DTP VIEWS

Winter 2018

# What does the future hold for social housing?

*– Andy Roskell, Managing Director, DTP*

For obvious reasons, looking back on the year that's passed is a little easier than looking forward to the year ahead. And whilst none of the team at DTP is in possession of a crystal ball or tea-leaf reading skills, we do have reasonably informed sense of what might be the big issues in 2018 for the social housing sector. Of course, these aren't firm predictions, but they should give all of us who work in the sector food for thought. So, here's our forward look for what it's worth …

## The economy

The UK economic outlook remains challenging, with the very real possibility that we could be heading for a recession. For Registered Providers (RPs) the impact will be most keenly felt in terms of costs – of the things we buy but also the money we borrow. The impact on social housing customers may also be significant.

Rising inflation, brought on by the Brexit-induced fall in the pound, fed through to an interest rate rise in November. Expect a further rise – or even rises – next year, even though all the signs are that inflation may have peaked.

The sector may now have greater certainty, and an improved ability to borrow, as a result of the government's policy switch on rent cuts; however these won't feed through into balance sheets until 2020 as the 1% rent cut continues. On the plus side, the sector may benefit from a small recovery in pension deficits, brought on by recent higher inflation and fixed interest rates.

Much, of course, hangs on the Brexit negotiations – not least whether we will see a downturn. Whether it's "deal or no deal" will determine much of the economic outlook. How that impacts on financial markets and exchange rates will be closely followed by all those in the social housing sector responsible for ensuring balance sheets are in order.

All of the above means stress testing work on business plans must be a vital part of the mix for RPs during the year.

## Poverty and benefits

Expect the poor to get poorer in 2018, and that of course means many RPs' customers. The benefits freeze and the impact of Universal Credit will hit the most vulnerable in society hardest – and the knock-on effect will be felt by social landlords, not least from rising rent arrears and increased costs of collection. Expect debt problems also to worsen among tenants.

We will be closely watching the impact of the government's mitigation measures around Universal Credit as they feed through over the year.

## Regulation

Watch this space on how the government will approach regulation during 2018. The splitting of the HCA into two bodies, with one focusing on housing development and the other on regulation, won't in itself make much of an impact. And in many respects, some of the key changes happened last year (reclassification of RPs as private and the corresponding move to lighter touch regulation in some areas).

However, one area to watch is Value for Money – the consultation on a proposed new approach ended just before Christmas. This will give us some insight into how the government will approach regulation in the year ahead – particularly around addressing the stark differences in operating costs between providers. Don't expect any let up in the focus on 'value for money' during the year – and indeed, expect it to become a bigger element of IDA. The emphasis will be on supply, numbers and efficiency – but RPs may not roll over and submit passively. Now the regulator is changing providers fees for the privilege, it may lead some to feel they can hold the HCA to account.

## Consolidations and mergers

We expect mergers and consolidation to continue in 2018, with the sector remaining focused on realising the business benefits of such moves. Given the challenges the sector faces, there must be increased emphasis on making sure merged businesses deliver efficiencies as soon as possible. Transitional planning and integration work will be essential for those going through the process of consolidation. Complacency will not be an option.

## Development

November's budget saw the government step up a gear when it comes to house building. The ambition is now to build 300,000 homes a year by the middle of the next decade. However, though the additional £2billion for social homes was welcome, many in the sector believe it is not enough and may not be directed to rented provision. And the majority of the cash for new house building is inevitably going to find its way into the coffers of private house builders.

That said, there will be no let up in the pressure on the sector to play its part in delivering the new homes the country needs. The sector must continue to innovate with models of tenure and methods of construction to ensure we get the most development possible. Get it right and there are great opportunities to enhance the sector's standing.

## Governance

Expect a continuing focus on governance and the skills and capacity of boards to deliver during the year ahead. We may see a move to annual reviews of board member performance and a decline in members staying in post for the maximum term of office (which itself will drop from nine to six years.)

Governance structures will continue to become more streamlined, with boards expected to play their part in delivering value for money and effectiveness as much as any other part of the organisation. Audit committees will face increased scrutiny and will be expected to take a more strategic view on setting the internal audit programme and outcome reports.

Boards will also be expected to play a greater role in ensuring new development is secured, while existing social housing assets are protected and well managed.

## And finally

Two reports will undoubtedly be closely observed by all those working in the sector. And both will relate to the Grenfell tragedy. The first will be the public inquiry into the causes of the fire itself, while the second will be the review of building regulations and fire safety.

We expect Grenfell may see many social landlords refocus their efforts on services to tenants in 2018. Boards will be expected to do their bit, and investment in resident engagement could receive greater emphasis than it perhaps has done in recent years. Quite rightly, RPs will reflect on their approach to communication and accountability, and take steps to make improvements. We expect the tragedy will continue to have consequences for the sector for many years to come.