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Digest of Financial Planning Roundtable Discussions – May / June 2020

Over recent weeks Sue Harvey, partner at Campbell Tickell, has hosted a series of round-table discussions with housing association CFOs and financial planning leads from our LinkedIn finance group. A total of 33 participants from associations large and small and from all across the UK shared their experiences on a range of matters currently foremost in their minds.

This note summarises those discussions by theme.

While the discussions are confidential and unattributable, members of the group are keen for the themes and issues to be shared widely to assist with broader understanding and good practice in these uncertain times.

1. Iterations of the budget and business plans

Most participants had already presented their budgets and financial plans to their Boards prior to lockdown and most had subsequently presented a CV19 variation. Those variations tended to focus on the headline uncertainties around repairs expenditure, arrears, development, and sales.

A minority of participants had chosen to stick with their original plans and to report variances against them going forward, arguing that it was impossible to predict new landing points for those key assumptions.

For those that had delivered Covid variant plans, they were prepared to deliver assurance to the Board, funders and credit rating agencies on the resilience of their financial plans. Participants felt that that assurance had been appreciated and that on the whole Boards were not looking for constant revisions to budgets, plans and stress testing. One association, with good Brixx skills and capacity in-house, was re-forecasting and re-stress testing at a greater frequency.

All participants were planning to re-run their financial plans and stress testing later in the year, in preparation for submission of the RSH FFR. All were hoping that reasonable central estimates for the key assumptions could be evidenced by then. However, there was also a lot of concern that the timing of the ending of furlough may mean that the true impact on levels of poverty, rent arrears and the housing market may not be apparent before the end of the calendar year, or even the financial year.

"Our budget was approved in mid-March and we undertook a high-level review in late March. Looking back at our post-lockdown budget those assumptions are no longer as relevant, and we are probably operating nearer our original assumptions than the COVID one. Making any assumptions in a time of uncertainty is always challenging."

"Many avenues are having to be looked at but while it is important to test the differing possibilities, it is difficult to predict and the impact will most likely go beyond this financial year."

"We have formed a small working group of Board members and staff to work through the revised assumptions for a Covid financial plan and stress testing. We will use the 1st year of that as the re-forecast budget".

2. Business plan assumptions: Rent arrears

Participants agreed that arrears had to date been performing better than originally anticipated immediately post-lockdown. Arrears were creeping up, but slowly.

Some associations had looked to segment their customers by the kinds of economic pressure they may come under in the months to come. For the most part this segmentation was retired vs working age and working vs working age and not working. They were tracking the differential arrears performance across those groups and basing the assumptions for the next financial plan on the learning from that exercise.

One participant had tracked arrears performance for new Universal Credit claimants and reported that those were running at more than double the previous overall level. As a consequence, they will be looking to stress test arrears rising to 10% for a portion of their residents.

Some with small retail units in their portfolios were concerned about the survival of those businesses. And whilst we had no participants with student housing stock, some were anxious about the potential impact of a slump in the number of students in some university cities and the knock-on effects on local housing markets and local economies.

All were very concerned as to the impact of the end of furlough and none were expecting current performance to continue.

"We have experienced an increase in cancelled Direct Debits. For the moment, most of those appear to have become debit card payments instead."

"We have begun to produce a weekly scorecard to keep track of a range of indicators for rent collection to support the Board's understanding of how the arrears position is developing."

"We have redeployed some staff to work on supporting tenants with universal credit claimants and maintaining rent payments. This has reduced the need to furlough staff. It has also meant an increase in customer contact, especially in relation to helping with universal credit and housing benefits applications. Which has largely been a positive experience for both staff and residents. Something of an unintended consequence."

3. Business plan assumptions: Rent levels

There was widespread concern that the increased levels of public sector debt resulting from the costs of the policies to support the economy could result in austerity policies including rent restraint or cuts in coming years. All participants were intending to stress-test these scenarios (e.g. CPI only, flat in absolute levels, and real cuts). There was general agreement that this flexing sees some of the largest detrimental impacts on financial resilience and ability to develop.

"We are in unprecedented times, with huge increases in government debt. It must be a possibility that a period of austerity would see rent frozen. It's certainly something that we will be stress testing scenario"

"Our Board is concerned about what might well happen to rents. If CPI were to go to 5%, are we going to be allowed to put through 6% rent increases? Even if we could, it will make our properties unaffordable.

4. Business plan assumptions: Voids

Voids had risen for all participants, but in the later discussions participants had restarted void repairs and some viewings, and most expected a return to normal levels within a month or so.

5. Business plan assumptions: Repairs expenditure

Attendees had all reduced and focused their repair services on emergency repairs plus some other small areas. All had noticed a drop-off in repairs reporting, and so were unable to precisely estimate the scale of the backlog building up, with some speculating that perhaps residents will have completed some repairs themselves.

At the time of our later discussions, some organisations were in advanced stages of planning to expand the level of service to include some external repairs and some common parts. All noted the care that will be required to meet residents' safety concerns, especially for those shielding.

