

# UC Berkeley

## UC Berkeley Previously Published Works

### Title

From gatekeepers to gateway constructors: Credit rating agencies and the financialisation of housing associations

### Permalink

<https://escholarship.org/uc/item/696293h0>

### Authors

Smyth, Stewart

Cole, Ian

Fields, Desiree

### Publication Date

2020-09-01

### DOI

10.1016/j.cpa.2019.102093

Peer reviewed

**From Gatekeepers to Gateway  
Constructors:**  
*Credit Rating Agencies and the  
Financialisation of Housing Associations*

***Accepted Authors' Manuscript –  
Critical Perspectives on Accounting (July, 2019)***

**Dr Stewart Smyth**, *Sheffield University Management School (corresponding author)*

**Prof Ian Cole**, *Centre for Regional Economic and Social Research (CRESR),  
Sheffield Hallam University*

**Dr Desiree Fields**, *Geography, University of California, Berkeley*

**Address for correspondence:**

Sheffield University Management School  
Conduit Road  
Sheffield  
S10 1FL  
UK

Telephone: +44 (0)114-222-3478

Email: [s.j.smyth@sheffield.ac.uk](mailto:s.j.smyth@sheffield.ac.uk)

**Key Words:**

Financialisation, Social Housing, Credit Rating Agencies, Corporate Bonds.

## **Abstract**

This paper uses the twin metaphors of 'gatekeeper' and 'gateway constructor' as devices to explore the role of Credit Rating Agencies (CRAs) as intermediaries between global corporate finance and specific institutions - housing associations in England. The analysis utilises a financialisation framing, whereby the practices, logics and measurements of finance capital, increasingly permeate government, institutional and household behaviour and discourse. This paper examines how housing associations have increasingly resorted to corporate bond finance, partly in response to reductions in government funding, and in the process engaged with CRAs.

Surprisingly little research has been undertaken on the role and function of CRAs, and their impact on the organisations they rate. The case of housing associations (HAs) is of particular interest, given their historical social mission to build and manage properties to meet housing need, rather than operate as commercial private landlords conversant with market-based rationales.

A case study of the large London-based HAs draws on a narrative and financial analysis of annual reports, supplemented by semi-structured interviews with senior HA finance officers to explore how CRA methodologies have been internalised and have contributed to changes in strategic and operational activities.

We conclude that CRAs act both as a gatekeeper to the financial markets but also as a gateway constructor for the financial markets to enter new arenas, such as the HA sector. This dual nature of CRAs is intended as our contribution to emerging debates about the nature, the practice and the impact of financialisation on public services.

## 1) Introduction

More than a decade after the 2008 financial crisis, housing remains a central social and public policy issue across many developed economies, with key indicators such as rising rent levels, new build completions being outstripped by demand and increasing levels of homelessness. For example, the number of rough sleepers in England has increased by 169 per cent between 2010 and 2017, while the number of homeless acceptances by local authorities has increased by 48 per cent in the same period (Fitzpatrick et al 2018). Since 2008 major private house-builders have increasingly prioritised profit-making and dividend payments over increasing the volume of new-build properties (Archer and Cole, 2016). Home ownership is in long term decline in most developed economies (Forrest and Hirayama, 2015; Clarke, 2016); in England the proportion of owner occupiers declined for ten years from 2003, and has since flatlined (MHCLG, 2018). However, government policy remains committed to attempting to reverse this trend of decline, through potentially expensive and poorly directed ventures like the *Help to Buy* programme (Wilcox et al., 2016). The private rented sector and, especially, social housing is overshadowed as a result of this unremitting focus on restoring homeownership (Wilcox et al., 2016).

This paper focuses on the social rented sector in England, and especially the activities of housing associations (HAs) (which now make up 60 per cent of the sector overall). Since the global financial crisis (GFC)<sup>1</sup> successive governments have reduced grant funding for new social housing developments (Smyth, 2019). Combined with increasing difficulty in securing loan finance from traditional sources (i.e. banks) many large HAs have turned towards the corporate bond market to raise finance. Across England, eleven bonds were issued by seven HAs in the fourteen years between 1995 and 2009. In 2010, 14 bonds with a total size of £2.5 billion were issued by ten HAs. By 2017, there had been a cumulative total of 84 bond issues by 58 HAs, worth £17.1 billion (JCRA, 2018).

This increased engagement of HAs with the corporate bond market has the impact of financialising a sector that is still (nominally at least) not-for-profit and with charitable/philanthropic roots. A growing literature on financialisation and housing has

---

<sup>1</sup> A glossary of acronyms used in this paper is provided in Appendix 2.

addressed the role of private equity firms (Fields, 2015), government policy (Smyth, 2019), credit scoring and securitisation (Aalbers, 2008), predatory lending practices (Newman, 2009), institutional investment (Tang et al. 2016) and the use of derivatives by social housing providers (Aalbers et al., 2017). However, there is little research on how credit rating agencies (CRAs) relate to the financialisation of housing. We locate our specific study within the broader arena of the financialisation of the social housing bond markets (Wainwright and Manville, 2017) and highlight similarities – in terms of the use of corporate structures and intermediaries – with Cooper et al.'s (2016) analysis of a Social Impact Bond (SIB) to address homelessness in central London. Building on such work, this paper explores in depth the relationship between large HAs and CRAs in England.

Within the small body of research on the purpose and activities of CRAs, the term “gatekeeper” has been employed as an explanatory metaphor, pointing to how CRAs facilitate or constrain access to financial markets (Duan and Van Laere, 2012; Partnoy, 2006). Coffee (2004; 2006) explores the concept of gatekeepers within the professions and the accounting failures in the early years of this century. Coffee places gatekeepers in a principal-agent relationship where the gatekeeper uses their own reputational capital to increase the credibility and quality of the signals being sent from the firm (board) to the market. While Coffee (2006) focuses on the role of auditors as gatekeepers, he recognises that they come in various forms, such that Partnoy (2006, p. 59), following Coffee (2004), states, ‘Credit rating agencies clearly belong within the broad classification of financial market gatekeepers’.

In this paper we seek to build on the gatekeeper metaphor in relation to CRAs by moving beyond an analysis based on a principal–agent relationship. Instead, we adopt a political economy-influenced perspective and argue that CRAs play a crucial role in the financialisation (Christophers, 2015; Cooper, 2015) of housing associations, with their rating opinion providing reassurance to potential lenders as to creditworthiness.

This political economy perspective sees the current era of financialisation as one where there has been a disproportionate expansion of over-accumulated capital and a growth of finance into more areas of social and economic life (Chiapello, 2017; Cooper, 2015; Fine, 2010). We argue below that both elements are present in the case of social housing where there is increasing private sector debt financing in a sector

that was previously predominately funded by the government (Smyth, 2019; Wainwright and Manville, 2017). The preferred form of this increased private debt has been through the issuing of own-named corporate bonds<sup>2</sup> (HCA, 2016; Wainwright and Manville, 2017), with each bond issue requiring a rating from at least one credit rating agency. We therefore argue that CRAs also play the role of *gateway constructor*, where they smooth the extension of the corporate bond market into new arenas, by embedding the priorities and logics of private capital into social housing providers through the development of a common language.

We find that the accounting information (such as operating margin, interest cover and gearing measurements) included in the CRA criteria become internalised by social housing providers, exerting a significant influence on their strategic decision-making. CRAs therefore facilitate the financialisation of social housing providers by shaping how they make operational and strategic decisions; in turn rendering institutions previously insulated from the imperatives of capital markets more legible and amenable to corporate bond financiers.

Based on the foregoing, in this paper we aim to answer two related research questions. First, how has CRA methodology been internalised by housing associations and contributed to changes in their strategic and operational activities? Second, how can we better understand the role of CRAs as part of the wider processes of financialisation?

The paper is structured as follows: section 2 examines the relationship between financialisation and social housing, while section 3 analyses the literature on CRAs and their activities, and includes the development of the research themes used to analyse the data. Section 4 sets out the context for this study with the recent changes in the policy environment for HAs in England and the nature of the G15<sup>3</sup> of large London-based HAs. Section 5 explains the case study research design utilised, drawing on a narrative and financial analysis of annual reports, supplemented by semi-

---

<sup>2</sup> The term “own-named corporate bond” refers to where a housing association issues a bond based on their own standing. This stands in contradistinction to much of the bonds that had been issued in the sector prior to 2009, where bond aggregators, such as *The Housing Finance Corporation*, were used to raise finance for a group of HAs, from the capital markets.

<sup>3</sup> The G15 is the representative lobby group of large London-based housing associations. At the time this research was carried out there were 15 members. However, due to ongoing mergers in the sector the G15 in 2019 has 12 members. Their website can be accessed at: <https://g15.london/>.

structured interviews with senior housing association finance officers. Section 6 sets out the results according to the themes identified earlier. The findings illustrate how the CRA criteria have been internalised by the HAs as part of a process whereby the social housing sector as a whole is becoming corporatised and financialised. Finally, these results are discussed in section 7 and in section 8 we conclude by establishing the main contribution of this paper – the theorisation of CRAs as gateway constructors for finance capital into a key public service, the provision of housing for households on lower incomes.

## 2) Financialisation and public services

### *Understanding financialisation*

We locate our study within the broad literature on neoliberalism (Harvey, 2005; Peck, 2010), understanding ‘neoliberalism as a phase of capitalism’ in which the regime of accumulation is organised to reinforce the power and interests of the capitalist class (Chiapello, 2017, p. 51). A number of processes and techniques operate and interact in this phase of capitalism’s development, including accumulation by dispossession<sup>4</sup> (Harvey, 2005; Mercille and Murphy, 2017); new public management (Hood, 1995; Jupe and Funnell, 2015) and financialisation (Cooper, 2015; Haslam, 2010). The changes in the English social housing sector since the global financial crisis of 2008 reflect these processes and techniques: (not-for-profit) assets have increasingly been opened up to capital accumulation processes through greater commercialisation of activities and the wider adoption of entrepreneurial logics. Financialisation processes are the macro context providing the theoretical framing for this study, but they also allow us address the lack of research focused at the organisational level ‘... which would help us understand how income distribution is founded on an understanding of the structures of financialised, neoliberal capitalism’ (Chiapello, 2017, p. 52).

Arguing that neoliberalism is ‘the financialisation of everything’ (Harvey, 2005, p. 33), Harvey (2010) highlights how capital abhors barriers and must find a way of circumventing or overcoming such barriers. This idea echoes Marx and Engels’ well-known quote: ‘The need of a constantly expanding market for its products chases the

---

<sup>4</sup> Accumulation by dispossession seeks ‘... to release a set of assets (including labour power) at very low (and in some instances zero) cost. Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use’ (Harvey, 2003, p. 149).

bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere' (Marx and Engels, 1996, p. 9). Substituting 'finance capital' for 'products' in this quote, financialisation in the 21<sup>st</sup> century entails the ceaseless drive to expand the market for financial products and instruments.

Indeed, according to Fine (2010) the 'current era of financialisation is precisely one in which there has been not only **a disproportionate expansion of capital in exchange**, through extensive and intensive proliferation of financial derivatives but also **the extension of finance into ever more areas** of economic and social reproduction' (p. 112 – emphasis added). This process is driven by an increase in interest-bearing capital in the UK and global economies (Andersson et al., 2014). McKinsey (2018) reports that between 2007 and 2017 total global debt increased by \$72 trillion. In Britain in June 2017 personal lending to individuals (both secured on buildings and unsecured) stood at £1.5 trillion (Bank of England, 2017). This level of personal indebtedness (in absolute terms) is higher than immediately before the global financial crisis in 2007 (BBC News, 2017) and as a percentage of gross household income remains at historically high levels (Brazier, 2017). The housing association sector reflects this trend with, for example, G15 member *London and Quadrant (L&Q)* reporting that their net debt per housing unit has increased from £22,600 in 2011 to £26,500 in 2015 (L&Q, 2015, p. 33). This increase, across their 71,700 homes, represents a total increase in debt of over £250 million in four years.

