



‘Tackling the challenges’ event

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A helicopter view of how smaller providers’ business strategies are reflecting the operating environment

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Purpose and size



- **Purpose:**
- Still a significant issue for all providers
- Still a key topic at Board away days
- Some are now making this an annual review, change is so rapid and regular
- Some have already changed....refocus on core, reducing service standards
- Many are trying to build/add to supply – encouraged by new grant availability

- **Size:**
- Despite ‘noises off’, smaller HAs not adversely impacted so far
- Possibly less vulnerable than first thought?
- Vast majority of mergers are large/medium – not smaller



Collaboration



- Collaboration – still a talking point but....
-often that's all it is
- Real examples of effective collaboration are few and far between in reality
- Why?
 - *In the 'too difficult' box?*
 - *Political pressure less (mergers/smaller sector)?*
 - *1% rent reduction more or less absorbed*
 - *Potentially minimal gain for a lot of effort/lack of capacity*
 - *Always some vested interests – wanting to retain 'sovereignty'*
- Majority of smaller HAs are still actively considering increased collaboration of some form.....difficulty is making it happen



Finance and business planning



- 1% rent cut now accounted for, including smaller HAs
- Trying to plan for rents post-2020 – Autumn Budget announcement?
- For many, welfare reform/LHA cap biggest financial risks
- Increased provision for voids and bad debts
- HCA fees – autumn 2017, flat rate
- Maintaining existing assets – extending component life cycles, flexing approach to planned investment
- FRS 102 and new housing SORP – more complexity
- Stress testing – regulatory requirement
- Borrowing for new build – availability and cost of finance
- Fewer skills in-house – increased need for external expertise?
- Brexit – how do you business plan for that?!



Welfare reform



- Universal Credit is key strategic risk for many
- Pilots and roll out evidence high levels of arrears, more difficulty in collecting rent, up to 12 weeks to get non-payers onto direct payments
- Financial implications of reducing rental income plus increased costs of collecting rent
- LHA cap – potentially major impact on smaller/specialist HAs
- Future funding of supported housing - uncertainty
- Benefit cap – not an issue for many, only small numbers
- BUT.....smaller HAs often have an advantage in that they know their tenants much better, are closer to them and can therefore help them ‘manage’ welfare reform impact
- Continue to model what you can, as more info materialises



Development and treasury



- Renewed interest among smaller HAs in development, with change in government policy – grant for affordable rented homes
- Still often a need for cross-subsidy from other activities
- Some do have capacity to self-fund
- Very limited appetite for developing for home ownership
- Uncertainty around future funding of sheltered/supported means very little new build there
- Borrowing long term (30 years) difficult. Private placements are for a minimum of £15m. May mean taking shorter term (10 years) and accepting refinancing costs
- Some markets very competitive (e.g. London) – need to bid high to get sites, infills, S106



Risk



- Risk is a key focus for all Boards, including smaller HAs
- Regulatory requirement in Governance Standard
- Management of risk – knowing what could happen and what you'll do if it does (links to stress testing)
- Defining risk appetite - important
- Strategic and operational risks – internal controls
- H&S compliance risks – the ante has been upped?
- Income/welfare reform risks – modelling and being prepared
- IT – data, cyber attack, business continuity etc
- Mergers – reactive and proactive
- Surpluses – having a policy which can be defended



Governance



- More focus on good governance now than ever
- Deregulatory measures put even more onus on Boards – no HCA safety net
- Compliance with HCA Governance Standard and your chosen Code of Governance
- Skills and recruitment – especially if you're diversifying
- Succession planning
- To pay or not to pay?
- Personal commitment/responsibility
- Effective meetings and decision-making, including audit trail
- Holding CEO/Executive to account – too cosy?



Regulation



- Regulatory compliance high priority for all
- H&S (gas, fire safety etc) – zero tolerance
- Recent downgrades – almost all around governance
- Self-assessment against Standards and Code
- Consider external effectiveness review
- Keep an eye on VFM Standard changes