



VIEWS

Winter 2017

2017 – a year of challenges and trauma

– *Andy Roskell, Managing Director, DTP*



2017 presented the social housing sector with its fair share of challenges, and even traumas. Coming after the momentous global shocks of 2016 (Brexit, Trump) it's fair to say we started the year almost sanguine about the likelihood of further major upheavals.

In the end, it was on the domestic stage that many of the key events impacting on the sector were played out. And whether it was the surprise summer General Election (and the even more surprising result) or the horrifying tragedy of Grenfell, the long-term consequences remain far from certain.

On the political front, the loss of the government's majority and the doubt this has cast over its long-term viability has obvious implications for Registered Providers. The policy landscape is unpredictable, making planning and decision making challenging. The government, while preoccupied with Brexit, has actually taken a number of important decisions regarding housing. But who can be sure these will stay the course; or, in some cases, even come to pass at all?

There were, on the surface at least, a number of positive developments for the sector. In October, the government was forced into a major u-turn on its plans to cap Housing Benefit for social housing tenants at Local Housing Allowance rates. Not only will this not now be imposed on those living in sheltered and supported housing, but the under 35s will also be spared this potentially devastating cut.

The reversal was welcomed by a sector which has seen its financial stability rocked by government benefit reforms. Questions still remain over the impact of Universal Credit, despite some mitigation measures unveiled by the Chancellor in his November budget.

October also saw further welcome news when the government delivered on its promise to reverse four years of rent cuts in England. From 2020-2025 rents will be set at CPI plus 1% in a move the government said would give RPs the "security and certainty they need". NHF chief executive David Orr said it would enable RPs to leverage in private finance and "build the homes the nation so desperately needs". From our conversations with RPs we also get the sense it will improve business plans and loan security valuations.

A month later, a further major policy change was announced when the ONS reversed its 2015 decision to classify housing associations as public bodies. The biggest effect of this may be on the government's balance sheet – with the sector's debt no longer included in its own borrowing figures. For the sector, the impact has probably been more profound from a regulatory perspective: in order to get the ONS decision made, the government put in place a range of deregulatory measures which have undoubtedly added to the freedoms and flexibilities enjoyed by providers.

Taken together, these developments represent a significant shift in government policy during the year. The policy landscape certainly seems very different to that set out during the Cameron / Osborne era.

Welcome too was the Chancellor's decision to boost funding for affordable house building to the tune of £2billion in his November budget, although it's worth noting that the vast majority of additional funding to boost house building will go to private house builders – not RPs. It also remains a moot point how many homes this funding will actually deliver, as well as how many will be rented.

Within the sector, there was a continuing trend towards greater consolidation during the year. Mergers progressed and for many RPs the benefits have begun to be realised. And while the regulatory landscape has changed – mergers and disposals only require 'after the event' notification to the HCA – much of the process and methodology remains the same. Due diligence and business planning must still be carried out before a merger can take place, and in some respects this has increased the focus on boards and their skills and expertise.

Indeed we can't overstate the impact this is all having on boards and the general issue of governance. Expectations on the governing body have been raised, with In Depth Assessments (IDAs) now expecting boards to have a "holistic grip" on all aspects of the business.

Whether its pay and severance, health and safety or regulatory compliance, the buck stops more and more at the board's door. Many RPs are asking themselves if their boards are fit for purpose and have the skills and experience needed to do the job. Critical questions are being asked – such as whether boards are capable of directing the overall strategy of the business. In many respects this has been the biggest internal issue for the sector of the year.

Those have been the key developments during 2017 – from our perspective at least. The team at DTP wish all those in the social housing sector a Merry Christmas and a happy New Year. We will be reflecting on what 2018 has in store in a second blog to be published in January.