



The future
social housing
provider

Kath Scanlon, Christine Whitehead & Fanny Blanc

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Foreword

Over the past few years, the operating environment in which we work has fundamentally changed. Technology, politics, demographics and the economy have all played a part. At Flagship Group, we firmly believe the next two decades present an opportunity to solve the housing crisis.

To help us understand where we have come from and to prepare for the future, The London School of Economics & Political Science (LSE) has investigated the future of social housing providers, looking at the structure and operation of these organisations in years to come.

This research provides insight into economic pressures, demographic trends, housing policy and welfare reform from existing literature and the views of our valued stakeholders.

In changing times, innovative thinking and timely research such as this will help us continue to provide homes for people in need.

For more information contact:

Jack Weaver, Public Affairs Advisor at Flagship Group

call: 0845 258 6207

email: Jack.Weaver@flagship-group.co.uk

Methodology

The methods used in this research project included:

- a detailed review of the literature, statistics and policy documents relevant to the current position and future potential of social housing providers;
- interviews with a range of housing professionals, local-authority officers and policy makers based in East Anglia and London;
- round tables of senior stakeholders to explore the challenges facing the sector and possible ways forward; and
- discussions with Flagship about their own position and aspirations.

Acknowledgements

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We are very grateful to those who agreed to be interviewed for this report, or who took part in round tables and seminars in Norwich and London.

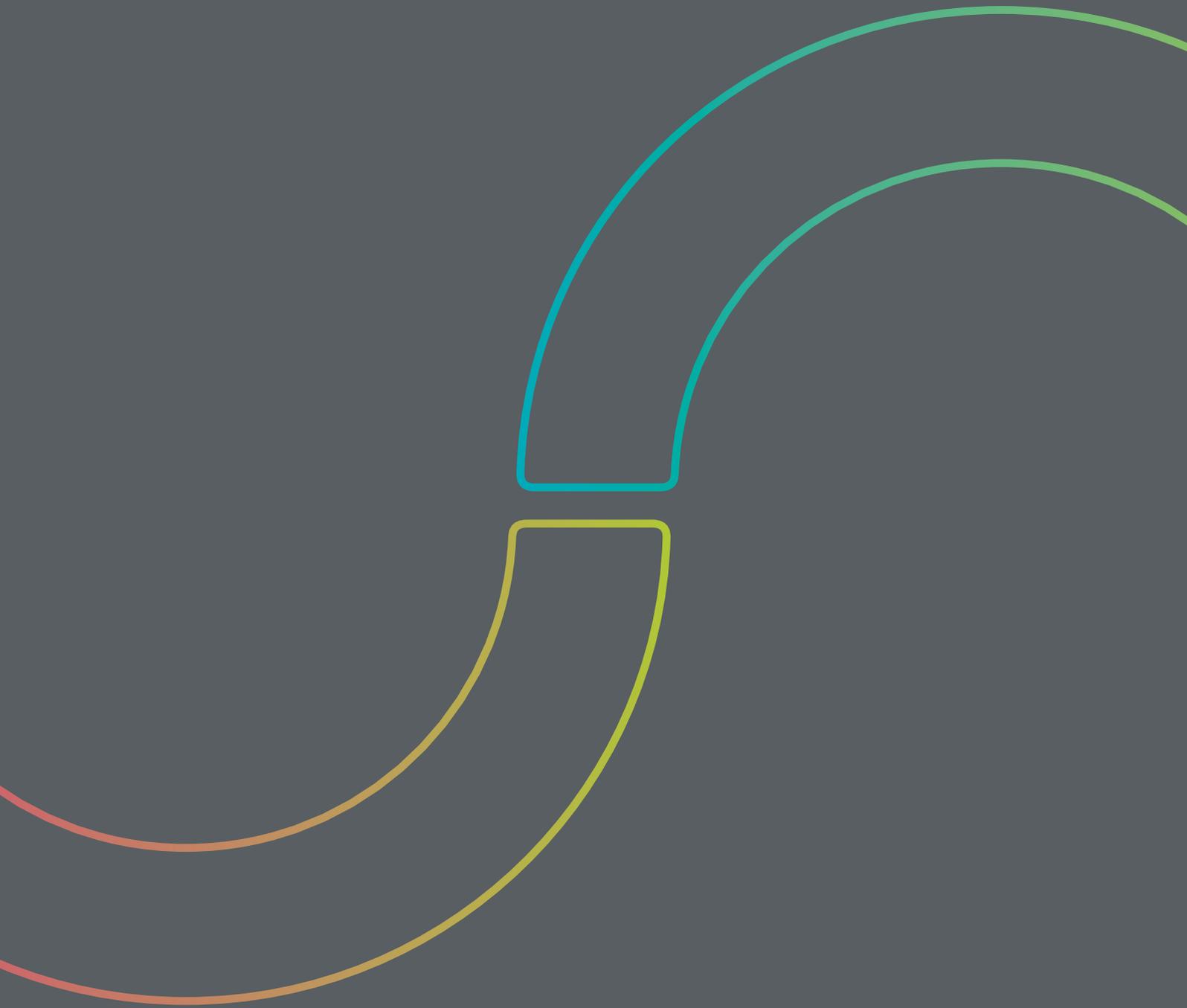
To enable research participants to express their views frankly we have not named individual contributors. Much of this document was informed by our interviews and discussions, but the final report is the work of the research team and may not reflect the views of all participants.