At the same time, finance capital is finding its way into areas of social activity that were previously off-limits (Chiapello, 2017); for example, the increased use of the language of finance in public policy (Chiapello, 2015) or the residential care sector (Burns et al. 2016) or the water industry (Bayliss, 2014); and, in our case, the provision of homes at social rent levels.

Financialisation is a multi-faceted concept that seeks to explain the increased role and power of financial markets in the economy, society, and governance (Cooper, 2015; Fine, 2010; Lapavitsas, 2009). Much of the debate in critical geography and political economy literatures around financialisation has largely focused on the increasing power of financial capital, operating through the financial services industry, over Anglo-American households via relations of indebtedness (mortgages, including subprime,



as well as consumer credit) and investment (such as retirement accounts and day trading) (Fine, 2010; Langley, 2009; Lapavitsas, 2009; Newman, 2009). A small body of work also addresses financialisation beyond the household scale, showing how social housing providers have become active in the derivatives market (with disastrous consequences in at least one high profile case) (Aalbers et al., 2017) and corporate bond markets (Wainwright and Manville, 2017).

In the accounting literature, financialisation has been approached from different perspectives, including changing business models and strategy (Haslam et al., 2015), exploring the relationship between accounting rules and fictitious capital (Cooper, 2015), or its influence on the revised *Conceptual Framework* for financial reporting (Zhang and Andrew, 2014). Other accounting research has utilised conceptions of financialisation to explain changes in particular sectors of the economy, including the bio-pharma sector (Gleadle et al., 2014) and technology (see Froud et al. (2014) on Apple Inc's business model). In a strong parallel with the financialisation processes in social housing, Beverungen et al. (2014) show that reduced public funding for higher education, alongside other policy initiatives, has been a central mechanism in the financialisation of the universities sector.

Through exploring how CRA methodologies have been internalised by HAs and the impact on their operating and planning activities, this paper adds to the critical accounting literature concerned with financialisation, while also resonating with the emerging body of research on financialisation processes in social housing (Aalbers, 2016; Aalbers et al., 2017; Wainwright and Manville, 2017). Our study builds on Fine's (2010) and Harvey's (2003) insights in that we focus on assets and activities previously delivered on a not-for-profit basis and with a social objective, which are increasingly subject to the requirements of finance capital (in our case, in the form of corporate bonds). The study is a snapshot of the longer term processes underway in this (formerly) not-for-profit sector and highlights the contradictory nature of social objectives being exposed to the logics of private finance capital.

#### *Financialisation and public services*

The policies adopted at a government level play *an equally important role* as the strategies adopted by productive and financial capital when it comes to the impact of financialisation on a public service, such as social housing. The neoliberal age has

seen the nature and the role of the state restructured and reformed dramatically (Peck, 2010; Peck and Tickell, 2002). This has not been a simple matter of a withdrawal of the state from a range of economic and social activities (e.g. by privatising nationalised industries or public utilities); the state has also been restructured to enable and encourage market-based resource allocation activities. This process has been captured by Peck and Tickell (2002) as a dual dynamic of *rolling-back* (previous direct provision) and *rolling-out* (new market-based provision) of social and public services. This can be seen in the UK's social housing sector through the heavily subsidised *Right to Buy* policy<sup>5</sup> (Murie, 2016) or the debt write-offs and gap funding<sup>6</sup> needed to ensure the financing of council housing stock transfers to private not-for-profit housing associations is viable (Smyth, 2017a).

A recent, relevant innovation in the roll-back/roll-out dynamic is discussed by Cooper et al. (2016) in their paper on the use of *Social Impact Bonds* (SIB) in financing anti-homelessness activity in London. The *London Homeless SIB* is a complex series of financial and contractual relations involving the government – in the form of the relevant central government department (DCLG) and the devolved government body, the Greater London Assembly (GLA); intermediaries (in the form of a consultant and a financial broker); a delivery agent (St Mungo's charity) and investors. It is important to state, that 'the UK version of a SIB is in practice not a bond or debt instrument as the name implies' (Cooper et al., 2016, p. 67). However, it is a source of finance from the private sector that has been encouraged by the government as an alternative to traditional public funding; and as such there are similarities with corporate bond activity being pursued by large housing associations.

Aspects of the SIB funding that are also evident in our results (see section 6) include that St Mungo's found it necessary to adopt a new corporate structure and set up a wholly-owned special purpose company. Further, a series of intermediaries were

---

<sup>5</sup> The Right to Buy policy was a flagship policy of the UK Conservative governments under Margaret Thatcher in the 1980s, where public (council) housing tenants were encouraged to buy their home from the local authority.

<sup>6</sup> When public (council) housing is transferred to a new housing association it is done so on the basis of being fiscally neutral for the housing association. Therefore, debt write offs and gap funding from the government are needed over the course of a long-term business plan (usually 30 years), where the net present value of expected rents is less than the cost of clearing the backlog of repairs and the ongoing maintenance and management costs. In England, from 1996 to 2018, the total cost to the Exchequer was £7.1 billion (Stephens et al., 2019: Table 68b).

essential to the emergence and implementation of the London Homeless SIB, including consultancies and financial brokers. Similarly, Wainwright and Manville (2017) have identified that there are multiple professional and corporate bodies that benefit when HAs issue bonds. Cooper et al. (2016, p. 80) conclude that the SIB in their case, '... 'cures' homelessness not by 'curing' society but by removing society from the equation. In society's stead, it introduces contracts, profit incentives, risk taking, and outcome measurement'.

Although not as direct and individualising as an SIB, with its specific outcomes for identified individual homeless people, the issuing of corporate bonds by housing associations as a response to the withdrawal of government funding unleashes a similar dynamic and process where the requirements of the private finance providers become sacrosanct. However, before we elaborate on the study's context in section 4 we next turn to critically reviewing the limited literature on the nature and activities of credit rating agencies.

### **3) Credit rating agencies**

Credit rating agencies (CRAs) are now an integral part of global capital markets (Moody's, 2016; Partnoy, 2006; Sinclair, 2005); yet there is a limited academic literature analysing what they do or the impact their activities have on related actors such as those seeking finance (Duff and Einig, 2007, 2009 a,b). This oversight is surprising, given that CRAs have been criticised for their lack of foresight - not just of the global financial crisis of 2007/08 but also for earlier crises (de Haan and Amtenbrink, 2011; Partnoy, 2006) - raising questions about their legitimacy (Sinclair, 2005).

The focus of our paper is on the relationship between the issuers of corporate bonds and the CRAs. We are not concerned here with personal credit ratings or the rating of sovereign or municipal bonds. Further, we do not analyse the quality of credit ratings from the perspective of market participants (Duff and Einig, 2009 a,b), model the impact of regulation on CRAs (Stolper, 2009), or illustrate how credit ratings have enabled the management of risk and uncertainty (Carruthers, 2013). However, it is pertinent to note CRAs' ability to turn 'idiosyncratic uncertainties into calculable risks' ... 'by developing a standardized ordinal category system into which firms were

classified' (Carruthers, 2013, p. 543). This standardization process is relevant to how we theorise our understanding of credit rating agencies as gateway constructors (see section 8).

In this paper, we are interested in looking at the relationship and impacts on / in the issuer of the debt (i.e. the HAs). To achieve this, it is also necessary to understand the broader role of CRAs within the operation of the financial markets.

Credit rating agencies are not independent organisations playing a social role but are embedded in the workings of the capital markets and the process of capital accumulation. Their ratings are central to deciding which bonds have investment grade status which has implications for many investors working with investment guidelines such as pension funds (Carruthers, 2013). Further, under the capital adequacy rules for banking institutions (known as Basel II/III), the CRAs decide the credit (default) risk level for individual bonds (Baud and Chiapello, 2017). In the US, since the early 1970s CRAs have been required to register with a Nationally Recognized Statistical Rating Organization (NRSRO). In turn, only ratings issued by NRSRO regulated agencies will satisfy a range of 'credit rating-dependent rules and regulations' under US corporate law (Partnoy, 2006, p. 81).

CRAs are capitalist organisations seeking to maximise their profits. Originating in the nineteenth century they evolved from the commodification of commercial information to evaluate the creditworthiness of businesses with regards to short-term trade credit (Carruthers, 2013). The ratings business has seen long periods of stagnation due to the widespread view that their work added little value to the workings of the financial markets (Partnoy, 2006). However, in the early 1970s the SEC decided to integrate rating opinions into the 'calculation of net capital requirements for broker-deals' (Partnoy, 2006, p. 64); similar regulations also occurred at an international level. Despite this CRAs remained peripheral actors throughout the next decade and half, so that in 1980 there were 'just thirty professionals working in the S&P Industrials group; by 1986, there were only forty' (Partnoy, 2006, p. 64).

However, the growing financialisation of the global economy led to dramatic growth in activity, revenue and power of CRAs, and a shift from a quasi-academic to a more explicitly commercial culture (Duff and Einig, 2015). Growing levels of debt and rapid

financial innovation created new opportunities for revenue growth. This is especially the case in the structured finance market, where Partnoy (2006) shows how credit ratings were integral to the development of collateral debt obligations (CDOs). Between 2000 and 2015 the global revenue of Moody's increased from US \$602 million (Partnoy, 2006, p. 65) to US \$3.5 billion with a dividend payment of US \$272 million (Moody's, 2016). They describe themselves in the following terms: 'Moody's is an essential component of the global capital markets, providing credit ratings, research, tools and analysis that contribute to transparent and integrated financial markets' (Moody's, 2016, p. 3). It is not an overstatement to say that the development of financialisation processes, as we now understand them, could not have taken place without CRAs.

The CRA business model has also been transformed over the course of the financialised neoliberal era. For much of their history ratings were paid for by the end user (i.e. the investor). This model came under pressure<sup>7</sup> during the 1970s, and rating fees began being paid by the finance originator (i.e. the issuer). This change created a range of conflicts of interest at the heart of the operation of CRAs. These conflicts include being paid directly by the client they form an opinion on; giving unsolicited ratings that can potentially pressurise prospective clients into paying fees and engaging in ancillary consulting services (Duan and van Lere, 2012; Partnoy, 2006). Many of these conflicts are familiar to those from an auditing background. However, Partnoy (2006) argues that CRAs are different to other gatekeepers (such as auditors) because of a lack of regulation in the sector. The CRA sector is oligopolistic, with high barriers preventing the entry of any new participants, and with bond issuers generally having a vested interest in maintaining, rather than threatening or fracturing, their relationship with the rating agency.

While the events of the 2008 GFC brought the most recent round of criticisms levelled at CRAs, concerns had been raised previously. For example, 'their seeming inability to predict the 1997 Asian financial crisis or the collapse of US energy giant Enron ... [when] each of the three major CRAs provided Enron with investment grade ratings

---

<sup>7</sup> Due to difficulties in controlling the distribution of the rating information and the surprising failure of Penn Central (Carruthers, 2013).

until just four days prior to its collapse' (Duff and Einig, 2009a, p. 107). The Enron collapse also led Senator Joseph Lieberman to state:

The credit-rating agencies were dismally lax in their coverage of Enron. They didn't ask probing questions and generally accepted at face value whatever Enron's officials chose to tell them. And while they claim to rely primarily on public filings with the SEC, analysts from Standard and Poor's not only did not read Enron's proxy statement, they didn't even know what information it might contain.

