DTP VIEWS

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Social purpose or the bottom line? Do social housing providers have to choose?

– Sam McGrady, Director, DTP

Housing associations face a delicate balancing act. On the one hand, the concept of ‘social purpose’ defines them. They exist to provide the most disadvantaged members of society with a roof over their heads and a decent community to live in. On the other hand, the sums have to add up. Ultimately, there’s a bottom line, even if there is no requirement to make a ‘profit’ or satisfy the whims of shareholders.

Recent pressures such as rent reductions, benefit changes and dwindling grants have made this balancing act all the more tricky. And in some instances, in the case of managing assets say, these pressures have even thrown up some moral dilemmas.

Through our latest Weather Forecast Group (WFG) survey we’ve been hearing about some of them from senior housing professionals on the frontline.

The pressures I mention have certainly forced “Active Asset Management” up the agenda. A few years ago, this was the preserve of just a few sector ‘front runners’, skilled in the arts of Net Present Value calculations, sustainability indices and ‘fan charts’. Now it’s a term which is well understood by the majority of providers. Needs must.

Most are now talking in terms of a proactive and intelligence based approach when it comes to investing in or selling off stock. On a positive note this means boards are increasingly taking informed decisions about their organisation’s assets. But that doesn’t mean they are necessarily easy decisions to make.

Divestment is throwing up particular challenges, especially when it comes to maintaining that commitment to social purpose. Moving out of an area where a housing association has only a handful of properties, but which are of high value, might make sense from a balance sheet point of view. The sale proceeds could most likely enable you to build more social homes in another area.

But what if that means the end of social housing provision in say a rural village or an affluent area of a city? Might you inadvertently be contributing to social cleansing?

Contributors we spoke to for the WFG report told us they had wrestled with their consciences at times and asked themselves whether it was “the right thing to do”. It was also causing some tricky relationship management issues with local councils where a housing association was selling up and moving out.

One chief executive whose views we canvassed summed it up perfectly: “It’s about looking at more than simple economic value (or return) of an asset, and considering wider community considerations.” Another was keen to stress that it wasn’t about abandoning ‘difficult areas’.

On another positive note, there does seem to be evidence of creative thinking out there. Building new homes in higher value, easy to manage, areas in order to cross subsidise activity in poorer, more ‘difficult’ neighbourhoods is one solution we’ve come across. That strikes a good balance between social purpose and the bottom line, in my view.

We’re also seeing evidence of a longer term approach being taken by many. When it comes to Net Present Values most aren’t making their calculations solely by weighing up the financial costs of a property versus the income it generates. They are also considering factors such as community or strategic value.

And many are coming to the conclusion that ridding themselves of all negative NPV properties isn’t necessarily the answer. Taking a longer term view which focuses on turning Net Present Values positive and reducing the number of negative NPV properties in your portfolio is increasingly being seen as a more sustainable solution.

And in some instances a more ‘commercial’ approach might even be a win-win for tenants, communities and landlords. Take the housing associations who are giving tenants small pockets of land to increase the size of their gardens. Tenants are happy to have more outdoor space and landlords have a reduced liability for grounds maintenance costs. It doesn’t have to be a zero sum game.

Challenges certainly remain for all social housing providers who want to maintain a commitment to social purpose. And while the balancing act may have become harder in recent years, it’s not impossible. If our latest report is anything to go by the sector is coming up with some innovative solutions, aided of course by the deregulatory measures introduced last April which means HCA consent is no longer required to dispose of properties.

“We’re using our current assets and making them fit for purpose,” one director of housing told me, with the kind of breezy pragmatism the sector should be proud of. It’s as a good a summary of Active Asset Management as I can think of.