Introduction

Social housing in England is at a critical juncture. The Grenfell Tower tragedy exposed some real problems and led many commentators to conclude that the sector as a whole is incompetently managed.

Councils and housing associations had already been grappling with austerity and welfare cutbacks, with economic uncertainty (notably but not exclusively around Brexit) and with the possibility of recession and rising costs. They must now think ahead about how best to position their businesses to deal with the changing nature of affordable housing and demographic change, and what kind of risk management and governance can best ensure resilience.

With this report we hope to contribute to these debates. Our purpose is to explore the likely future trends in the operation, structure and customer demographic of a social housing provider in England. The goal is twofold: first, to stimulate discussion and thought within the sector about how housing associations might best move forward in this extremely challenging environment and second, to bring out the implications for Flagship Group (who funded the research) and its management plan.



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What do housing associations do, and what should they do?

The popular perception is that the provision of low-cost housing for low-income people is the most important reason for a housing associations' existence¹.

However the view within the sector itself is rather different: the biggest associations see themselves as housing providers certainly, but social housing may be only one element of a suite of housing offers, and not necessarily the largest. In their public-facing material² 15 major associations almost all express their missions in terms of providing housing, but only Clarion explicitly mentions social housing. Another five refer in some way to providing affordable housing.

The big associations operate a range of housing types from social rent (cheapest to the tenant) to intermediate housing to—in some cases—market rent. Looked at positively, this means that the bigger associations have a flexible offer and can accommodate a wider range of households in housing need. On the other hand it can also be seen as diluting their focus on the most needy.

“It is really important to create mixed communities and not to provide housing only for the two ends of the (income) spectrum.”

Housing association executive

1. For a summary of the sectors' historic development and overview of demographics, see Annex A.

2. We reviewed the current activities, missions and/or vision statements of 15 large English housing associations (London's G15 [now actually 14] and the Flagship Group), as set out on their websites. The table in Annex B summarises these, and describes the main commercial and care and support activities they engage in.



Almost all the big associations are increasingly involved in construction of a range of new housing including market-price for-sale and market rent. Profits from this activity can subsidise their affordable and social offer and help compensate for the decline in public subsidy. Some associations argue that they can produce better places than for-profit developers because of their long-term perspective on what makes communities work. A few associations now provide market-price Build to Rent (Clarion, Notting Hill and Southern Housing are all involved); again, the argument is that their understanding of building and managing housing for rent (albeit for a different market) gives them a natural advantage.