(quoted in Partnoy, 2006, p. 68)

Despite these problems CRAs continue to issue ratings that are portrayed as 'an independent evaluation of the probability of default on a bond issue and review the assessment in light of economic events' (Duff and Einig, 2009a, p. 107). These ratings provide a basis on which access to bond finance at varying costs (interest rates) can be established. For this reason, CRAs have been characterised as playing a similar role to auditors in giving assurance to users of the information they publish about issuers of financial instruments (Duff and Einig, 2009a).

#### *Credit Rating Agencies as Gatekeepers*

Alternatively, CRAs are characterised as playing the role of gatekeepers for those seeking access to high quality financial investors or raising finance at an economically viable rate (Duan and van Laere, 2012; Partnoy, 2006). Coffee (2004, p. 309) argues for a narrow understanding of the term gatekeeper as 'a reputational intermediary who provides verification and certification services to investors'. This understanding is based on a principal-agent relationship where CRAs are 'conceptualised as financial gatekeepers on whom the board of directors rely to properly advise and warn it of danger' (Duff and Einig, 2009a, p. 108). CRAs fulfil this relationship through two distinct roles, which overlap in practice (Coffee, 2006, p. 2). The first is as a professional who can prevent wrongdoing by withholding cooperation or consent. The second is as an agent who acts as a reputational intermediary to assure investors about the quality of the signal sent by the corporate issuer. It is this quality, the assurance of reputational capital, that major HAs sought from CRAs when venturing into the bond market on a much larger scale after the GFC.

While there has been significant research into the gatekeeper role in audit (Beattie et al, 2000; Duff, 2009), much less attention has been devoted to CRAs. Analysis of

CRA's has tended to focus on the determinants of ratings or regulatory and risk issues. In our examination of the relationship between housing associations and CRA's, Duff and Einig's (2015) analysis of the significance of client-gatekeeper interaction is instructive. First, the party who is paying for the services of gatekeeper is usually participating on an involuntary basis, responding due to a market need, regulatory pressure or statutory requirements. Second, the gatekeeper has little contact with the third party with whom they have an agency role; for CRA's, that means the investment community. And third, the client/gatekeeper role is often enduring and evolutionary rather than episodic: the client will have invested considerable resources to establish an initial relationship with the gatekeeper and to inform them about the organisation's (or indeed the sector's) distinctive qualities and idiosyncrasies. Given all this, the authors suggest in a later paper, 'the research lacuna in rator and ratee relations is highly significant' (Duff and Einig, 2015, p. 554).

The research by Duff and Einig (2015) suggests that the relationship between rator and ratee is governed, perhaps surprisingly, more by 'affective' than 'calculative' forms of commitment. Relational continuity is therefore sought and secured through shared values, trust and cooperation, which is then reinforced by the calculative imperative that leaving one CRA for another, after the initial investment has been made by the ratee, will carry a high cost: 'the search for the acquisition and maintenance of a meritorious rating is not solely a reporting-driven exercise' (Duff and Einig, 2015, p. 556). Consequently, the connection between the parties is often closer than formally described, which in turn raises questions about the independence of the CRA in the rating process; a concern compounded by the subjective and non-replicable manner in which ratings are determined. This tendency focuses attention on the extent of *cultural* identification between the ratings agency and the ratee, going beyond the commercial contract between them.

To this analysis we add Sinclair's (2005) political economy-influenced understanding of the activities of CRA's which is not limited to an analysis of 'quantitative debt or income data' but includes judgements on 'management structures, policy and the wider context of the issuer' (p. 62). 'This judgement process implies gatekeeping, and gatekeeping is – even when not intended explicitly – manifestly political' (Sinclair, 2005, p. 62). In contrast to the assumed understanding of ratings being the outcomes

of objective calculative processes, rating methodologies are premised on assumptions about the desirability of a given social and economic order. Further, 'Credit rating serves as a vetting and surveillance system for capital mobility, allowing mobility to occur "securely" across geographic and cultural space' (Sinclair, 2005, p. 62).

From this insight we offer a theoretical extension of the gatekeeper metaphor. It is not just a matter of CRAs allowing issuers access to the bond market at economically acceptable costs (i.e. interest rates), but of extending the reach of private finance into arenas that have in the past been excluded or off-limits. This idea is captured in the metaphor of the *gateway constructor*.

CRAs act as gateway constructors (alongside other intermediaries), enabling the extension of bond finance into a new or relatively under-capitalised sector. This enables a more comprehensive assessment of their intermediary role within financialisation processes. From this perspective CRAs play three roles. First, they have a technical calculative role in establishing default risk and aiding the pricing of corporate bonds. Second, they aid the process of establishing who is worthy of investment (for example, the assigning of investor grade or junk status to particular bonds). Third, they create a common language so that both investors and investee can communicate. In the process of carrying out these three roles CRAs embed the priorities of the capital debt markets and hence they help construct the gateway to allow funds to flow through.

In the case study below, the CRAs have become a central actor in the processes that lead to greater debt levels for HAs, while often ramping up the housing providers' growth ambitions, whether through business expansion, acquisition or merger, to keep one step ahead of any threats to viability. Further, CRAs play a role in ensuring that new entrants into the corporate bond market not only speak the language of finance (internalising the metrics of the CRAs) but also adapt their operating/strategic priorities and organisational structures. Entry into the bond market is therefore not just about extending lending options for investment; it is about entering a particular worldview of business operation and development.

In this context, it is necessary to show the extent to which rating methodologies have been internalised by not-for-profit organisations, such as housing associations, in the



course of developing these new relationships. By internalisation we mean the process of bringing an external discourse into an organisation (Malsch and Gendron, 2011; Sauder and Espeland, 2009). Previous studies on internalisation have emphasised the 'cognitive and affective processes' that mediate individuals' responses to external pressures (Sauder and Espeland, 2009, p. 64). In our study we focus on the reporting and decision-making systems within housing associations, while we also recognise that it is individuals operating within and through those systems who are internalising and engaging in the new discourse of private finance logics.

We understand internalisation as an ongoing process, where housing associations have changed their internal reporting measures to include key ratios drawn from the CRAs' methodologies, due to their engagement with the finance capital markets. Further, we also show that this discourse has an impact on the operational and strategic activities and decisions of the HAs. In a similar manner to Sauder and Espeland's (2009, p. 74) study of university rankings, the CRAs' methodologies become 'important conduits of internalization' for the priorities of finance capital into a new sector.

There is a considerable housing studies literature on the 'hybrid' nature of housing associations, lodged between their original social purpose and their subsequent commercial orientation (Morrison, 2016; Mullins, et al, 2018; Tang et al. 2016); as one of the G15 proclaim on the cover of their annual report in 2014 "Socially hearted, commercially minded" (Genesis, 2014). There is an implication for the sector from our study that as more own-named corporate bonds are issued, and facilitated through credit ratings, the hybrid balance of HAs will move significantly towards the commercially minded direction.

#### *A thematic analysis framework*

From the preceding discussion on both the financialisation of public services and the activities of credit rating agencies, we are able to develop a thematic analysis framework which contains four themes – internalising CRA metrics; operational implications; corporate structures and intermediaries; and understanding the role of CRAs. Each theme is relevant to our research questions on the following basis:

1. *Internalising CRA metrics* – this theme is the central focus of our research directly addressing the reporting aspects of the first research question from

section 1. In this theme we look at what changes the HAs have carried out in their reporting systems;

- II. *Strategic and Operational implications* – this theme addresses the other aspects of the first research question covering the strategic and operational activities of the G15 members. In this theme we seek to analyse how the HAs have changed what they do, as a result of raising finance through a bond issue and securing a related credit rating;
- III. *Corporate structures and intermediaries* – this theme follows on both from the previous one and the discussion of the SIB earlier. In this theme we explore whether and to what extent the HAs have adopted corporate group structures and interacted with a range of professional and third party organisations during the process of issuing their bond;
- IV. *Understanding the role of credit rating agencies* – this theme brings the previous findings together. To establish the attitude of the housing association senior officers towards the credit rating agencies, each was asked about how they viewed the CRAs, using the ‘auditor’ simile and ‘gatekeeper’ metaphor from the existing literature. In this theme we analyse their responses.

The next section sets out the specific context of the study, including the changing nature of the government housing policy in recent years, as well as an overview of the housing association movement.

#### **4) Social housing in England**

Over the course of the neoliberal era, government policy<sup>8</sup> has focussed on the long-term withdrawal of public funding from social housing; first from local authority (council) housing, and more recently the not-for-profit (housing association<sup>9</sup>) sub-sector. In 1976 social housing made up over 30 per cent of the total housing stock in England, by 2017 this had reduced to just 17 per cent (Stephens et al, 2019: Table 17b). While the total social housing stock has reduced, the HA sub-sector benefitted greatly from

---

<sup>8</sup> Housing is a devolved responsibility in Scotland, Wales and Northern Ireland which has led to some significant differences in policy directions in those jurisdictions. Hence, this section is concerned only with the English housing sector.

<sup>9</sup> The housing association movement has a varied background with the original members being tied to particular occupations or formed by the philanthropic actions of wealthy families (such as Peabody and Guinness) in the nineteenth century.

direct funding for building new homes and the stock transfer policy where local authority housing was transferred 'off balance sheet' (from the government's perspective) to newly created housing associations. Thus, in 1976 HAs accounted for just 1.6 per cent of the housing stock in England, which grew to 10 per cent by 2012 and remained at the same level up to 2017 (Stephens et al., 2019: Table 17b).

However, growth in the sub-sector has stalled over the past few years with a consciously antagonistic attitude and policy environment towards HAs being adopted by the Conservative government elected in 2015. This government implemented a one per cent per annum reduction in rent levels; this reversed previous policy to raise rents by a maximum of Consumer Price Index (CPI) plus 0.5 per cent (NAO, 2017)<sup>10</sup>. The other significant environmental change occurred in October 2015 when the *Office for National Statistics* (ONS) reclassified HAs as part of the government's measure of public debt (i.e. 'on-balance sheet'), on the basis of regulatory powers introduced in the 2008 Housing Act. Overnight, government debt grew by £60 billion. In response the government introduced the 2016 Housing and Planning Act that included a series of deregulatory changes such as the removal of the regulators' power of consent with regard to disposals of housing assets. These moves were sufficient to persuade the ONS to reclassify HAs as private sector bodies in November 2017, freeing them, according to the Communities Secretary of State, Sajid Javid, from 'the shackles of public sector bureaucracy' so they could 'concentrate on their core, crucial business - building homes' (The Planner, 2017).

In Britain the global financial crisis (GFC) set the background for the Coalition government of 2010-15 to usher in an age of permanent austerity, including deep cuts to up front capital funding for social housing new builds, with government grant levels falling by two-thirds (NAO, 2012, p. 6). Government policy aimed to make the sector more commercially-oriented by encouraging development at open-market levels, with these surpluses then used to cross-subsidise social-rented homes. In this manner, the government was emphasising the commercially minded side of these hybrid organisations. The contradiction that lies at the heart of HAs is highlighted in the financial analysis findings, discussion and conclusion of this paper.

---

<sup>10</sup> The government announced in 2017 that a revised formula would permit annual rent rises by housing associations of up to CPI plus one per cent for five years from 2021.

Furthermore, the traditional private sector funders of HAs, banks and financial institutions have restricted their lending terms. Where prior to the 2008 GFC, banks would lend for terms covering whole business plans (of up to 30 years), now terms have been restricted to 10 years or less. This combination of processes has made private finance through the bond market a more attractive option for HAs, leading the social housing regulator to note: ‘New debt is increasingly sourced on the capital markets. In total 41 bond issues or private placements were completed during the year, totalling £4.4bn’ (HCA Global accounts 2016, p. 8). After a couple of years (2016 and 2017) where the bond issues were at approximately half the level of 2015, in the fiscal year 2018 a new high was reached, with 48 bond issues generating £4.9 billion (HCA Global accounts 2019, p. 6).

