Your country's housing needs you!

GRAHAM BUCK INVESTIGATES HOW VOLUNTEERING TO SERVE ON A HOUSING ASSOCIATION CAN HELP TREASURERS GAIN VALUABLE EXPERIENCE OF CASH MANAGEMENT AND RISK MANAGEMENT.

As a 2009 report by ratings agency Fitch noted, the need for a healthy social housing sector in the UK has become increasingly acute, driven by the high cost of property and the uneven spread across the country of socio-economic wealth. Having doubled in real terms over the past decade, the average house price is now about £210,000, or more than eight times the average salary.

Like many other countries in Europe, the UK is not building enough new houses to counteract this upward price spiral. The Barker Report, published in late 2003, noted that in 2001 a total of 175,000 new homes had been constructed, the lowest annual total since the Second World War. The report suggested that an additional 70,000 to 120,000 new homes a year were needed merely to dampen rampant inflation in the property market.

Shortly after succeeding Tony Blair as prime minister, Gordon Brown pledged in July 2007 that the government would provide three million new homes by 2020. However, the rate of completion over the subsequent three years suggests that in reality the figure is likely to be no more than 400,000 to 500,000, which would not improve the imbalance between supply and demand in the market. Upward pressure on house prices since the mid-1990s has already seen the age of a typical first-time homebuyer rise from the late-20s to 37.

A three-tier housing market has resulted. At the top level are the independently wealthy, many of whom are middle-aged or elderly, who can still afford to buy. At the bottom are those dependent on benefits, who have some access to social housing. Between these two extremes is a huge swathe of the population, also unable to move on to the property ladder but without any support.

"The demand for affordable housing never seems to diminish," says Martyn Smith, director of tax and treasury at Dyson and chairman of Elim Housing Association. "When times are good, more people are priced out of the property market by high prices, but when times are bad more people lack the jobs or income to secure adequate housing on the open market."

In this environment, the work of housing associations has become increasingly important. Housing associations provide and manage homes for people who would otherwise be denied a home of their own. They trace their origins back to the Housing Act 1975, drafted by the government to establish an alternative source of low-cost rental properties to that provided by local authorities. The act set up the Housing Corporation as a conduit to channel public money to social housing projects initiated by registered housing associations in England and also to act as a watchdog. Its funding was supplemented by mortgage loans from banks and building societies – at that time the latter sector included such big names such as Abbey National.

By the late 1980s, the housing market was rapidly overheating and the Housing Act 1988 was passed to extend the ability of housing associations to access private sector financing. Over the subsequent two decades housing associations have become the source of most of the UK's new social housing, and their annual borrowing has grown to around £50bn.

Some housing associations are funded by private sources such as charitable trusts, but most depend on public money provided by local

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councils and, in England, from the Housing Corporation up to the end of 2008. The Housing Corporation has since been superseded by two entities: the Homes & Communities Agency, which provides funds for social housing investment and regeneration, and the Tenant Services Authority, which acts as sector regulator. The Scottish Housing Regulator, the Welsh Assembly Housing Directorate and the Northern Ireland Housing Executive are regional equivalents.

Registered social landlords (RSLs), which include housing associations in their ranks, number more than 1,700 in England and provide accommodation for nearly four million people. The 200 largest RSLs account for 90% of the sector's total housing stock.

A housing association may be a registered charity, an industrial and provident society, a company registered under the Companies Act, or a combination of these. Whatever its precise legal status, a housing association is a public service provider that has no private shareholders, pays no interest or dividends, and reinvests any surpluses.

IN WHICH WE SERVE A significant number of treasurers already serve on a housing association in a non-executive role, but more would benefit from following their lead. The advantages go beyond the obvious personal satisfaction in being involved with an entity that provides real value in helping people in need.

The treasury operations of many housing associations, particularly the larger ones, have become increasingly sophisticated, says Richard Raeburn, chairman of the European Association of Corporate Treasurers (EACT) and former chief executive of the ACT. They have substantial borrowings and have increasingly developed access to a wide range of funding sources. As cash-intensive and transaction-heavy businesses, their cash management activities are crucial.

But despite their substantial borrowings, and increasingly sophisticated transactions such as swaps, housing associations generally follow extremely risk-averse policies, suggests Jonathan Pryor, a director of investment services group Smith & Williamson.

"Serving on an association assists personal development, as it enables treasurers to see both how other organisations and other non-executives deal with risk," he says. "Developing an awareness of how they fund themselves is also useful. At the same time you won't, for example, get any exposure to foreign exchange or the more speculative types of instrument.

"Their approaches to the bond market are usually done through an intermediary and The Housing Finance Corporation has carried out a number of bond issues in recent years. A number of associations have banded together, and done so very successfully: their default rate is nil."

The need for substantial funding, their ability to use the debt markets and the complexity of many deals all create a bias for long-term, fixed-rate funding, adds Raeburn, which treasury teams can access by various means and through employing relatively sophisticated methods.

However, as Smith notes, the majority of housing associations are not large enough for bond financing to be feasible either now or for the foreseeable future, and the growth of

bonds “shouldn’t be over-hyped”. According to the journal Inside Housing the increase between 2008 and 2009 was relatively modest, with £1.1bn raised through bond issuance last year against £985m previously.