“The real need is social housing, not affordable or intermediate rent.”

Head of housing, London borough

Is there a ‘right’ size?

Housing associations range in size from tiny organisations with a handful of homes to a few very large associations. The biggest are the result of mergers, indeed often a series of mergers over decades. A new wave of consolidations among the larger players has resulted in a few mega organisations: Clarion, the largest, has 125,000 units across much of England; L&Q merged with East Thames and now has 90,000 units mostly in London; the Peabody/Family Mosaic merger has 111,000 mostly in London and the south. After merging, the organisations may first operate as separate bodies under a corporate umbrella, before eventually consolidating operations (e.g. Network, Peabody).

When profit-making corporations merge, the stated motivation is often to enhance shareholder value by improving efficiency through financial, operational or managerial synergies. For housing associations the main objective is clearly not profit, but for all that the emphasis remains on synergies, overcoming constraints and cost reduction. One significant reason for merger is to employ underused resources, notably capital bases. Government clearly wants value for money from past subsidy, but this does not mean that mergers are the only answer; different types of joint working can often be a better approach. For the very big associations there is little evidence of a relationship between size and cost, so mergers do not necessarily enhance efficiency unless one of partners is underperforming.

The strategic management literature suggests that in the corporate context, other factors—such as a desire to increase market share or management empire-building—may be equally or more important in the decision to merge (Trautwein 1990). A non-profit distributing environment is often seen as making these management-oriented objectives more likely.

“Mergers are often done for the wrong reasons, and it takes time to realise the benefits.”

Major investor

Interactions with local authorities may be another driver of mergers. One medium-sized association told us they deal with 27 different local authorities, and we spoke to local authorities where more than 50 associations are active. Time and resource constraints mean associations and authorities can only cultivate the five or six most important relationships, and some local authorities said explicitly that they did not want any more associations in their areas. Certain councils maintain lists of 'approved providers' for developers looking to sell S106 affordable housing. Ensuring that they are on the top of authorities' lists may contribute to associations' desire to merge.

There was no agreement about what the efficient size might be for any particular type of association. In our discussions with associations and the regulator, they said the 'right' size for each association depended on where it was located and what functions it carried out, and some said the wave of mergers had gone too far.

Turning to the next tier down, there are clear opportunities for the 100 or so medium-sized organisations (including Flagship) to reduce costs by teaming up with other associations or indeed local authority partners to realise economies of scale for services like maintenance, letting and rent collection. This could take place through partnership or cooperation arrangements, which do not carry the financial and human costs of full merger but may bring equivalent benefits.

Some argue that the absorption of small and medium associations into larger groups breaks an important link between place and organisation. They say local associations have long-term commitments to their areas and understand the problems and demographics in a way the giants cannot match, and that tenants value their relationships with smaller associations.

We were told that associations with 5000 to 15,000 homes were more nimble than the biggest ones, and arguably more forward-thinking.

Some interviewees said small and large associations performed different roles. This does not mean they should not work together to generate synergies.

“Some mergers are fine - but some are just vanity projects.”