The HA sub-sector is differentiated in its composition, with many small associations which do not build new homes. Of the 1,783 registered providers, only 336 have more than 1,000 homes. A relatively small number of very large associations have active development programmes (Inside Housing, 2015). At the pinnacle of this is the G15 group of large London-based developing housing associations, managing or owning over half a million homes out of a total 2.3 million housing association homes in England (see Table 1). These HAs are multi-million pound organisations, increasingly competing and operating on a commercial basis, even if they remain nominally not-for-profit organisations.

=====

Table 1 – about here

=====

Studying this group is important given their size and role as developers, and their history of setting precedents that the rest of the sector will follow. We now turn to an explanation of how we carried out the research before setting out our findings.

## **5) Research design**

Chiapello (2017) identifies a shortage of research on the impact and processes of neoliberalism (and by extension financialisation) at the organisational level. This study

addresses that shortage by looking at a key relationship for a group of not-for-profit organisations. The study is not solely focused on the micro-level of internal processes within the housing associations but seeks to contextualise the changes in operating/strategic priorities and organisational structures in the broader financialisation processes of the sector (Wainwright and Manville, 2017). To achieve this, we draw on the principles of case study method, considering the G15 as a case of financialisation in action. We understand case study method as ‘an in-depth and contextually informed examination of specific organizations or events that explicitly address theory’ (Cooper and Morgan, 2008, p. 160) and is appropriate ‘for understanding situations of uncertainty, instability, uniqueness and value conflict’ (Cooper and Morgan, 2008, p. 159).

In keeping with case study method we draw on evidence from multiple sources, including a narrative analysis of G15 annual reports, a financial analysis using the Moody’s formulae from their rating methodology (Moody’s, 2013) and semi-structured interviews with key participants in the G15. The annual reports of G15 members were analysed over a ten-year period from 2006 to 2015. This period was chosen for two book-ending reasons. First, the period commences before the 2008 global financial crisis which then led the larger housing associations to seek other sources of long-term finance through the capital markets. Second, we finish our analysis in 2015 as the general election in May of that year returned a majority Conservative government that adopted a series of aggressive and hostile funding policies towards the HA sector, resulting in a dramatically changed operating environment.

=====

Figure 1 – about here

=====

Our analysis of the annual reports is in two forms. First, we carried out a financial accounting ratio analysis using the nine ratios embedded in the Moody’s Rating Methodology (Moody’s, 2013) – see Figure 1. Using an Excel spreadsheet, we calculated these ratios for each G15 member for each year between 2006 and 2015 and then summarised the results using simple averages to get an overview of the G15

as a whole<sup>11</sup> - see Table 2. It is these summary results on which we report below. Second, we carried out a textual analysis by using a key word search function to identify *utterances* (Sullivan, 2012) that covered the issuing of own-named corporate bonds and credit rating agencies. An utterance is ‘the basic unit of communication ... which the addressee feels capable of responding to’ (Sullivan, 2012, pp. 172-173). As our engagement with the annual reports was as researchers looking for evidence of the interaction between CRAs and HAs, the utterances are those that we, as the addressees, identified as responding to our requirements.

Therefore, each annual report for a bond issuing HA was searched for the words “bond”, “capital markets”, “Moody”, “Fitch”, “Poor”<sup>12</sup> and “S&P”. Only utterances that covered the issuing of own-named bonds were recorded; for example, most annual reports contained disclosure notes on pension funds which included references to bonds as part of the funds’ assets. In addition, we also excluded instances where bond was used in the disclosure of an accounting number, so that only narrative utterances were part of the analysis. This means most of the utterances were from the early part of the annual reports, including the Chair’s Report and the Operating and Financial Review.

The final stage for analysing the utterances concerned designating each as having content addressing one or more of the first three themes<sup>13</sup> outlined in section 3. The fourth theme, covering how we understand CRAs, is applicable to the interview data only. However, we did employ a fourth designation entitled *Reporting*, which covers the content of utterances that was simply reporting an event or accounting related numbers. An example of such a *reporting* utterance is:

The bond issue changed the repayment profile of the debt with 65%, £873m, of the debt now due for repayment after 20 years.

(Genesis, 2010, p. 16)

---

<sup>11</sup> In three cases G15 members did not exist at the start of the period. To overcome this, we adjusted the simple averages accordingly changing the denominator to 12, rather than 15.

<sup>12</sup> Following Morales et al. (2014), this word was searched in case the annual report did not use the shortened version of S&P. However, no relevant utterances were found for this word.

<sup>13</sup> Those three are, Internalising the CRA Metrics; Strategic / Operational Implications and the use of Corporate Structures and/or Intermediaries.

Lastly, we also drew out from the annual report analysis some key characteristics of each G15 member (see Table 1) to give an indication of the size and shape of this sub-sector as a whole.

The annual report analysis, both the accounting ratios and narrative analysis, are limited in that they provide fragmentary insights into the actual processes occurring within the organisations and the related management decision-making. A significant majority of the utterances identified contain content that fell into the *Reporting* designation, even if this was combined with content relevant to one of the other designations. Therefore, we can make certain inferences from the financial statement analysis that are then substantiated with the interview data. It is through the combination of both of these data sources that we can start to uncover the actual, ongoing internalisation processes within the G15 members.

Following Duff and Einig (2007, 2009a), we used semi-structured interviews. There is a key role played by the Director of Finance/Treasurer in each HA, in selecting and managing the relationship with the CRA (Duff and Einig, 2009a). We therefore targeted senior finance officers in the G15 and secured a total of nine interviews which were carried out between June and October 2016. The timing was significant, given the major changes to the operating environment that occurred following the 2015 general election (as outlined earlier). Of the nine interviews, seven were with representatives of G15 members. One interview included both the group finance director and treasury director, resulting in eight participants across the seven interviews. The senior officers interviewed included finance directors, corporate finance directors and treasury directors (see Appendix 1).

The focus of the interviews was on how the credit rating agencies' methodology has been internalised by HAs and the operational or strategic changes generated by that process. To that end, the interview questions covered four broad topics – background to the bond issue; choosing the CRA; obtaining the rating; and any other issues. However, in the findings below we have chosen to present the findings structured around the four themes identified earlier.

In addition, two interviews were carried out with credit rating analysts who held senior positions in different agencies and were responsible for rating members of the G15. A

condition of access for one of the agencies was that the interview would not be recorded. For consistency, we decided not to record the interview with the analyst from the other credit rating agency. We did not see this as a difficulty, as the main focus of the research was on the client side of the relationship; hence, the rating analysts were interviewed for contextual and confirmatory purposes. Extensive notes were taken during these interviews and were subsequently verified by the participants.

The recorded interviews were transcribed to allow for further analysis using a thematic analysis (Braun and Clarke, 2006) approach. There is some disagreement about whether themes are just restricted to codes, transcend any one code or are built out of codes (Braun and Clarke, 2006). Thomas (2011, pp. 171-172) sets out how themes can emerge through the constant comparative method, where the researcher regularly and iteratively revisits the data refining the themes each time. However, the generation of themes in this approach occurs in one direction only, from the data. In contrast, Braun and Clarke (2006) maintain that themes can be derived theoretically, as well as inductively. Therefore, the data analysis themes utilised in this paper are derived from shifting back and forth between theory and data.

Finally, our findings below are also informed by our monitoring of relevant government, regulator and news media reports. In line with the interviews with the credit rating analysts, this report analysis was in the main used for contextual and confirmatory purposes for the interview findings.

To enhance the trustworthiness of our analysis a form of *member checking* (Lincoln and Guba, 1985) was used. Member checking occurs when initial or interim findings from a study are reported back to the participants with the aim that the findings are corroborated/confirmed, or not, by the members of the study. For this research study, our initial interview findings and results of the financial analysis were presented to a quarterly meeting of the G15 finance directors, six months after the final interview was completed. The meeting was attended by twelve of the directors and therefore included some who had not taken part in the interviews. At this meeting extensive notes were taken and summarised by two of the authors. This process allowed us to both confirm our initial findings from the interviews and also capture some impressions from the broader group of finance directors. While the notes and summaries fed into the thematic analysis and results, it is significant to note that no new thematic insights



emerged. We now turn to the results of that data analysis, before discussing the implications of our findings from the interviews.

## 6) Findings

Before setting out our findings through the four themes, we make the following contextual point. As we outline at relevant points below, in the financial analysis most of the accounting ratios move in the direction of improving the rating scores, or remain flat (i.e. within the same rating category)<sup>14</sup> – see Table 2. There is one exception to this with the *Reliance on low-risk activities: % revenues* ratio. This ratio has seen a dramatic drop over a nine-year period - from a high of 87.9 per cent in 2006 to just 69.6 per cent in 2015<sup>15</sup>. This results in moving from an *Aa* rating to a *Ba* rating. This trend would appear to contradict our underlying argument that the G15 HAs are adopting / adapting to the priorities of the bond market as expressed through the CRA metrics. However, we understand these trends as tendencies that can have countervailing pressures. In the case of this ratio the countervailing pressure is the development of government policies and funding based on moving HAs towards developing more housing for outright sale at the market level and therefore further away from their social mission.

=====

Table 2 About Here

=====

### *Theme 1 – Internalising CRA metrics*

From the narrative analysis we identified a number of examples where G15 members inferred that they had internalised CRA metrics. For example,

---

<sup>14</sup> For example, the Gearing ratio in 2006 is 33.19 per cent and increases to 38.07 per cent in 2015, both of which are considered to be an *Aa* rating.

<sup>15</sup> While there are multiple revenue streams that housing associations have developed over the period under consideration, the single biggest change is the move away from building for social renting to building for sale (either at social levels or open market values). Taking *The Hyde Group* as an exemplar, in 2006 their income streams included no housing sales, but by 2015 26.6 per cent of their total revenue came from house sales.

Affinity Sutton has a reputation for robust financial management. This is recognised in the sector-leading Aa3 credit rating we hold with Moody's ... We see maintaining this strong financial position as one of our core objectives, because without it we would not be able to achieve our broader aims.

Affinity Sutton (2015, p. 17)

This utterance was classified as containing content covering the internalisation of CRA metrics, strategic/operational implications and reporting. The internalisation is shown in the claim to robust financial management as recognised by their CRA rating. The strategic and operational implications are shown in the HA's desire to maintain their current rating. The reporting content is present in the disclosure of the current rating of Aa3.

The accounting ratio analysis also gives a strong indication that the G15 have internalised the CRA metrics. We have already stated that there was only one ratio to move in the opposite direction from improving the ratings. By contrast there were significant moves to improve the margins in the G15. The operating margin ratio hovered just below 20 per cent in the first four years of the period under consideration. However, from 2010 to 2015 there was a dramatic increase from 21.1 per cent to 30.5 per cent. The results for the total margin are similarly dramatic, going from 8.2 per cent in 2007 to 22.4 per cent in 2015. In the case of operating margin this results in the jump of two clear rating levels (from A to Aaa) and for total margin one rating level (from Aa to Aaa).

There was a general acceptance among the interviewees that the metrics used by the CRAs in their rating methodologies had been integrated (internalised) into their reporting systems. In some cases, these were seen as complementary to existing reporting metrics (VN46), while in other HAs the CRA metrics played a more active role. The transparency that the CRAs now operate with, in publishing their methodologies (for example see figure 1), enables this process of internalisation. For example, one finance director stated, '... we knew what [their] methodology was and we could replicate the metrics in our own systems because we knew what the definitions were ...' (VN43). The same interviewee then went on to explain how the CRA metrics were incorporated by his team into the spreadsheets and reports that

were automatically generated. In this way the CRA methodology became “routinised” within the HA. For this HA, the process started six months before they engaged a CRA to obtain a rating. London and Quadrant (L&Q) reported in 2009 that they had engaged a CRA a year in advance of their intention to enter the capital bond market: ‘These ratings make us an attractive proposition for future investors, including the Bond market which we hope to approach later in the year’ (L&Q, 2009, p. 3).