“Elim has about 700 units and for associations of our size – and even those quite a bit larger – bank lending is the only realistic option,” Smith says, “although I don’t doubt that the biggest associations will continue to take advantage of their opportunities to diversify. Possibly new initiatives such as the GB Social Housing vehicle will pull some slightly smaller associations in.”

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The Housing Finance Corporation referred to by Pryor has developed into an important alternative source of funding for many associations. Established in 1987, it operates as an independent non-profit organisation providing loans to housing associations and other types of RSL that offer affordable housing.

The corporation describes itself as an “aggregating financial intermediary” whose funding comes from bond issues to private investors and borrowing from banks. Its aims are to diversify risk for its investors, while reducing the cost and standardising the loan terms for the landlords it lends to.

Its biggest single bond issue so far was in July 2009 when a 30-year bond issue raised £191m and was heavily oversubscribed, attracting 25 investors who submitted total orders for £460m. In December, The Housing Finance Corporation signed a £345m regeneration facility with the European Investment Bank, which represented the largest housing regeneration loan completed by the EIB in Europe to date. The facility will provide housing associations with 20 to 30-year funding for local regeneration schemes.

Another not-for-profit housing provider, Sanctuary Group, successfully raised £200m in March last year through an issue of 30-year bonds secured against its portfolio of rented accommodation. The proceeds will fund its programme of developing 1,000 affordable new homes over a two-year period.

Bond financing is likely to continue to be attractive to housing associations, says Pryor. Until quite recently it was typically more expensive than relationship lending, due in part to the fierce competition between banks for new business. This resulted in sizeable amounts being offered at very favourable rates that the bond market couldn’t come close to matching. But this advantage faded with the onset of the credit crunch. Banks have also tended to make loans shorter term, thus raising the cost of refinancing and increasing the attractions of the bond market where longer-term financing is available.

There is a vast difference between the financially strong housing associations and the weakest, which have sizable debt loads. But there is surprisingly little evidence of that being reflected in any significant pricing differential, and the spread in charges is limited. “The assumption appears to be that if an association gets into difficulties, it will be taken over by one of its peers and its liabilities absorbed,” suggests Pryor.

RESISTING THE CRUNCH While demands on their resources have intensified during the economic downturn, housing associations appear to have resisted the effects of the credit crunch better than commercial property companies.

A report from the Tenant Services Authority, entitled The Impact of the Credit Crunch on Housing Associations, found that their performance during a period of huge volatility for the general economy had been relatively stable. It attributed this to the ability of associations to offer a more secure return to investors over a longer period than is available elsewhere. Other factors that stabilised performance included the prompt management action taken in response to the downturn (which avoided permanent reductions in asset values) and the greater certainty of income enjoyed by the sector, enabling it to operate at finer margins than both the rest of the property sector and the non-property sector.

For housing associations, the environment is still fairly healthy as the broad thrust of its income stream comes from rental, a large chunk of which is housing benefit and effectively government funding. But as Raeburn notes, the economic downturn means that housing associations can no longer rely on development as a source of profit in addition to the basic function of assuring a supply of good-quality new homes.

"The development mix of housing to meet general needs, for shared ownership and for direct sales, has generated healthy revenues in good times," he says. "But that traditional model ground to a halt once the financial crisis began and it may well not be resurrected very quickly. And in the short term, rental incomes are static or declining, while costs continue to rise."

In recent times, the costs of both salaries and property maintenance have been rising at a level above the general inflation rate. The latter is partly due to the government regularly imposing higher standards for property upkeep.

Housing associations are able to reclaim only a minor proportion of VAT expenditure – their unrecoverable VAT costs totalled around £500m last year alone – and so benefitted from the temporary reduction from 17.5% to 15% during 2009.

For many associations, the collapse in interest rates has helped, provided they are tied either to a floating rate or to a short-term fixed rate. However, those associations that build and sell properties under shared ownership schemes have suffered from the property market's downturn.

The recession has made construction companies more dependent on business provided by housing associations, increased competition and improved the supply of good development sites. On the downside, there is only limited evidence that building costs have come down as a result. Some housing associations have also experienced problems from contractors becoming insolvent and the overall slowdown in the property market is reflected in a slower pace of development.

Over the next few years, government grants to housing associations are likely to contract, says Pryor. Unlike sectors such as health, education, military and the police, housing is not a top priority and its budget will not be ringfenced. The sector will have to adapt to a lower level of grants, simply because the money is no longer there.

TREASURY SKILL SET IN GREAT DEMAND In this tougher environment, a treasurer's expertise will be valuable, but, as Smith notes, only the largest associations tend to have board members with any in-house treasury experience. "There are 1,200 associations affiliated to the National Housing Federation and nearly 8,000 members of the ACT, so currently demand outstrips supply."

For those treasurers who are interested in serving on the board of a housing association, the National Housing Federation's Get on Board scheme aims to match skilled and experienced candidates with board member vacancies within the sector. The federation calculates that the time commitment required of board members averages one day a month. It stresses that board members of housing associations rarely receive any remuneration for their work beyond out-of-pocket expenses such as travel.

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Further details about the Get On Board scheme can be accessed at **www.joingetonboard.org.uk**

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