Communities secretary informed of concerns about the HCA’s lack of transparency

MPs attack regulator over viability ratings

19/07/2013 | By Tom Lloyd

The chair of a prominent committee of MPs has raised concerns with Eric Pickles about the transparency of financial viability ratings published by the social housing regulator.

Clive Betts MP, chair of the communities and local government select committee, has written to the communities secretary to highlight evidence MPs heard this week from Julian Ashby, the chair of the regulation committee of the Homes and Communities Agency.

The MPs were alarmed the regulator is not recording its concerns about financial viability by downgrading housing associations because it fears this would cause the landlords to breach loan covenants, giving banks the opportunity to reprice debt.

The committee will publish a formal report with recommendations in the autumn. But Mr Betts said members were so concerned by what they heard it was decided he should write to the secretary of state in his role as chair of the committee, although not formally on its behalf.

Mr Ashby said on Monday that although none of the 280 large housing associations it regulates has a financial viability rating to suggest any problems, there are a ‘handful’ where the regulator has concerns.

He said these concerns would be dealt with by recommending action the landlords should take, or downgrading governance ratings.

Mr Ashby suggested lenders were aware of the steps taken to avoid repricing, which he described as one of the major threats to the sector. ‘You don’t want to make a difficult problem worse by triggering a repricing,’ he said.

Mr Betts said this meant there was a ‘lack of transparency’ in the work of the regulator, and if a housing association was in serious financial trouble ‘nobody would have a clue’.

One major bonds investor said: ‘It does look ridiculous [for the regulator] to say we are publishing one thing but everybody knows it is something else.’

The regulator is also writing to Mr Pickles to clarify its policy.

The HCA’s financial viability ratings range from V1 to V4, where V1 and V2 are compliant, and V3 and V4 are not. In a statement Mr Ashby said: ‘We will issue a V3 or V4 rating if we feel it is warranted. Our regulatory strategy is to work with any provider with weaknesses or serious exposures to deal with issues before it gets to the stage that a V3 or V4 is necessary.’

Is the social housing regulator too reluctant to name and shame registered providers that
are having financial problems? Have your say in our weekly poll

Readers' comments (11)

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John Challinor | 19/07/2013 9:57 am

It's about time that Westminster did its job and highlighted that the HCA is not up to its job as a regulator it is just about useless, now is the time when the HCA should be inspected and a report written and be disbanded and replaced with something like OFWAT or better still the Bank of England which has a track record in fiscal regulation.

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Gresley | 19/07/2013 10:42 am

The HCA, like its predecessor the Housing Corporation, is designed to be useless.

It has always been a de facto cheerleader for housing associations. I have had experience (in a local authority role) of asking for help in making housing associations honour commitments made - and got nothing other than a waffle-filled meeting.

Introducing a degree of accountability to communities and tenants was why the TSA was set up - and the same reason why Grant Green (or Michael Shapps) quickly got rid of it.

Housing associations, as the chosen ones to hurry the demise of council housing, have since 1988 been above and beyond regulation and accountability. Unless they do something blatantly fraudulent or grotesquely silly - the kind of thing that would attract the attention of Inspector Knacker anyway - the HCA will do nothing. As it is intended to.

If the Con/LibDem/NewLabour coalition had been around back in Moses day, the Ten Commandments would have been pilloried as 'burdensome red tape'...

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Pamwe Chete | 19/07/2013 10:55 am

So true Gresley, so true!!

