

JOHN CROSS

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Good Morning everybody.

And thank you David for the introduction and the opportunity to speak here today.

Before I start I should give you a bit of a health warning.

I am here speaking as Chair of the National Housing Federation.

But I am a man of hats and I am likely to flit occasionally between them

So during the course of this presentation there is a very strong probability that I'll wander into the territory of Chief Executive of bpha or Chair of Cambridgeshire Partnerships

I'll start firmly on Federation business

The National Housing Federation is the trade body for England's 1200 housing associations

- who collectively own over 2 million homes
- that have a combined balance sheet value of over £85bn
- Borrowings of around £35bn and
- A combined turnover in excess of £10bn per annum

Collectively and individually we represent a social enterprise sector

- that has been working in broad partnerships to meet the housing needs of some of the UK's poorest communities
- that has been helping to regenerate neighbourhoods and communities across the country
- and that has been investing heavily in community development and infrastructure to make places better places to live.

Our remit as the Federation is clear – we support and promote housing associations

But critically its not just simply a promoting a self interest group

We and our members are campaigning for the resources to make our housing and neighbourhoods better.

And back to today

Over the next 15 minutes or so I'll try and give you my perspective on how housing associations have delivered and will continue to deliver during these uncertain times.

I'll give a very brief introduction to the operating environment for us in the housing association world.

Before moving on to the substantive part of my presentation that focuses on the housing market and my sector's response.

And I'll conclude with some things to think about in the even more uncertain world of a new government and the next comprehensive spending review and beyond.

The early part of my tenure as chair of the Federation we were negotiating with government about what was to become the Housing and Regeneration Act.

You'll be pleased to hear that I don't propose to into the detail of how the paint dried during that process.

But the key issues from that legislation was the creation of two new agencies that started operating at the very tail end of 2008.

The Homes and Communities Agency – the largest housing and regeneration agency in Europe

And the Tenant Services Authority – the regulator for the affordable housing domain in England.

The HCA is well known to you I'm sure, particularly as you've already heard from Kate Barker.

All I will say is that the Federation were active campaigners for the HCA in a much more benign economy

Our campaign was about creating a more effective flexible and coherent delivery vehicle and in the current economic and housing downturn that argument has been even more critical.

And that leads us onto the TSA.

Initially set up to be the regulator of the housing association sector it takes over the broader housing domain next year when it will also be responsible for regulating local authority housing and ALMOs, the arms length management organisations for local council's housing stock.

Whilst the public focus of TSA has been about its national conversations about tenant services they are crucially, actively playing a strong role in financial regulation across the housing association sector.

The viability of housing associations is clearly an imperative but the sector's reputation with the funding markets for never having a failure is one that we and the TSA must critically defend.

I'll come back a little later to both TSA and HCA.

And this structural change has happened we must also keep a close eye on the ongoing legislative and political change.

I have no intention whatsoever to work through all of these and look at the implications but we already have these on the table moving forward.

We now have a new ministerial team in place as well

And a parliamentary labour party that may be agitating for even more change.

And sitting in the wings opposition parties awaiting the election.

Never the best time for coherent political solutions.

But clearly we must be aware of the thinking of all the political forces and help to shape it, if at all possible.

And finally to the housing market and the economic downturn.

Like all of you in the room today this has been a difficult time for housing associations.

I probably don't need to rehearse the issues that you know well already but as a sector we have been heavily reliant on S106 sites and the collapse of private development has had a consequential impact upon programming and delivering our targets. However, every cloud etc.

But I'll come back to the silver lining in a few minutes.

Clearly the downturn has also had an impact upon the sales programmes of associations – shared ownership and outright sale.

Both these initiatives have historically enabled associations to cross-subsidise the core rent programmes.

But our collective fingers have been burnt

With a new regulator focusing on a co-regulatory approach with our Boards I would anticipate the appetite by associations to continue this cross subsidy model may be more limited in the future.

Even when growth in values return

Certainly in the short term impairment may be a potential constraint on activity but we'll have to await the reporting season before we can make an informed view on any changes to the capacity of the sector.

The other key issue that has impacted upon us has been the crisis in the funding markets and dear to my own heart at bpha the swaps markets.

Mortgages and the house price falls are just part of the story. Mortgage availability has clearly been a significant cause of the slow down in sales activities across the piece but demand for shared ownership housing remains high.

However a more worrying issue has been the behaviour of the banks.

Margins are rising to an all time high.

Apologies for going into grumpy old man mood but at the height of the last recession in the early 1990's margins on housing association lending was around 115 basis points [albeit at a time of base rates at 12%]

With base now at just ½% margins have grown significantly to 250 even 300 basis points have been talked about.

We understand that banks are also looking at the type of funding they provide to the sector.

We are long term investment vehicles and the possible withdrawal of long term 30-year money will mean a different more risky profile at a time of already great uncertainty

Not a good combination.

Banks are also being reported looking for any reason to re-price existing facilities.

For example if an association wishes to rationalise and collapse a group structure to improve their operating efficiency and save money they may need the sanction of their lender – who in turn may want their pound or two of flesh.

These are not necessarily risk based responses to associations or the market in which we operate.

Perhaps it's a bit more lemming-like approach to recapitalising the banks broken balance sheets.

