

EVER-INCREASING CIRCLES

Calum Mercer, finance director of a leading housing association group, combines sound money management with strong community returns

Words: **Philip Smith** / Photos: **Will Amlot**



As an enthusiastic yachtsman, Calum Mercer is only too familiar with navigating choppy waters. It's a skill he has put to great use during more than five years as group finance director of Circle, the housing association group, as he helps guide the organisation through some of the most financially challenging times in recent memory.

Following a number of finance director positions in PFI-related organisations, Mercer joined Circle in 2006 to look after the group's finances. After successfully steering the group through a £275m bond issue in 2008, his role has subsequently grown to take on much wider responsibilities. The group's risk management, procurement, facilities and IT have all now been added to his job description.

Sitting in one of Circle's recent and very colourful developments at Central St Giles, right in the heart of London's West End, Mercer explains how his work at one of the UK's largest housing association groups has a direct impact on some 300,000 people – those living in the 63,500 homes provided by the nine housing associations spread across London, the Home Counties, East Anglia and the West Midlands. The same applies to the ancillary support, care and maintenance services that the organisation provides – all of which combine to help deliver Circle's principle aim of enhancing the life chances of its residents through sustainable communities.

The 46-year-old Scot, who qualified as a chartered accountant at KPMG in the late 1980s and early 1990s, and gained his corporate treasurer qualifications shortly afterwards, is well aware of the social returns that can be found through the sound management of the group's finances. And he also understands that, in difficult financial markets, the organisations that stand out from the crowd will be those that are not only creative, but also bring a rigour to understanding the complex relationships between all their stakeholders.

It is work that has not gone unrecognised – last year Mercer's finance team received a special commendation in the bonds category of the ACT's Deals of the Year awards. This was for the organisation's 2010 tap issue of the existing £275m fixed-rate bond, which raised £124m at a yield of 5.39% – a first for housing association finance.

Since then, Mercer has successfully led a further bond issue – earlier this year Circle launched a £250m 2044 secured fixed-rate bond with a 5.22% yield, an issue that was more than three times oversubscribed. Mercer is quietly pleased with this latest fundraising exercise, which ensures the group's plans are fully funded for the next 10 years.

"There was a lot of interest and it brought in some new investors," Mercer explains, "some of whom hadn't looked at or invested in this sector before. But they understood what our >

Mercer explains how his work at one of the UK's largest housing association groups has a direct impact on some 300,000 people



VITAL STATISTICS

230

size of the finance team, incl 12 in corporate finance

64,628

total stock owned, including houses and other units

1968

the year Circle began life as Circle 33 Housing Group

£1,937.2m

net book value of tangible fixed assets 2011

£41.3m

total recognised surplus 2011

£322.8m

group turnover 2011

mission was in terms of enhancing life chances, how we made sure we were financially strong and how we managed risk in an environment of government cutbacks, and a banking market that is challenging. They understood how we managed liquidity and our security position.”

But, of equal importance, Mercer says the investors like the social purpose of the group. “We talked a lot to the investors about welfare reform and how we carry out customer profiling so that we understand the different needs of different customers, and how we can address those needs,” he says. Such detailed knowledge of its customers allows the group to understand how it can manage the financial risk for the organisation. “So, we do good things for the individuals while helping to protect the financial position of the group as well,” he adds.

These are not just hollow words – Mercer believes there is a real connection between helping people understand their position and securing the group finances. For instance, he reckons that for every £100 spent on advising residents about debt management issues, the group sees a return of £122 through lower rent arrears, for example. “Putting people into a sound financial position helps everyone,” he stresses. A reflection of the times perhaps, but he has seen an increase in demand for such help, and places great store in the additional services provided by the group with the aim of ensuring residents become ‘financially included’ – enabling them to have access to financial advice, banking, credit, insurance and savings.