Others reported that they did not run their business according to the CRA metrics as there was too many of them. They were nonetheless influenced by the existence of such metrics: ‘so we are aware of it [the CRA metrics], and if we can avoid doing anything that disturbs any of those then obviously we would’ (VN44). One finance director had been advised that their CRA was concerned about a particular metric - percentage of income from social housing lettings - and so the HA incorporated that metric into their suite of KPIs (VN49).

The CRA metrics do not just stay within the purview of the finance director: ‘Not just me as the FD, but actually my Board and the Exec and people in the finance team are all aware of those measures and monitoring them’ (VN 47). As with Chiapello (2015), this illustrates that the language of accounting and finance is being extended into new areas of these not-for-profit organisations. At times this extension is clashing with existing accounting measures that are already used in the HA. One interview example concerned the percentage of total income that derives from social housing letting, an important metric in the Moody’s (2013) methodology. The finance director contrasted this with the omission of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (adjusted for major repairs), a measure he had spent considerable time and effort communicating the importance of to internal audiences, and one which the regulator also monitored. However, as EBITDA was not part of the rating agency’s methodology the finance director had to change his language and re-educate the internal audiences.

The interview results therefore suggest that the process of internalising CRA metrics occurs in advance of the formal engagement of an agency. It spreads beyond the finance team to a range of senior managers and decision-makers, and also displaces existing financial measures used to monitor performance.

The above information shows evidence from three different sources – the interviews, narrative analysis and accounting ratio analysis – that all indicate a process of internalising CRA metrics has taken place within G15 members as a group.

*Theme 2 – Strategic and Operational implications*

It is one step to include the metrics from the CRAs for reporting purposes. However, this does not address the extent to which the metric influences the actions of the managers in the organisation. For example, if the CRA's metrics were just an addendum to an already existing management report, they may have little impact on the operational/strategic activities of the organisations. In our study interviewees were more explicit about the influence of the CRA metrics when senior managers were making decisions:

The planning team ... treasury team ... finance director, into the executive team, they all are aware of the impact in doing various things on the metrics that we are rated on.

(VN43)

The interviewees were pressed on how they viewed the CRA metrics – were they benchmarks or targets? One interviewee took some time thinking through his response, before replying:

... thresholds I think might be a better word than target. And they were thresholds above or below which, depending on which particular metric we were looking at, we wanted to be better than.

(VN43)

The HA sector is relatively highly regulated with the Homes and Communities Agency (HCA)<sup>16</sup> publishing regulatory judgements on areas including (financial) viability and governance. As stated earlier, during the period under consideration, the regulator had substantial powers to intervene in the operations of a housing association. This meant that HAs took their regulatory ratings very seriously. It is therefore illustrative that a number of G15 annual reports disclose credit ratings alongside HCA regulatory ratings; for example,

---

<sup>16</sup> The HCA was, among other functions, the regulator for the social housing sector in England in the period covered by this research. In October 2018 the regulatory functions were transferred from the HCA to the new Regulator of Social Housing.

The Group's financial and treasury strategy is reviewed annually by both Moody's and the HCA as part of their financial assessment of the Group. The Group is rated A1 stable by Moody's and has a top financial viability rating of V1 from the HCA<sup>17</sup>.

Hyde (2014, p. 29)

This utterance highlights that Hyde consider their Moody's rating to be equally as important as that of the sector's regulator.

There was also a clash between the increasingly prominent role of financial metrics in the organisation and the more traditional housing management measures that are used:

a lot of our business is actually run by people who are sort of touchy feely type individuals; they are not accountants ... sometimes you talk to them about operating margins and their eyes start glazing over. Whereas, you talk to them about customer satisfaction percentages their eyes light up.

(VN 46)

The main impact on operational activities is on the planning and development work of the housing associations. For example, the interaction between the finance and development teams now includes a focus on the impact of any planned new-build developments on the credit rating:

What we have had to do is ... to look at what our development team aspirations are and roll those back into a model to see what that does to our key, two key metrics for S&P. And where it's generating a consistent breach of these thresholds we've had to go back to the development team and explain to them that great, that would be nice to be able to do that, but it's going to cause us problems with the rating ...

(VN43)

There is also an interaction at this point between the CRA metrics and the policy environment; so where a scheme will put pressure on a metric (e.g. operating margin or percentage of income from social housing lettings) one interviewee stated that if a particular project has too many open market<sup>18</sup> '... outright sales, we could try to flip

---

<sup>17</sup> V1 is the highest possible rating for Viability, which is described as: "The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios".

<sup>18</sup> Across the G15 it is recognised that the operating margin on open market sales is lower than on social rent lettings.

some of them back into shared ownership and that plays very well into the Government [policy], and generates some subsidy. Maybe increase the number of affordable units on a scheme as well because that helps keep the margin up' (VN43).

Housing associations are therefore pulled in opposite directions; on the one hand, to build homes and to ramp up development programmes, especially for open market sale to help meet the government's objectives of increasing levels of home ownership; on the other, to manage risk, rely on safe investments and keep credit ratings scores positive<sup>19</sup>. Some respondents said they were willing to follow the government's policy direction by increasing their development and renting portfolios at full, open market value: 'That means that we are putting some further, very measured and managed risk into our business plan. And that the likelihood is that credit rating agencies will ... take a view that our business plan, business model is becoming more risky and therefore if anything would rate us down in the future' (VN48).

The direction of government policy was also reflected in the annual report utterances on credit ratings. For example,

Fitch Ratings, the other rating agency publishing a credit rating for Genesis, put Genesis's long term AA- rating on negative watch in May 2013. Fitch has downgraded the ratings outlook due to concerns over the strength of regulation, the **impact of welfare reforms** and the fact of there being **little new capital subsidy** for building new homes.

Genesis, (2013, p. 11, emphasis added).

From the above we find that the CRA metrics are playing an increasing role in the decision-making processes for HAs, whether that is in relation to new-build development decisions or sitting alongside more traditional KPIs. The influence of the metrics is reinforced by the changing policy environment. This relationship between credit ratings and the strategic implications for G15 members is illustrated in the following utterance from A2Dominion which in the annual report is highlighted as a *Case Study*:

---

<sup>19</sup> Despite open market sales having a lower operating margin than social letting, there is an increased risk associated with the latter income stream due to the fluctuations in the property market. This has been experienced in London since the 2016 referendum where there has been a reduction in the number of transactions in the market, thus increasing the amount of unsold new homes (Apps, 2019)

**Record-breaking retail bond:** We raised £150m via a retail bond in less than two days, the fastest ever book-building period on the London Stock Exchange's order book for retail bonds. Proceeds from the AA- rated retail-eligible bonds are being used to extend our development programme, including private sale, private rented, shared ownership and affordable housing.

A2Dominion (2014, p. 12).

Beyond the boastful marketing element in this utterance there is a clear link between the rating achieved for this form of finance and the HA's strategic aims of developing private sale, private rented, shared ownership and affordable housing – all of which are directly in line with government policy priorities.<sup>20</sup>

From the accounting ratio analysis, we have already seen the impact of government policy on the reliance on low risk activities ratio, moving it down the rating scale. However, all other ratios have been flat or moved in the direction of a higher ratio. One ratio that covers the long-term strategic actions of the G15 is *Capital Expenditure (capex)*, which measures the relationship between capital expenditure and turnover. Over the ten-year period that we calculated the capex, it vacillated in a range from 110 per cent in 2008 to as low as 47.7 per cent in 2010; however, the overall trend was downwards from in excess of 100 per cent in 2006 to 78.6 in 2015. This trend represents a move of one level from a rating of *Ba* to *Baa*, and highlights that the process of internalising CRA metrics has an impact on strategic as well as operational activities in the G15, by reducing the long-term development plans as measured by capital expenditure.

We can also see the strategic implications in the narrative analysis as a number of annual reports stated maintaining or achieving a particular rating. For example, Circle's 2011 annual report states:

As a long-term business, the Group attaches significant importance to maintaining an investment grade credit rating, in order to sustain effective operations.

Circle (2011, p. 20)

The strategic importance of maintaining existing credit ratings was also reflected in the Operating and Financial Review sections where HAs reflected on the risks to their activities. For example,

---

<sup>20</sup> Note there is no mention of providing housing at social-rent levels, the basis on which the housing association movement came into being.

**Key Risk: Failure to secure the right growth opportunities** - Hyde continues to maintain its top financial rating from the Regulator and an A1 Credit Rating with Moody's (global credit reference agency).

Hyde (2013, p. 23).

As with the previous theme, we have presented evidence from three different sources to illustrate the impact that CRAs and their rating methodology have had on HA operational and strategic activities. These two themes speak to both the process of internalising the CRA metrics and highlighting the operational and strategic impacts of that internalisation. The key point here is that HAs, organisations that previously had social objectives at their core, are now changing through seeking private bond finance and their engagement with the CRAs. The next theme continues this line of enquiry by identifying the intermediaries that are being used by the G15 members and how their group structures are changing.

### *Theme 3 – Corporate structures and intermediaries*

There is widespread use of corporate group structures among the G15, with wholly-owned special purpose vehicles (SPV) used to issue the bonds (see Table 1). This leads to a growing corporatisation of group structures, which both reduces those parts of the HA that are ring-fenced as not-for-profit, and enhances the ability to move over to a full for-profit organisational basis in the future. Many of the funding SPVs are public limited companies (plc); for example, in 2011 Notting Hill reported that 'Following the issue of the Notting Hill bond and **its subsequent listing on the London Stock Exchange**, the Group has had to adopt FRS 26 and disclose the 'mark to market' value of its derivatives as a liability on its balance sheet' (Notting Hill Housing Trust, 2011, p. 10, emphasis added).

There were a variety of reasons for this decision, including reporting requirements and the ability to have the bonds traded on the London Stock Exchange (VN46). An additional reason for using an SPV was 'a cleaner way' (VN46) of getting the finance into the group, and avoiding the volatility in their Income and Expenditure account due to the need to use fair value accounting to value the bond (VN43/VN46). On most occasions the SPV was specifically formed for the purpose of issuing the bond. However, for one HA there was a need to recycle an existing dormant group company. The interviewee explained that this was 'because there are quite a lot of constraints



within our existing bank debt covenants and bank debt documentation around the creation of new subsidiaries. We recycled an existing subsidiary to avoid any incremental costs or opportunities for banks to re-price their existing debts' (VN43).

One interviewee (VN50) explained that, despite having an SPV in the form of a public limited company as the bond issuer, the rating agencies assigned the rating to the group as a whole. This raises questions about the use of SPVs, whether they provide the comfort zone for the organisation that they are often intended to, or whether risk remains with the overall parent of the group, even if they are not-for-profit with charitable status.

The move towards an increasing reliance on bond finance to deliver new-build development programmes also enhances the role of intermediaries, of which CRAs are just one. For example,

The 2043 Bond is held by Traderisks in a segregated client account which is controlled by Peabody Capital PLC and an agreement is in place with Traderisks for the subsequent sale of the 2043 Bond on the secondary market and for Traderisks to rebate their share of interest receivable in lieu of the nil consideration.

Peabody (2013, p. 17).

This utterance from Peabody's 2013 annual report illustrates both parts of this theme with the use of a plc to control the bond finance and an intermediary, Traderisks, to hold and manage the funds. On its website Traderisks describes itself as 'a wholesale corporate finance and investment firm regulated by the FCA [Financial Conduct Authority] since 2001.' Further, Notting Hill disclosed in 2014 that they had 'mandated Barclays, Lloyds and Santander to act as book runners for a new bond issue' (Notting Hill Housing Trust, 2014, p. 3).

