their medium and long-term financial plans in the light of the 1% rent reduction. We also found a broad range of strategies were being put in place to achieve the necessary efficiencies – for example, restructuring staff teams and reviewing repair standards.

Many said they were concerned about future borrowing costs and the potential for a reduction in borrowing availability.

On policy matters, the lack of clarity around issues such as VRTB, Pay to Stay and welfare reform (including the Local Housing Allowance cap) were a cause of concern for a lot of those we spoke to. Since the report was published we've had no further indication from government about where it is going with these things (with the minor exception of the government announcing an indefinite extension of the LHA cap exemption for sheltered and supported housing) – not surprising perhaps, given that the EU referendum effectively put most other government business on hold. We will be watching with baited breath as to what – if anything – comes out of any new team in DCLG in the coming months.

On the financial side of things we still await detail on the future direction of fiscal policy, deficit reduction and austerity. We can only 'watch this space' until the new government's course becomes clearer. There will be obvious implications of this for our own sector which will need to be picked over.

I've prepared a detailed briefing note on the specifics of what Brexit means for the social housing sector and given the fast-changing nature of events I will endeavour to regularly update this.

There's more detail in the note but here are a few headlines:

The short term shock to stock markets appears to have stabilised which is of course good news for RP pension liabilities. The pound remains close to its 30-year low and the traditional 'safe haven' of gold has seen a rise in value.

There are potentially mixed signals on the implications of Brexit for borrowing. On the one hand, reviews of the credit ratings of the sector's high street lenders resulted in no change. And there are some suggestions that the cost of borrowing could be set to fall (although at the time of writing the Bank of England's Monetary Policy Committee had voted to keep interest rates at 0.5%). But on the other hand, the same ratings reviews resulted in widespread changes in outlook from stable to negative. Also Moody's, the key rating agency for housing associations, amended the outlook from 'stable' to 'negative' on its 42 rated associations, as part of its overall review of government and quasi-public bodies.

RPs will also be watching closely the impact which Brexit has on house prices. Any fall in prices will clearly impact on financial models which have been built on being able to secure income from new house sales. Many I have spoken to are already remodelling – based on being able to get less for the new homes they build while at the same time facing a reduction in demand and a slowing down of sales (although it should be noted this is currently mainly a problem in London and the south-east).

Inflation too will be one to watch. Most RP business plans are predicated on low inflation – however, the impact of Brexit (particularly the fall in the value of the pound) could exert upward pressure on prices. How wage inflation will be affected depends on a number of factors – including what future decisions will be taken on freedom of movement and what happens to (job creating) capital investment.

There are other ways in which Brexit might have an impact on the sector. How will new paradigms around immigration affect our ability to recruit? Not just care workers and construction staff but general housing employees? If we see damage to the social fabric of our country – reduced social cohesion, tension between host and immigrant communities, increases in hate crime – will it be RPs who are in the front line and bear the costs? These outcomes will be even harder to predict, I suspect.

Whatever the uncertainties, we will be there to work with RPs in the coming months to help the sector find a way through that aforementioned "unchartered territory". We will be helping providers to review their strategic plans in the light of fast changing circumstances and to amend their growth plans. We don't like uncertainty either, but we do hope that our knowledge, past experience and expertise can help us all to find a way through the unfamiliar landscape which lies ahead of us.