# **Hexagon Housing Association Ltd**

# **Board of Management**

**26th July 2016**

###### Agenda Item 3

**Chief Executive’s Report**

**Report by the Chief Executive**

|  |  |
| --- | --- |
| ***1.0*** | ***Summary*** |
| 1.1 | This report provides an update across a range of issues and makes three recommendations. |
| ***2.0*** | ***Recommendations*** |
| 2.1 | That the Board agree an agenda item for the September Board Away-Day on house prices post Brexit, and how Hexagon should respond, as outlined in Section 4. |
| 2.2 | That the Board nominate a member to attend the Residents’ Day on Saturday, 17th September 2016. |
| 2.3 | That the Board notes the remainder of the report. |
| ***3.0*** | ***Delivering Better Value for Money: Understanding differences in unit costs*** |
|  | I attach under **Appendix A,** a letter which was sent by the HCA to Chairs of all housing associations on 8th June 2016. The letter should be fairly self-explanatory. In summary, it identifies that there is a wide variation in the headline housing association costs across the sector and that the HCA are unable to explain half of the variations. They suggest that some of the unexplained variation must be due to differences in operating efficiency.  In that context, they will be re-enforcing their focus on Value for Money in their regulatory regime and they indicate that this will form a major part of their new programme of In-Depth Assessments (IDAs).  In the meantime, they expect housing associations to continue to provide clear Value for Money self-assessments. A summary of our Value for Money Self-Assessment is contained within the year-end accounts and is therefore put to this meeting for approval. The full Self-Assessment will be prepared for the September Board as per usual.  Perhaps the key message in the letter is that they want Boards to assure themselves that they have the confidence and strategy to deliver improvements in efficiency and ensure that they are using their resources and assets in the most effective way in order to deliver the business’s overall strategy.  The context of the letter is that the HCA continue to be under some pressure from Government (Communities and Local Government and Treasury) to ensure that housing associations are as efficient as possible so as to increase supply.  The letter attaches a summary of Hexagon’s headline social housing costs per property derived from the 2015 global accounts data and broken down into several cost lines. This is then compared to the equivalent figures for the sector as a whole.  It should be emphasised, that the numbers are the ‘raw’ data. That is to say they are not adjusted by any of the contextual information (i.e. having a high level of supported housing, or operating in London).  In general, the information confirms much of what we know from the HouseMark data in our VFM Self-Assessment. We know, for example, that our management costs per unit are extremely low and that our maintenance costs for 2014/15 were relatively high. In September, the Finance Director will do a full Value for Money Self-Assessment and she will cross-refer to some of these figures with an explanatory note to cast more light and detail.  In the meantime, I should point out that, in general, we use the HouseMark benchmarking data to develop our Value for Money strategic and to measure ourselves against our peer group. In general, that information is more detailed than the basic information contained in the HCA’s letter and is therefore probably more useful to us. Crucially, it also contains information about performance as well as costs to provide a rounder view of Value for Money rather than just an emphasis on costs. |
| ***4.0*** | ***Brexit Referendum result*** |
|  | I thought it would be useful to just outline some of the key strategic risks now facing Hexagon, and indeed, all housing associations.  **Mark to Market movements and cash calls**  There has been significant market disruption following the Brexit vote and one of the key ones was a collapse in long term Government gilt rates. This was caused by investors trying to seek safe havens for their money while the Stock Market fell to record lows.  The practical impact for Hexagon has been that we have had to place additional security with Barclays and Lloyds. The Finance Director covers this in more detail in her Treasury report, but in the short term, we have had to put £2.7m of cash forward to cover the security shortfall.  I would remind Members that at the last meeting, Members passed a resolution that said that should we see four weeks’ of mark to market movement that resulted in Hexagon receiving a cash call, we would move to put property security in place.  Given the unusual circumstances of the Brexit vote and the advice we have received that the uncertainty is likely to remain for some time, we moved immediately to a security charging exercise to put property security in place so that we can receive our cash back from Barclays and Lloyds. It has now started and we anticipate that it will be completed by September. In the meantime, as the Treasury report indicates, we have significant amounts of cash available to cover further deteriorations in the mark to market movements should they occur.  **Pension liabilities**  Hexagon has now exited from the Social Housing Pension Final Salary Scheme (SHPS). However, Hexagon carries pension liabilities for past service deficits for those who were in the scheme prior to closure. Given the recent collapse in Government gilts as well as reductions in the Stock Market, we can expect that our pension liabilities have increased fairly significantly following the Brexit vote.  The pension liabilities are calculated on a triennial basis so the short term impact are not going to crystallise until the next valuation is carried out in September 2017.  