As large, multi-million pound organisations, the members of the G15 have a significant (and growing) degree of internal knowledge when it comes to corporate finance. However, most participants also outlined how they engaged other parties (intermediaries) to help with a range of aspects relating to securing ratings and issuing bonds: 'we do use treasury advisors for more complicated stuff ... They know how the rating agencies [work], what calculations they do. They have been through our

business plan with us and a shadow rating with us' (VN48). A shadow rating is calculated by an intermediary before the HA seeks the official rating from the CRA.

These findings correspond to those reported by Cooper et al. (2016) of an increase in corporatisation and the use of financial/management intermediaries.

Over the previous three themes we have provided evidence to show how the reporting, operational and strategic activities of G15 members have been impacted and changed through their relations with credit rating agencies. The next theme presents the findings with regards to how the interview participants understand their relationship with the CRAs.

#### *Theme 4 – The role of Credit Rating Agencies*

When asked if CRAs played a role similar to that of auditors or gatekeepers, the initial and consistent response was to state that the agencies gave a valuable, independent and objective assessment. However, after a period of reflection, the auditor simile and gatekeeper metaphor were rejected by the interviewees: '...that gatekeeper, auditor style relationship doesn't really resonate for me' (VN47); with one interviewee taking a strong position on the question: 'no way are they gatekeepers, they don't stop what we are doing' (VN45). Given the discussion earlier highlighting the extensive use of the gatekeeper metaphor in the existing literature these statements appear to contradict the metaphor's appropriateness. On reflection, the statement by VN45 that CRAs 'don't stop what we are doing' could be a mis-interpretation of what the gatekeeper metaphor tries to encapsulate. We will discuss this in the final section.

Our analysis shows an implicit acceptance of the role that CRAs play as gateway constructors, facilitating the expansion of private bond finance into a new arena (i.e. the not-for-profit social housing sector). This is evident in the increasing use of bond issues in the sector, amongst the larger associations and especially in London and the south east of England. But it takes place less visibly, as associations, or at least their senior finance officers, internalise the priorities of the bond market via the CRA metrics such that when it comes to the point of raising the bond finance both the issuer and financier speak the same language. Two quotes, from interviewees, illustrate these gateway construction processes:

... within the sector have, the impact of rating agencies have been for organisations to **sharpen up the way they look at themselves in many ways.**

(VN49)

I mean it does educate us when we go out to investors ... [to] do a road show. So, we would have had the experience of a credit rating before one of them and **when you go into the investors you're talking the same language.**

(VN45)

The credit ratings once obtained were not just used to communicate with bond finance providers, but were also useful as a communication tool for other finance providers (such as banks) and stakeholders (such as construction firms). At this point credit ratings start to take on a wider role as part of the narrative the HA advances about itself as a more ambitious, commercially driven and growth-oriented organisation in which its social purpose is receding rapidly (Ejiogu et al., 2018; Wainwright and Manville, 2017). As Affinity Sutton stated following the issue of an own-named bond in 2012:

Building on the highest credit rating in the sector, we were delighted with the result. At just 4.25% the coupon was the lowest ever in the sector at the time of issue, reflecting the positive assessment by investors of Affinity Sutton as a business.

Affinity Sutton (2013, p. 5)

High credit ratings, positive investor assessments and understanding the organisation as a business are all brought to fore, while the social heart (and purpose) of the housing association fades into the background.

From the above, we find mixed evidence on the appropriateness of the gatekeeper metaphor but also find support for the gateway constructor metaphor. The following and final sections discuss the implications of these findings for the sector and highlight some ongoing contradictions that will eventually come to the fore.

## 7) Discussion

The main message from the foregoing is that leading participants in a sector that was once philanthropic, charitable and social to its core are now undergoing a process of becoming more corporate, business-oriented commercial organisations. The future is

not pre-determined, but the statement by the chief executive officer of one G15 member that they no longer intended to build for social housing purposes (Murtha, 2015), indicates one possible direction for larger associations where they leave their roots and become commercial house-builders, landlords and property managers like other private sector companies.

It is likely that some large HAs will not go down this route and will try to retain their social mission, not least to bolster a more acceptable image as secure and trustworthy; qualities that have come to the fore in discussions of social landlords' role in the wake of the Grenfell fire tragedy (Williams, 2017). In our case study, three HAs have thus far not issued an own-named bond, with one deliberately adopting a strategy that includes business operations in another sector (social care) which result in a lower credit rating but which is important for their social mission.

Despite these examples of countervailing actions, the underlying drive of financialisation is undeniable and we share the conclusion reached by Cooper et al. (2016, p. 81) that '... there is something profoundly wrong when flawed financial technologies can become engines of social policy'. Cooper et al. are referring to the use of accounting technologies as part of a social impact bond aimed at 'solving' homelessness. Our case study highlights a similar embedding of accounting technologies within CRA methodologies being applied to the financing of social housing providers.

This process is one of a myriad of pressures and influences on the social housing sector; for example, the government continues to deregulate the sector and increase its exposure to market activities. In this context HAs are changing their reporting processes, strategic/operational activities and adopting corporate structures. The relationship between the G15 and CRAs is an active part of this process of financialising a not-for-profit sector. Our findings have shown that there is an internalisation of (at least some) metrics from the CRA methodologies, in the reporting systems used by the HAs. This is evidenced by HAs disclosing, in their annual reports, their credit ratings alongside the ratings of the sector's regulator. It is further evidenced by the financial analysis and the movement in key ratios, such as the total and operating margins. Also, the interview data highlighted how the metrics are not just sitting passively within the reporting systems but are being communicated outwards

from finance departments to active decision-makers and become an important element of strategic decisions.

Alongside this internalisation is an engagement with intermediaries such as treasury advisors and book-runners, who provide a range of activities related to a bond issue, including preparing shadow ratings. It is apparent that a cottage industry has emerged around the provision of bond finance for HAs, with some advisors specifically focused on the sector (e.g. Centrus or Traderisks) alongside traditional financial institutions, such as RBS and Santander. These organisations are profit-driven and so require fees for their advice and activities. These costs represent a leakage (Shaoul, 2006) – or to use a more dramatic metaphor, a leeching – of funds to support private sector profits from a social activity to house some of the most vulnerable people in our society.

The findings also highlighted the increased corporatisation of social-mission driven organisations. As HAs grow, often through mergers, group structures start to develop. Some of the G15 have previously had federated structures, reflecting their historical developments. However, the current processes are moving towards a more corporate-style of governance, including the use of Special Purpose Vehicles (Companies) (SPV/C) to issue the corporate bond. In many cases, these SPCs are public limited companies, with a listing on the stock exchange, to enable trading in the bond. While the head organisation in the group may still be a company limited by guarantee, with a not-for-profit mission, the group structure underneath includes private limited companies that carry out housing development at full market values, joint ventures with private sector house builders and developers as well as SPCs – both private and public limited companies – which carry out increasingly complex financing arrangements for the group as a whole. This raises a concern that it may not be too long before the tail of the SPC starts wagging the dog, of the original organisation. This concern points to an important issue for future research – the impact of ongoing changes in group structures of not-for-profit organisations.

These processes of financialisation are not uniform or inevitable; they are the product of chosen (housing) policies and are riven with contradictions (Smyth, 2017b). For example, government policy is geared towards encouraging HAs to operate in open market development; yet pursuing such a strategy will decrease the ratio, “Reliance on low-risk activities: % revenues” which puts downward pressure on the overall credit

rating. On a sectoral level the decision by the government to return HAs to the private sector – according to the ONS classification – through deregulatory provisions in the Housing and Planning Act 2016, caused a downgrade in the ratings for the sector as a whole (Social Housing, 2016).

The significant movement in the margins ratios highlights the interaction between the processes of financialisation and the policy environment created by the government. It would be misleading to claim that the increase in operating margin - to over 30 per cent in 2015 - is solely driven by the internalisation of the CRAs' metrics. The G15 members are clearly reacting to the changing circumstances in both the policy and traditional (bank) funding environment. However, they are making choices, and some HAs are choosing not to "follow the herd" (as one interviewee stated) and stay out of the bond market. More broadly, there is nothing inevitable about government policy or reductions in grant funding: these too are political choices (Bowie, 2017). The point is that, through these complex interactions and decisions, corporate bond financing has been extended into a new arena of social reproduction. In the final section of this paper we elaborate our understanding of CRAs' role in this financialisation process.

We readily acknowledge some limitations to this study. Although over forty percent of the G15 members contributed to the study by way of interviews, we recognise that seven interviews is a small base from which to draw wider conclusions. We have sought to overcome this limitation in part through a form of member checking and utilising data from publicly available sources (e.g. annual reports) and interviews with credit analysts. However, this limitation was accentuated in our reflections following the feedback to the finance directors meeting. The HAs which we had not interviewed (either because they had refused to take part in the study or were unable to do so within the data collection period) were more commercially minded and development driven. This means our interview findings tend to represent more strongly the attitudes of those HAs with a more cautious attitude towards the issuing of corporate bonds and hence engaging with credit rating agencies. Officers from more cavalier organisations were less willing to be interviewed. However, as the interviews were only one of three different data sources in the case study, we are confident that the combination of the different evidence provides trustworthy findings overall.

Further, while the G15 are at the forefront of the financialisation process in social housing, they are not alone. Large HAs elsewhere in England are issuing their own corporate bonds. For example, S&P downgraded the ratings of twenty-two HAs across England in July 2016 (Social Housing, 2016). We consider the current study to be of an exploratory nature. It is expected that, if this study were to be expanded over the whole of England, very different results would emerge in different regions. For example, the differentials between social, affordable and full market rents are considerably less pronounced in the north of England than in London and the south east of England, resulting in a less financially sustainable basis on which to support raising finance from the capital bond markets.

## **8) Conclusion**

In conclusion, our main contribution is rethinking the metaphor of the gatekeeper in order to better describe the role of CRAs. The existing literature on gatekeepers focuses on them as agents of boards who enhance the quality of information communicated to stakeholders, mainly investors (Coffee, 2004, 2006; Duff and Einig, 2009a). Our case study supports this view as, from the perspective of the HAs seeking to raise finance through a corporate bond issue, the CRAs appear as the key party that holds access to the private finance market. All bond issues in the sector have been accompanied by at least one CRA rating. However, as we argue below, this is only a partial view of the role of CRAs and the situation is complicated by the views of the interviewees.

The interviewees rejected (sometimes adamantly so) the gatekeeper metaphor. There is some evidence of interviewees recognising that CRAs' role is similar but different to others also described as gatekeepers, such as auditors. How can we make sense of these apparently contradictory findings? Our response is threefold.

First, the use of the gatekeeper metaphor in the existing literature appears to have developed out of theorisations by academics rather than from any empirical study of the views of participants in credit rating and/or bond issuing processes. Some empirical studies have been undertaken on participants' views of CRA activities, for example, Duff and Einig (2009 a,b); but the focus has been on the activities of the CRA rather than how participants view the role of rating agencies. This issue could be

relatively easily addressed by further research studies using a variety of research designs.

Our second response is a corollary of the first, and concerns the views of the interviewees and the extent to which they are adversely reacting against the gatekeeper metaphor. This may be a reaction to hearing the gatekeeper metaphor for the first time, and therefore having little opportunity to be reflective of their own positions. This reaction is evidenced by the attitude of the interviewee quoted earlier who appears to think that the CRAs would stop the HA from pursuing their strategic and operational goals.

In part this could be a product of the relatively new experience for most of the social housing sector in dealing with CRAs and so the idea of financial gatekeepers has not had as long to permeate the sector as it has for private, for-profit sectors of the economy. This also means that academics who are utilising the metaphor have a responsibility to disseminate the metaphor, explain its meaning and significance, and in the process engage with practitioners to change their perceptions of CRAs.