And so what has all this meant. We have the equation that brings together:

- Two new agencies
- a broken funding model
- a government priority to build houses
- association willing and capable of taking the opportunities in the market place

And the outcome has been a number of tailored conversations resulting in the HCA providing £1.3bn to fund over 15,000 homes through associations

And a further £76m to deliver a 1000 homes through private developers.

The tailored conversations have enabled associations to mitigate some of their sales risks through these negotiations by the introduction of the rent to buy options

But fundamentally have enabled associations working with developer partners to bring forward schemes that will help to meet the pressing housing needs in our area.

For example wearing my bpha hat for a minute we have worked with Huntingdon council and Gallaghers to open up more phases of the affordable housing at Loves farm development earlier.

This isn't just about flooding the market with affordable housing

but it is about working locally with the community to ensure we support the delivery of a truly balanced viable and sustainable community.

It has also supported initiatives to overcome headlines like this that featured in Inside Housing at the outset of the housing crash.

As a result of the slow down people at Orchard Park were occupying islands of housing some surrounded by building sites without much building going on!

Lead by the Councils South Cambridgeshire and Cambridge City and supported by Horizons, the developers and landowners and bpha

We have worked together to organise a site tidy up campaign to improve the appearance and physical condition of the development for the existing residents.

Additional funding from HCA has supported bpha building more homes with our partner King Street Housing Society to start filling in some of the gaps.

And now we are seeing the house builders returning to site.

The public realm has been improved and a bit of confidence is returning and with it sales activity.

Clearly these are difficult times but despite them many associations have been able to exploit the market place and the funding opportunities offered by the HCA.

And wearing my third hat of the day

It has been greatly appreciated the flexibility we have been afforded by the HCA around our work in delivering the Cambridge Challenge.

Flexibility about the use of grant to enable us to invest in the medium term delivery of nearly 500 affordable homes at Trumpington Meadows that Alex talked about earlier.

Sensible flexibility that will guarantee the much needed new homes despite the uncertainties.

My own association has seen a year of record growth – delivering well over 1000 new homes in the past year.

Between now and 2012 we have a programme that will deliver another 3000.

We may be out of the worst of the recession and house prices and mortgage availability may stabilised.

Confidence will still be sorely bruised.

But by then we will be into the next comprehensive spending round.

We all know that regardless of who is occupying nos 10 and 11 Downing Street capital funding for new housing will be under intense pressure along with all other public spending.

We will need to develop new models and new products.

We will need to create new ways of funding the affordable housing market through imaginative ways of generating value

Dare I give a plug for the HCA.

They have used the system as well as they could with one hand tied behind their back.

We need them to be given greater freedoms about how they utilise their pots of money to deliver the outcomes we need locally rather than through centrally imposed silos.

And significantly we will need an affordable way of accessing money through the banking or capital markets.

Perhaps now is the time for the big institutional investors and the pension funds to come to the fore

But I still believe that we need significant levels of subsidy to make housing work for both providers and consumers regardless of where the money comes from.

Perhaps we need to lock ourselves away in darkened rooms to start thinking the unthinkable.

For example the Federation recently made a joint submission with other partners calling on the Chancellor to invest another £6bn in housing in his last budget.

Perhaps a tad ambitious.

We have also been making the case for a new approach to rents in the affordable sector.

At a time when RPI is projected to continue in negative territory our rent formulae may suggest that rents actually fall next year.

This is a real dilemma for us.

Affordability for our customers – our tenants is critical but so is the delivery of new housing for the millions of people on waiting lists up and down the country.

A reduction in rents can have significant impact upon associations - a reduction of potentially hundreds of millions of pounds that can't then be spent on improving housing conditions or investing in new homes.

Such moves reduce our capacity now and into the future.

We have asked government to introduce a rent floor that means rents won't go down.

Conversely enabling associations to increase rents in future [when RPI is positive] by just an additional ½% would

increase the capacity of the sector significantly and support us providing an additional 5000 and 10000 new homes each year.

Clearly these are not universally supported by our members but we will have to do things differently.

Why?

In part because of this.

We can argue about the validity of some of these numbers but we already have a massive under supply problem in many parts of the country.

Affordability despite the crash is still a major concern, particularly if there is a bounce back as we've seen from previous housing slumps.

Another reason for arguing for greater freedoms and new thinking is because associations do much more than just plain vanilla housing.

Last year we published the findings of a survey of our members to formalise our understanding of the neighbourhood activities our members carry out.

We discovered that there is an enormous investment through associations in all sorts of neighbour and community work.

We estimate that across the sector we invest between £400m and £500m a year in these added value activities.

Falling sales receipts and lower rental incomes along with all the other financial pressures we all face puts these types of activities at risk at a time when they are most valuable.

Community cohesion, employment initiatives, sport and development activities are just a few of the types of work associations do that may be under threat.

We can't afford to let that happen.

So I come back to we need to think the unthinkable and develop new ways of doing business together.

I'll leave you with a quote from Mr Churchill and I won't try the impression:

The optimist sees opportunity in every danger

The pessimist sees danger in every opportunity.

We are in a period of great opportunity that we need to seize and then deliver.

Deliver more affordable homes

Deliver stronger communities

Deliver growth through Partnership