➤ Circle’s history stems from the 1960s when, as Circle 33 Housing Trust, it started life as a traditional housing association providing low-cost accommodation in north London. More recently, it merged with Anglia Housing Group in 2005 to create Circle Anglia, which was shortened to Circle last year. Since the merger, the group has acquired a number of associations and built up its service provision. The scale of the operation has, according to Mercer, helped when it comes to raising finance. “Large, well-managed businesses tend to be able to raise the money. The market has changed a bit; it used to be that everyone got pretty much the same terms, but now it’s much more of a challenge to raise money if you are smaller, it’s one of those areas where scale makes a difference,” Mercer says. “Being a larger operation allows the group access to different markets and more choice about what it does and when it does it.”



Mercer ensures that Circle does not hold too much cash. “As part of this structure, we took the view that we would be going to the capital markets on a regular basis, so we set up our bank facilities with some long-term revolving credit facilities, so that we could use them in the short term, come up to something that is benchmark size and issue on a regular basis on the capital markets.” The group has debt bank facilities of some £1.55bn, with a further £650m in outstanding bonds.

Circle does receive government funding for its activities, but is by no means reliant upon it, which is no bad thing in these difficult times. “It is the part that helps you do more,” Mercer explains. “Under the affordable housing programme, which we have agreed with the government, we will deliver 1,400 new homes, with a grant from government of £30m, and it is going to cost us £250m. Grants are an important part, but most of the money we need is raised from private finance.”

Looking to the future, over the next three years (as dictated by government spending and grant cycles) Circle will be developing some 2,500 homes, in London and other areas. “London is a particular challenge on affordability, on the levels of grant available, even finding the land and making the economics work.” The group will also be looking at regeneration opportunities.

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“But physical regeneration is not enough; it’s also about community centres, training centres and creating opportunities for people to come together and create aspirations. It really builds up from that level.”

He cites, as an example, a development in Holly Street, Hackney, east London, which was once a crime-ridden rundown part of the borough, but now has a new lease of life – his investors were very impressed with the development when he showed them round recently: “We were able to show them this is why we want the money.”

So, as the storms continue to rage in the financial markets, Mercer aims to steer the housing group towards the calmer waters of financial security, although he doesn’t see the economic situation easing “anytime soon”. This is why he believes treasury and the wider finance function is fundamental to the group’s strategy. “Longer-term certainty would be helpful; we are a very long-term business, but we deliver as much as we can, working with different governments, being flexible and innovative,” Mercer states.

Housing finance might not be plain sailing, but while Mercer is at the helm he is determined to keep Circle on course. ♦

Philip Smith is a freelance journalist, editor of *London Accountant* and a contributing editor of *Accountancy*

CALUM’S TOP TIPS FOR SUCCESS:

1

“Understanding risk management is the critical part, but you have to be able to explain it in a non-technical way and engage with the wider business. Running tests to see where the business can hit issues, preparing for the worst-case scenario and planning how risks can be mitigated.”

2

The ACT qualification — “I had been doing a lot of this already, but the qualification gave me a stronger technical capacity. It was also good to see examples from other organisations — some faced the same issues while others faced very different ones.”

3

“Find things where you think you can make a difference and have an impact on people, be enthusiastic and want to learn new things.”

4

“My favourite gadget is my iPad, which can be very helpful while sailing, which is how I wind down. Sailing in the Solent means I am out of mobile phone range.”

5

“The most difficult question I could be asked: ‘What will happen with the funding environment, given the euro, etc?’ If I knew that...”



CALUM’S CURRICULUM VITAE

2006-present

Executive director (finance), Circle Housing Group

2001-2006

Finance director, Thales — various PFI joint ventures

1997-2001

Finance director, Hyder Investments — PFI joint ventures, including those building the Lewisham extension to the Docklands Light Railway, a new A55 road on Anglesey and the Connect Communications Project on the London Underground

1992-1997

Chief accountant, Veolia Water

1986-1992

Accountant, KPMG — part of the audit team in Edinburgh and Brussels