Third, as we discussed in section 3, the literature on CRAs and gatekeeping has been dominated by neo-classical economics and positivist perspectives. These perspectives are inadequate, as they do not capture the full active extent of the role of CRAs but present them in a passive, almost neutral, manner.

In contrast, we have sought to develop a broader understanding of the role of CRAs and their activities. We build on Sinclair's (2005) insight that gatekeeping is manifestly political. In addition, CRAs are embedded in the operation of the global capital market (Coffee, 2004, 2006; Partnoy, 2006; Sinclair, 2005). It is therefore appropriate to seek to understand the role and activities of CRAs from a political economy perspective, as we have attempted to do.

Specifically, to theorise our understanding of the role of CRAs, we reverse the logic of the gate-keeper metaphor and look instead from the perspective of private capital seeking investment opportunities, especially in the wake of the global financial crisis. The underlying narrative is not just about HAs getting access to private finance but also private finance moving into a new arena and lending to organisations that were previously off-limits (Chiapello, 2017). To break this down further in a global economy



where there is an excess of over-accumulated capital (Cooper, 2015; Fine, 2010) circulating, financial actors are looking for investment opportunities in new ‘geographic and cultural’ spaces (Sinclair, 2005, p. 62). Hybrid social enterprises like HAs, with relatively low risk activities, secure income streams and, ultimately, government support become very attractive avenues for investment. There are barriers to this investment, some of which are geographical, although the globalisation and deregulation of financial markets over the past half century have sought to overcome them (Harvey, 2005, 2010).

Other barriers are cultural, or socio-political, in nature as in our case where a sub-sector of the housing system is being brought into the flow of global capital markets. It is here that the CRAs (among others) play a role in overcoming a potential barrier to investment by estimating the level of credit default risk. We draw on Carruthers’ (2013) view of credit ratings as a form of standardization, where ‘standardization proceeds via “strategic intermediaries” ... that many scholars have labelled gateways ... Like the Internet’s gateways, these are intermediaries that provide a translation from one system (or network) to another ... the gateway can be a device or it can be a written agreement—or even an organizational practice.’ (Sandvig, 2013, p. 98).

It is on this basis that we advance the metaphor of gateway construction as a second, dual activity – in addition to gatekeeping – that encapsulates the role of CRAs. Gateway construction occurs when the CRA acts in the interests of global finance capital by ensuring that:

- i. the priorities of global finance capital are internalised by the organisations that are being rated;
- ii. a language is created that allows the rated organisation to communicate with the global financial markets, and
- iii. a basis is provided on which credit default risk can be calculated by actors in the global financial markets.

In the case study above we have shown empirical evidence that the relationship of G15 members with the CRAs is based on these three characteristics. In this manner CRAs are both gatekeepers (for HAs) and gateway constructors (for private finance). The impact of this dual function serves to further and deepen the financialisation

processes over another aspect of human activity, the need for shelter; an activity which is a fundamental premise for a socially just society.

## **Acknowledgements**

The authors would like to thank Christoph Reichard and Jimmy Gong, in their role as discussants at the IRSPM and CPA conferences in 2017, who both provided insightful comments on earlier versions of this paper; as did other colleagues at both conferences. We would also like to thank the anonymous reviewers and colleagues who attended a research seminar at Birmingham Business School for their constructive comments that have helped improved the paper significantly. In addition, we like to thank Ken Youngman for arranging our attendance at the G15 finance directors meeting. Finally, we acknowledge with great thanks the help of Lauren Jackson (University of Sheffield) in designing and constructing the ten-year financial analysis of the G15. Any errors remain the responsibility of the authors.

## Bibliography

Aalbers, M.B. (2008). The financialisation of home and the mortgage market crisis. *Competition & Change*, 12, 148-166.

Aalbers, M. (2016). *The financialization of housing: a political economy approach* London, Routledge.

Aalbers, M.B., Van Loon, J. and Fernandez, R. (2017). The financialisation of a social housing provider. *International Journal of Urban and Regional Research*, 41, 542–554.

Andersson, T.; Lee, E.; Theodosopolous, G.; Yin, Y.P. and Haslam, C. (2014). Accounting for financialised UK and US business model. *Critical Perspectives on Accounting*, 25, 78-91.

Apps, P. (2019). Downturn: Why is L&Q cutting its surplus in half and what does it mean for the sector? *Inside Housing*, 8 February, 2019. Available at: <https://www.insidehousing.co.uk/insight/insight/downturn-why-is-lq-cutting-its-surplus-in-half-and-what-does-it-mean-for-the-sector-60054> Accessed on 18 June 2019.

Archer, T. and Cole, I. (2016). *Profits before volume: Major housebuilders and the crisis of housing supply*. Centre for Regional Economic and Social Research, Sheffield Hallam University.

Bank of England (2017). *Statistical release June 2017*, Bank of England. Available at: <http://www.bankofengland.co.uk/statistics/Documents/mc/2017/jun/moneyandcredit.pdf> Accessed on 7 September 2017.

Baud, C. and Chiapello, E. (2017). Understanding the disciplinary aspects of neoliberal regulations: The case of credit-risk regulation under the Basel Accords. *Critical Perspectives on Accounting*, 40, 3-23.

Bayliss, K. (2014). Case study: The financialisation of water in England and Wales, *FESSUD (Financialisation, Economy, Society and Sustainable Development)* Working Paper Series No. 52.

Beattie, V.; Fearnley, S. and Brandt, R. (2000). *Behind closed doors: What the company audit is really about*. Basingstoke: Palgrave.

Beverungen, A.; Hoedemaekers, C. and Veldman, J. (2014). Charity and finance in the university. *Critical Perspectives on Accounting*, 25, 58-66.

Bowie, D. (2017). *Radical Solutions to the Housing Supply Crisis*, Bristol: Policy Press.

Braun, V. and Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3, 77-101.

- Brazier, A. (2017). 'Debt strikes back' or 'The return of the regulator?'. *Bank of England*. Available at: <http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech992.pdf> Accessed on 7 September 2017.
- British Broadcasting Corporation (BBC) (2017). Reality check: Has personal debt been growing? *BBC News website*, 25 July 2017. Available at: <http://www.bbc.com/news/business-40716366> Accessed on 7 September 2017.
- Burns, D.; Cowie, L.; Earle, J.; Folkman, P.; Froud, J.; Hyde, P.; Johal, S.; Jones, I.R.; Killest, A. and Williams, K. (2016). *Where does the money go? Financialised chains and the crisis in residential care*. CRESC Public Interest Report, March 2016
- Carruthers, B.G. (2013). From uncertainty toward risk: The case of credit ratings. *Socio-Economic Review*, 11, 525-551.
- Chiapello, E. (2015). Financialisation of valuation. *Human Studies*, 38, 13–35.
- Chiapello, E. (2017). Critical accounting research and neoliberalism. *Critical Perspectives on Accounting*, 43, 47-64.
- Christophers, B. (2015) The limits to financialization, *Dialogues in Human Geography*, 5, 183–200.
- Clarke, S. (2016). Home ownership struggle reaches Coronation Street. *Resolution Foundation*, 2 August 2016. Available at: <http://www.resolutionfoundation.org/media/blog/home-ownership-struggle-reaches-coronation-street> Accessed on 7 September 2017.
- Coffee, J. C. (2004). Gatekeeper failure and reform: The challenge of fashioning relevant reforms. *Boston University Law Review*, 84, 301-364.
- Coffee, J. C. (2006). *Gatekeepers: The Professions and Corporate Governance*, Oxford University Press, Oxford.
- Cooper, C. (2015). Accounting for the fictitious: A Marxist contribution to understanding accounting's role in the financial crisis. *Critical Perspectives on Accounting*, 30, 63-82.
- Cooper, C.; Graham, C. and Himick, D. (2016). Social impact bonds: The securitization of the homeless. *Accounting Organizations and Society*, 55, 63-82.
- Cooper, D. and Morgan, W. (2008). Case study research in accounting. *Accounting Horizons*, 22, 159–178.
- de Haan, J. and Amttenbrink, F. (2011). *Credit rating agencies*. DNB Working Paper No. 278, January 2011.

Duan, J-C. and van Laere, E. (2012). A *public good* approach to credit ratings: From concept to reality. *Journal of Banking and Finance*, 36, 3239-3247.

Duff, A. (2009). Audit quality three years after the fall: An empirical investigation of the views of auditors, auditees, and investors 2002 to 2005. *Managerial Auditing Journal*, 24, 400–422.

Duff, A. and Einig, S. (2007). *Credit rating agencies: Meeting the needs of the market?* Edinburgh: ICAS.

Duff, A. and Einig, S. (2009a). Understanding credit ratings quality: Evidence from UK debt market participants. *British Accounting Review*, 41, 107-119.

Duff, A. and Einig, S. (2009b). Credit ratings quality: The perceptions of market participants and other interested parties. *British Accounting Review*, 41, 141-153.

Duff, A. and Einig, S. (2015). Debt issuer: Credit rating agency relations and the trinity of solicitude: An empirical study of the role of commitment. *Journal of Business Ethics*, 129, 553-569.

Fields, D. (2015). Contesting the financialisation of urban space: Community organizations and the struggle to preserve affordable rental housing in New York City. *Journal of Urban Affairs*, 37, 144-165.

Fine, B. (2010). Locating financialisation. *Historical Materialism*, 18, 97-116.

Fitzpatrick, S.; Pawson, H.; Bramley, G.; Wilcox, S.; Watts, B. and Wood. J. (2018). *The Homelessness Monitor 2018*. Crisis, London.

Forrest, R. and Hirayama, Y (2015) The financialisation of the social project: Embedded liberalism, neoliberalism and home ownership *Urban Studies*, 52, 233–244.

Froud, J.; Sukhdev, J.; Leaver, A. and Williams, K. (2014), Financialisation across the Pacific: Manufacturing cost ratios, supply chains and power. *Critical Perspectives on Accounting*, 25, 46-57.

Gleadle, P.; Parris, S.; Shipman, A. and Simonetti, R. (2014). Restructuring and innovation in pharmaceuticals and biotechs: The impact of financialisation. *Critical Perspectives on Accounting*, 25, 67-77.

Harvey, D. (2003). *The New Imperialism*. Oxford University Press, Oxford.

Harvey, D. (2005). *A Brief History of Neoliberalism*. Oxford University Press, Oxford.

Harvey, D. (2010). The Crises of Capitalism. *Royal Society of Arts lecture*, 26 April 2010. Available at: <https://www.thersa.org/discover/videos/event-videos/2010/04/the-crises-of-capitalism> Access 7 September 2017.

Haslam, C.; Tsitsianis, N.; Andersson, T. and Gleadle, P. (2015). Real estate investment trusts (REITS): A new business model in the FTSE100. *Accounting Forum*, 39, 239-248.

Haslam, J. (2010). The problematic of financialization: Critical reflections. *Critical Perspectives on Accounting*, 21, 642-645.

Hood, C. (1995). The “new public management” in the 1980s: Variations on a theme. *Accounting, Organizations and Society*, 20, 93–109.

Homes and Communities Agency (HCA) (2016). *2015 Global Accounts of Housing Providers*. HCA, London.

Homes and Communities Agency (HCA) (2019). *2018 Global Accounts of Housing Providers*. HCA, London.

Inside Housing (2015). The tipping point. *Inside Housing*, 26 June 2015. Available at: <https://www.insidehousing.co.uk/insight/insight/the-tipping-point1-43792> Accessed 7 September 2017.

JCRA (2018). *Social Housing Annual Review: The Return of the Bond Markets* JCRA, London.

Jupe, R. and Funnell, W. (2015). Neoliberalism, consultants and the privatisation of public policy formulation: The case of Britain’s rail industry. *Critical Perspectives on Accounting*, 29, 65-85.