Clearly, the markets are responding to uncertainty, but as it is not clear when that will end, we should probably expect an increase to our pension liabilities. Time will of course tell and we will keep the Board informed as this unfolds.  **House prices**  Members may recall that at the last meeting, I provided Members with a report from Standard and Poors, the ratings agency in respect of the impact of Brexit vote in UK property markets.  In summary, they forecast that the housing market was suffering from a fall in prices due to uncertainty prior to the referendum, but that a Brexit vote could “potentially reverse residential values in the UK and in London in particular”.  They reasoned that foreign buyers who have long perceived UK property as a haven from political and financial volatility will take a Brexit vote as a threat to that perception of safety.  Since that report, a number of commentators, including the Treasury, the IMF, and the Institute for Fiscal Studies, all predicted a house price fall in the event of a Brexit vote.  It is obviously too early to tell exactly what will happen, but many commentators are expecting house prices certainly to cool, if not, fall. Hexagon will therefore need to approach any new development proposals in the context of the new environment caused by Brexit.  At the moment, we have committed our 2015/18 programme in that we have approved 199 of the 200 units. Clearly, our risk analysis will have to focus on the 100 units of shared ownership and the impact of a fall in prices for those homes on sales values.  The last time we saw a significant house price fall (2008), we converted some of our hard to sell shared ownership to Rent to Homebuy and that might be one of our options going forward if we see a significant fall in prices. We also have the option of re-paying the grant and market renting the properties as one of our exit routes.  We have yet to receive any information from the GLA in respect of the 2018/21 programme, although we had been expecting the documents to be issued some time before September.  We might expect some slow-down in this timetable however. The reason for this is that housing associations have traditionally been counter-cyclical businesses. That’s to say, when the housing market has crashed, as HA’s core product was rented housing (for which they receive large amounts of grant), they were able to compete more strongly in the depressed property market than other developers and could buy land and procure building contracts with relative ease.  The new housing association model creates a more cyclical business model as it is primarily centered on home ownership (both shared ownership and outright sale) to create cross-subsidy for a smaller programme of rented homes. This is a much riskier profile and we will therefore have to proceed with extreme caution going forward, as will the GLA in putting out a bid prospectus.  There are no immediate decisions to be made as we are not proposing to do any more home ownership before the Board consider the scale and tenure of any GLA bid, but clearly Members will need to take a view about house prices and risk as we move forward. We are currently carrying out some analysis about the impact of property price falls for our current shared ownership and outright sale programme and we will report back to the Board on the results at our September meeting.  In the meantime, Brexit and the impact of house prices should probably feature in our September Away-Day if Members agree. |
| ***5.0*** | ***Mark to Market movements of Interest Rate Swaps*** |
|  | At the last Board meeting, the Board agreed a Panel to be established to receive a report from our Finance Director and Treasury Advisor about the prospect of drawing down our EIB loan earlier than anticipated (July rather than October) with a long term interest rate fix.  I am pleased to report that the Board panel met twice; first on 9th June and later on 13th June and agreed to draw down the loan and fix. The draft minutes are on this agenda.  This was then actioned on Tuesday, 14th June at a rate of 1.722%.  The attached article from *Inside Housing* at **Appendix B** confirms that this was an extremely good rate and at the time, marking a long time historic low.  Now that we have had a Brexit vote, long term interest rate has fallen further, so it may be that someone will take our crown in the future, but in the meantime, this was a very favourable outcome. |
| ***6.0*** | **Right to Buy pilots** |
|  | The Directors’ Group has recently considered a briefing note from the National Housing Federation which summarises the results of the Right to Buy pilots and suggests some areas for consideration.  Our conclusion was that the pilots are raising many more questions than answers and that until we receive some clear guidance from the government, and the NHF on the shape of the programme, it would be a bit too early to advise the Board on how the scheme will work and to provide some assurances that Hexagon will be able to provide like-for-like replacements at no financial detriment. This was our understanding of the NHF’s outline proposals which we considered last September.  In the meantime, the NHF have recommended that housing association Boards consider which properties might be exempt from the Right to Buy and we are therefore carrying out some analysis of this and will report back to the September Board with some recommendations.  Members should be aware that any properties that are exempted are expected to result in a portable discount to the resident to be used to purchase another comparable home, either within our own stock or within another housing association stock. This proposal strikes us as incredibly difficult to deliver so any exemptions will need to be seen in that context.  In the meantime, our Operations Director is in discussion with Phoenix Housing about the logistics of them selling us a Right to Buy Administration service that would benefit both organisations and we will report on those negotiations also in September. |