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B. McT. | 19/07/2013 11:22 am

Interestingly one wonders why some of the Chief Executives of the larger H.A have become more vocal, expressing concern about the regulator, not in the sense that
they do not have any teeth or are not doing their job? Rather they seek to muzzle and reshape the fundamentals of regulation. Might this be because the regulator is starting to shine a light on the risk to the wider sector, particularly the contagion effect of some big failures? Bearing in mind that we have Registered Providers using their assets as leverage to maintain cash-flow, and that they can no-longer rely on government grant funding to provide financial support; that they are accessing the bond-markets, which is a pretty ruthless arena if you are unable to meet re-payment terms and are generally operating in the ‘private free-market’ arena. Considering the above as the arena in which H.A are operating, a single big H.A. collapse could be catastrophic. As recent history has shown the global banking crisis was followed by the collapse of a single big bank Lehman Brothers. The nationalising of the major banks in the UK by the previous labour government followed the collapse of Northern Rock. The collapse of the housing market and in turn the entire economies in Ireland, Spain, Portugal, and it is argued The UK and in The US (as distinct from Northern Europe / Scandinavia where the delivery of housing remains stable and seems to work in a way that suits all) was in effect the market reacting to the contagion effects of these single albeit big failures. Nicholas Taleb, terms this the Black Swann Effect ‘The Impact of The Highly Improbable’. Of course it is all much more complex than I have described above, however, we are still in the midst of a major economic crisis caused by what was thought of as improbable events. One only need to look to in particular Ireland, where the banking regulator failed to express in transparent terms the financial viability of the banks, through a fear of both government and ‘the market’, that as they stuck their head further into the sand, the more catastrophic the result. ‘Too big to fail’ is another way of saying that the Titanic will never sink. Tips of ice-bergs spring to mind.

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**tenantplus | 19/07/2013 1:11 pm**

This has always been going on and on... We know by now housing associations, like the banks, cannot be touched... They are all corrupt if not in a criminal way at least in a moral way... Now, do not come here shouting that I am saying all the people who work in social housing like that, because if you have any brains, you know I do not mean that and if you are honest I do not mean you... But if you are in a corrupt environment and don't whistleblow for whatever reason, then I am afraid, whether you like it or not, you are no better than all the corruption around you, because it is really amazing that people, highly educated in average, have let all this go on and on and on.

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**Eric Blair | 19/07/2013 1:47 pm**

I suppose the best we can say about all this is that the process of Parliamentary scrutiny has succeeded in exposing the Regulator's rubber teeth for all to see.

At least Julian Ashby came clean and told the Committee the truth, and I think he deserves some credit for that. In any case, he may well feel frustrated that a V4 rating would compromise a landlord deemed capable of improving.
I reckon that before the sector starts baying for blood it should consider all the angles

to this...

brand | 19/07/2013 3:28 pm

So if Mr Ashby put his hands up and said the names of the 14 and let's say half of
their lenders took the opportunity to re-price which pushed some towards significant
financial distress I am to take it that the belief is that action is in the best interest of
	
tenants?

ManWithAbacus | 19/07/2013 4:41 pm

If the US banking regulator (SEC) declared to the markets that Lehman was fine back
in 2008 and then worked hard behind the scenes there would have been an outrage.

Given the scale and importance to the fabric of UK life, organisations and the
affordable housing sector in general cannot operate on any other basis that
transparency, consistency and the utmost integrity.

How can the regulator justify "sweeping things under the rug" is in the best long term
interests of the sector and UK society?

tenantplus | 20/07/2013 8:47 am

Yet again, if these dodgy Housing Associations were private landlords, everyone here
would be happy to be swept under the carpet?... And if these were corporate bankers
everyone would be happy to sweep them under the carpet?... It is a licence to fail to
let them anyone get away with it... any repercussion of coming clean must be taken
up by the government, but coming clean must come first. If you don't and talk about
"other angles to be looked at" the best you can do is to stop a scandal happening but
you will only accelatere the floodgate of the whole system crashing down in a year or
two

brand | 20/07/2013 8:27 pm

There is a World of difference between attempting to manage a situation and
"sweeping it under the rug". I am not suggesting that it is the 'right' thing to do but
given likely scenarios an attempt to reach a point of solution may be the best thing.

Lehman was a bust bank, completely different to this situation where talking up a
crisis leads to more of a crisis.
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