Langley, P. (2009). *The Everyday Life of Global Finance*. Oxford University Press, Oxon.

Lapavitsas, C. (2009). Financialised capitalism: Crisis and financial expropriation. *Historical Materialism*, 17, 114-148.

Lincoln, Y.S. and Guba, E.G. (1985). *Naturalistic Inquiry*. Newbury Park, CA: Sage Publications.

Malsch, B. and Gendron, Y. (2011). Reining in auditors: On the dynamics of power surrounding an “innovation” in the regulatory space. *Accounting, Organizations and Society*, 36, 456–476.

Marx, K. and Engels, F. (1996). *The Communist Manifesto*. Phoenix Paperback, London.

McKinsey (2018). *A Decade After the Global Financial Crisis: What Has (And Hasn't) Changed?* Briefing Note, September 2018, McKinsey Global Institute.

Mercille, J. and Murphy, E. (2017). What is privatization: A political economy framework. *Environment and Planning A*, 49, 1040-1059.

Ministry of Housing Communities and Local Government (MHCLG) (2018). *The English Housing Survey 2016/17. Headline Results*, London: MHCLG

Moody's (2013). *Rating Methodology: English Housing Associations*. Moody's Investor Services: London.

Moody's (2016). *Annual Report 2015*. Moody's, New York.

Morales, J., Gendron, Y., & Guénin-Paracini, H. (2014). State privatization and the unrelenting expansion of neoliberalism: The case of the Greek financial crisis. *Critical Perspectives on Accounting*, 25, 423–445.

Morrison, N. (2016). Institutional logics and organisational hybridity: English housing associations' diversification into the private rented sector, *Housing Studies*, 31, 897-915.

Mullins, D, Milligan, V. and Nieboer, N. (2018). State directed hybridity?: The relationship between non-profit housing organizations and the state in three national contexts, *Housing Studies*, 33, 565-588.

Murie, A. (2016). *The Right To Buy?: Selling off Public and Social Housing*. Policy Press, Bristol.

Murtha, T. (2015). The housing association that will no longer build homes for the poor. *The Guardian Housing Network*, 7 August 2015. Available at: <https://www.theguardian.com/housing-network/2015/aug/07/housing-association-no-longer-build-homes-poor-genesis> accessed on 4 August 2017.

National Audit Office (NAO) (2012). *Financial viability of the social housing sector: introducing the Affordable Homes Programme*. The Stationery Office: Norwich/London.

National Audit Office (NAO) (2017). *Housing in England: Overview*. The Stationery Office: London.

Newman, K. (2009). Post-industrial widgets: Capital flows and the production of the urban. *International Journal of Urban and Regional Research*, 33, 314-331.

Partnoy, F. (2006). How and why credit rating agencies are not like other gatekeepers. *Legal Studies Research Paper Series*. University of San Diego, Research Paper No. 07-46, May 2006.



Peck, J. (2010). *Constructions of Neoliberal Reason*. Oxford University Press: Oxford.

Peck, J. and Tickell, A. (2002). Neoliberalizing space. *Antipode*, 34, 380-404.

The Planner (2017) 'Housing associations reclassified as private sector bodies'. *The Planner* 16.11.17

Sandvig, C. (2013). The Internet as Infrastructure, in *The Oxford Handbook of Internet Studies*, edited by William H. Dutton. Oxford University Press, Oxford, 86-106.

Sauder, M. and Espeland, W.E. (2009). The discipline of rankings: Tight coupling and organizational change, *American Sociological Review*, 74, 63-82.

Shaoul, J. (2006). The cost of operating Britain's privatized railways. *Public Money & Management*, 26, 151-158.

Sinclair, T. (2005). *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness*. Cornell University Press, Ithaca and London.

Smyth, S. (2017a). Public accountability: Reforms and resistance in social housing. *Public Management Review*, 19, 212-231.

Smyth, S. (2017b). Debate: Interventions and contradictions: recent government social housing policy. *Public Money and Management*, 37, 432-433.

Smyth, S. (2019). Embedding financialisation: A policy review of the Affordable Homes Programme. *Housing Studies*, 34, 142-161.

Social Housing (2016). Standard & Poor's downgrades 22 English housing associations. *Social Housing*, 4 July 2016. Available at: <https://www.socialhousing.co.uk/news/news/standard--poors-downgrades-22-english-housing-associations-25960> Accessed on 7 September 2017.

Stephens, M; Perry, J; Wilcox, S.; Williams, P. and Young, G. (2019). *UK Housing Review*. Chartered Institute of Housing: Coventry.

Stolper, A. (2009). Regulation of credit rating agencies. *Journal of Banking and Finance*, 33, 1266-1273.

Sullivan, P. (2012). *Qualitative data analysis: Using a dialogical approach*. Sage Publications: London.

Tang, C., Oxley, M. and Metic, D. (2016) 'Meeting commercial and social goals: Institutional investment in the housing association sector'. *Housing Studies* 32, 411-427.

- Thomas, G. (2011). *How to do Your Case Study: A Guide for Students and Researchers*. Sage Publications: London.
- Wainwright, T. and Manville, G. (2017). Financialization and the third sector: Innovation in social housing bond markets. *Environment and Planning A*, 49, 819-838.
- Wilcox, S.; Perry, J; Stephens, M. and Williams, P. (2016). *UK Housing Review Briefing Paper 2016*. Chartered Institute of Housing: Coventry.
- Williams, C. (2017). Javid: councils face 'crisis of trust' post-Grenfell. *Inside Housing*, 4 July 2017. Available at: <https://www.insidehousing.co.uk/news/javid-councils-face-crisis-of-trust-post-grenfell-51317> (accessed on 14 December 2018).
- Zhang, Y. and Andrew, J. (2014). Financialisation and the Conceptual Framework, *Critical Perspectives on Accounting* 25, 17–26.

***G15 Members Annual Reports (All year end 31 March)***

A2 Dominion, (2014)

Affinity Sutton, (2013), 2015)

Circle, (2011)

Genesis, (2010), (2013)

Hyde, (2013), (2014)

London & Quadrant (L&Q), (2009), (2015)

Notting Hill Housing Trust, (2011), (2014)

Peabody, (2013)

**TABLE 1 – G15 LONDON-BASED HOUSING ASSOCIATIONS**

<b>Name</b>	<b>No. of homes (under management)</b>	<b>Bond Issue (Size - nominal value - and initial date)</b>	<b>Bond issuing SPV</b>	<b>Agency</b>	<b>Credit Rating</b>
A2Dominion	36,130	£150m £150m	Yes	Fitch	A+
Affinity Sutton	58,808	£250m £250m	Yes	Moody's	Aa3(negative)
Amicus Horizon	25,913	£150m / 2012	Yes	Not disclosed	Not disclosed
Catalyst Housing	21,064	N/a	N/a	N/a	N/a
Circle	62,647	£635m / 2008 & 2012	Yes	Moody's	A2(negative)
East Thames Group	14,996	£250m	Yes	Not disclosed	Not disclosed
Family Mosaic	24,000	N/a	N/a	Moody's	A1(negative)
Genesis Housing	31,066	£200m / 2009 & 2012	Yes	Moody's	Baa1
The Hyde Group	48,207	Not disclosed	Not disclosed	S&P	AA(negative)
L&Q	73,100	£930m / various dates	Yes	S&P Moody's	AA(negative) A1(stable)
Metropolitan	38,000	£250m / 2015	Yes	S&P	AA(negative)
Network Housing Group	20,650	N/a	N/a	N/a	N/a
Notting Hill	30,660	£300m £250m £250m	No	S&P Moody's	AA(negative) A2(negative)
Peabody	29,014	£200m £350m	Yes	Moody's	A3(stable)
Southern Housing Group	27,000	£75m £1m	No	Moody's	A1

Note: data drawn from annual reports year-end 31 March 2016.

**TABLE 2 – G15 FINANCIAL ANALYSIS**

<b>Ratio (using Moody's 2013 Methodology)</b>	<b>2006</b>	<b>2015</b>
Reliance on low-risk activities: % revenues	79.89%	69.65%
Reliance on low-risk activities: interest coverage	1.05 times	1.36 times
Operating Margin	20.06%	30.47%
Total Margin	10.93%	22.41%
Capital Expenditure	100.21%	78.61%
Debt Burden	3.86 times	4.04 times
Gearing	33.19%	38.07%
Long-term interest coverage: recurrent cash interest coverage	1.21 times	2.31 times
Short-term interest coverage: cash interest coverage	0.99 times	1.78 times

Note: authors' own calculations.

**FIGURE 1 – MOODY’S BASELINE CASE ASSESSMENT (BCA) EXTRACT**  
*Financial Performance (Moody’s, 2013, p. 8)*

BCA scorecard	Aaa	Aa	A	Baa	Ba and below
Reliance on low-risk activities: % revenues (turnover from social housing letting as % total revenues)	above 95%	95% - 85%	85% - 75%	75% - 65%	below 65%
Reliance on low-risk activities: interest coverage (profit/deficit from social housing letting as a multiple of total interest costs)	above 2x	2x - 1x	1x - 0.5x	0.5x - 0x	below 0x
Operating margin (operating surplus/deficit before interest as % turnover)	above 30%	30% - 20%	20% - 10%	10% - 0%	below 0%
Total margin (surplus/deficit before tax as % turnover)	above 10%	10% - 5%	5% - 0%	0% - (5%)	below (5%)
Capital expenditure (capex from housing and non-housing, net of social housing grants and adding back cash operating surplus/deficit as % turnover)	below 25%	25% - 50%	50% - 75%	75% - 100%	above 100%

*Debt and Liquidity (Moody’s, 2013, p. 9)*

BCA scorecard	Aaa	Aa	A	Baa	Ba and below
Debt burden (debt as a multiple of revenues)	below 3x	3x - 5x	5x - 7x	7x - 9x	above 9x
Gearing (debt, net of cash on-hand, as a % total assets, adding back social housing grants)	below 30%	30% - 50%	50% - 70%	70% - 90%	above 90%
Long-term interest coverage: recurrent cash interest coverage (operating surplus/deficit, adding back depreciation, as a multiple of net cash interest)	above 2x	2x - 1x	1x - 0.5x	0.5x - 0x	less than 0x
Short-term interest coverage: cash interest coverage (net cash flow from operations as a multiple of net cash interest)	above 2x	2x - 1x	1x - 0.5x	0.5x - 0x	less than 0x

## APPENDIX 1 – STUDY PARTICIPANTS

<b>Participant Code</b>	<b>Position</b>
VN43	Head of Corporate Finance
VN44	Group Finance Director
VN45	Treasury Director
VN46	Treasury Director
VN47	Group Finance Director
VN48	Executive Director of Finance
VN49	Group Finance Director
VN50	Corporate Finance Director
CRA1	Vice President, Sub-Sovereign Group
CRA2	Director, Lead Analyst

NOTE: Where, VN was a G15 member interview and CRA was a credit rating analyst interview.

## **APPENDIX 2 – GLOSSARY OF ABBREVIATIONS**

**CPI** – Consumer Price Index

**CRA** – Credit Rating Agency

**DCLG** – Department for Communities and Local Government

**EBITDA** – Earnings Before Interest, Tax, Depreciation and Amortisation

**GFC** – Global Financial Crisis

**GLA** – Greater London Authority

**FCA** – Financial Conduct Authority

**HA** – Housing Association

**HCA** – Homes and Communities Agency

**L&Q** – London and Quadrant (Housing Association)

**NRSRO** – Nationally Recognized Statistical Rating Organization

**ONS** – Office for National Statistics

**SEC** – U.S. Securities and Exchange Commission

**SIB** – Social Impact Bond

**S&P** – Standard and Poor's

**SPC/V** – Special Purpose Company/Vehicle