| ***7.0*** | ***Award from Opinion Research Corporation (ORC)*** |
|  | At the last Board meeting, under Any Other Business, I gave a verbal report of a recent award which we have won from the Opinion Research Corporation. I thought it might be helpful if I provide a bit more detail here.  ORC carries out employee surveys that measure overall engagement, customer centricity, innovation and sustainable engagement/wellbeing.  ORC draw their data from all organisations that run staff surveys and they contain this in a benchmarking database. A total of 452 organisations are included.  Europe based companies represent the largest proportion of the group so they group their European customers into three categories: small, medium, and large (less than 300, 300 to 2,500, and 2,500+ employees respectively).  I attach under **Appendix C** the overall winners for the nine awards. As Members will see, in the centre of the chart is Hexagon, having won the European Small Companies Award for Employee Engagement, with the highest scores.  The appendix also shows that Hexagon won a special award for ‘taking action’ having received the highest possible score on ‘I believe this survey will lead to action’.  Members may recall that we won a similar award last year. We understand that there are approximately 43 housing associations who take part in the survey within the 452 organisations included, so we also have some independent verification about how we are doing relative to other housing associations.  Tracy Inniss, HR Manager, recently accepted the award at an award ceremony and has developed an action plan arising from the survey to ensure that we make even further improvements from an extremely strong base. |
| ***8.0*** | ***Board Away-Day*** |
|  | This is just a reminder that the Board Away-Day will be held on 9th/10th September 2016 at the Grange Tower Bridge Hotel, 45 Prescot Street, London E1 8JB.  We had a brief discussion at the last meeting about a possible facilitator for this year’s event.  I am extremely pleased to say that Dr Fiona Underwood from the housing association consultancy, Altair, has indicated that she would be available to assist.  I attach under **Appendix D** a profile about Fiona, who is very experienced and widely respected.  At the time of writing this report, we had not hired Fiona, although she has confirmed that she is available for a Friday evening talk and the Saturday Away-Day and would be willing and able. The Chair and I are currently arranging a meeting with Fiona to discuss this with her.  Helpfully, Fiona is not just a governance expert in theory, but also has practical experience as she has been a board member at Bromford Housing Association, a very high performing association where she chaired their Audit Committee. She had significant involvement in their In-Depth Assessment (IDA) and members will recall this was one of the areas that the Board wanted to cover.  It is clear that Fiona could bring some significant experience to that topic, as well as the wider governance facilitation briefing in which she is extremely experienced. I hope to provide a further update at the Board meeting. |
| ***9.0*** | ***Invitation to Residents’ Day*** |
|  | Every year Hexagon has a Residents’ Day and this year’s event will be held on Saturday, 17th September at St Dunstan’s Jubilee Ground, Canadian Avenue, Catford, London SE6 4SW form 12:45pm to 5:15pm.  All Board Members are invited to attend the event and it would be good to see as many people as possible. I will be attending and I assume all of the Resident Board Members will be invited in their capacity as residents.  Of the remaining seven Board Members, it would be useful if the Board could nominate at least one Board Member to ensure their attendance and feedback to the September Board meeting.  Lastly, I attach a draft agenda under **Appendix E** for Members’ information. |
| ***10.0*** | ***Board appraisals*** |
|  | As Members will be aware, Board appraisals will be carried out on 1st and 2nd September (for phone meetings) and 27th September (for face to face meetings).  The appraisal process and form have been updated and circulated this year by the HR Manager to ensure continuous improvement in the process and documenting the results. |
| ***11.0*** | ***Paperless Board meetings*** |
|  | I am pleased to report that following the Board’s agreement to purchase a new system called ‘MinutePad’, the Directors are now piloting the new system with our Directors’ Group papers before we roll out to Board Members following the ironing out of any glitches.  I should be able to provide a further verbal update at the meeting. Provided the pilot goes well, we might be in a position to begin the roll out in the Autumn for Board Members and to rid ourselves of the large volume of paper that we currently photocopy and post out before every meeting. |
| ***12.0*** | ***Resident Board Member Election*** |
|  | At the time of writing this report, we do not have the election results, but as the ballot count will be held on 18th July, I expect to verbally update the Board on the results at the meeting.  I would remind Members that this year there are two vacancies arising from the end of Kellie Elmes’ three year term and the vacancy arising from Gaius Vincent’s departure from the Board.  As reported at the last meeting by the selection, this year’s four candidates are Julian Lukwago, Ranna McArdle, Kristel van der Meijde, and Mark Allan. |