Our discussions centred on sharing expectations for the profile of repairs catch-up, both revenue and capital spend. Some participants were assuming that the revenue catch-up would be completed within the current financial year, whilst others felt that some catch-up would be pushed into the next financial year. Most agreed that those major repairs causing the greatest physical disruption to residents – for example heating systems in sheltered schemes – would be deferred for longer to avoid winter working, whilst those such as kitchens and bathrooms may well have to be delayed for cost and efficiency reasons until whole-block works could occur when all residents were able to support such disturbance.

The greatest difference of views was between those organisations with direct labour organisations and those contracting for most of their repairs service. Those with DLOs had been assured by those teams that catch-up in year was achievable. Those predominately using contractors were less confident, feeling that with all associations being in the same position there were bound to be competing demands on a small group of contractors with bottlenecks and delays building up.

Again, for those procuring their repairs services, counterparty risk was a key concern. Some associations were seeking to actively support their contractors through prompt payment and other measures.

All participants were concerned about supply chain pressures building over coming months, both through the impact of business failures and due to Brexit. Sources and costs of PPE were also discussed. All associations were testing higher repairs costs as part of their business planning, generally in the order of 2% - 4% more expensive.

"There are questions as to how long it will take to complete the backlog, and which budgets the costs will fall under."

"We already have some repairs inflation built into our base case, but we are stress testing higher levels still."

"In our area of the country external maintenance companies that can meet our standards are scarce. If our current contractor got into difficulty it would be hard to identify a suitable replacement."

"Our supplier may no longer able to operate/stay in UK post-Brexit, this will have significant impact if they disappear. That would mean having to go out to market which would see a likely increase of cost"

6. Business plan assumptions: Development and sales

All participants had seen significant drop-offs in development activity, if not full shut-downs. Most were already experiencing some return-to-site, albeit with expectations of slower progress, leading to flexing of the assumptions on the profile of development expenditure, sales receipts, and new rental income.

Uncertainty over changing consumer tastes and counterparty viability were both raised as concerns.

For those receiving cross-subsidy from sales activity, the degree of uncertainty over the future performance of the housing market was a key concern.

Sales activity was felt to have resumed in May, but largely for those transactions already at an advanced stage pre-lockdown. Mortgage providers were felt to be back in the market following a short interruption, with both loan-to-value ratios and willingness to offer shared-ownership mortgages having returned. However, most participants believed this rosy picture may not continue when the full economic impact of the pandemic becomes apparent in the autumn.

Unsurprisingly for those associations with a significant sales programmes, a key feature of future stress testing will be around both values and volumes of sales, and the financial impact on schemes in progress. The potential for grant to be available to support tenure switching was discussed, but with little confidence that it would be forthcoming.

One participant reported having two requests for the association to buy back some shared ownership equity from struggling residents.

The possibility for a housing-market-support package forming part of the Chancellor's plans to stimulate the economy post-lockdown was discussed. There was a range of views on whether this would materialise, whilst acknowledging that it had often being a feature of past economic recovery policies.

"We don't yet know to what extent changes in working patterns, a need for home office space, or a greater emphasis on access to outside space will flow through into people's demand for both purchasing and renting homes. We may have to rethink some of our usual approaches to location and product offer."

"The London impact of changes to people's workings could see London house prices fall, with spill over increases in our area."

"*One of our developers going under is a massive concern."*

"As of yesterday, all sites were back up, but some things will take longer than before and we're thinking about how to reflect that in our planning."

"We are seeing big cost increases on infill sites, which as a smaller association is an area of development focus"

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7. Experience of external audit

Although no-one's external audit was complete at the time of our discussions, participants reported that remote working had gone well for the large part, but took longer as the exchanging of emails and spreadsheets was not as effective at sitting with someone and working through a bunch of queries in one go.

All had experienced more challenge than in previous years on bad debt provision, impairment and going concern, but mostly manageable, with some variations across audit firms. Valuations on market rent properties were likely to be subject to a 'material uncertainty' comment.

8. Other matters

Those mid-way through raising funds or re-financing reported some delays due to new ways of working and a lot of additional questions – especially around stress testing – but no reluctance to lend.

Participants noted that Brexit and the Carbon-neutral agenda had not gone away and that both issues would continue to shape their financial planning.

Care and Support providers emphasised the different nature of the challenges they are facing.

*"At the moment Brexit is not being discussed, but we are trying to think about how to reflect both Covid and Brexit in our planning"***.**

"Being solely a supported housing provider, we are looking at increased costs, particularly in our hostel accommodation. Issues around PPE and staffing levels. We need to build these into our plans for this year and next."

"We have the added complication of care homes and whilst the need will not go away, we're not yet clear on the long-term impact on our cost structure. There will be additional costs to demonstrate our ability to control infection and we may need to change how we use temporary staff."

Future Round-Table Discussions

Sue will be hosting a second series of free round table discussions in early July. Places are limited so that we can keep the groups to a size that supports a good level of discussion. Please keep an eye out for the announcement.

Sue Harvey, 19th June, 2020