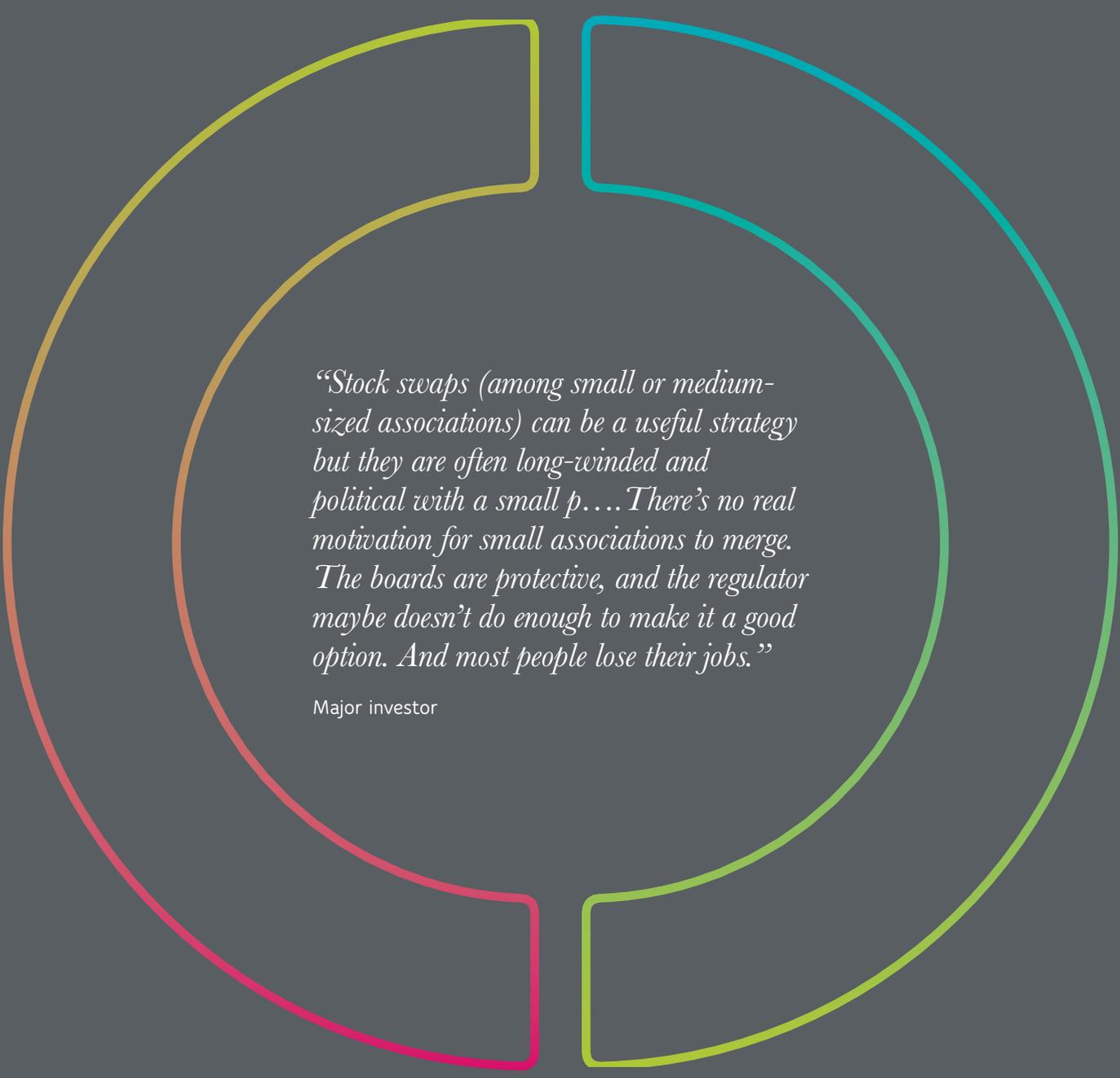
Government official

“These medium-sized associations are very efficient collaborators - I don't think they'll get left behind.”

Government official

“Our local presence keeps us grounded and gives us responsibility to a particular place.”

Officer, small housing association



“Stock swaps (among small or medium-sized associations) can be a useful strategy but they are often long-winded and political with a small p.... There’s no real motivation for small associations to merge. The boards are protective, and the regulator maybe doesn’t do enough to make it a good option. And most people lose their jobs.”

Major investor



“All the evidence shows that big associations are more efficient but small ones are more popular.”

Politician



Medium-sized associations “are ideal for innovation: if there’s a good idea, they’re the optimum size to try it out.”

Round table participant



“Smaller housing associations are not able to tackle larger sites and larger ones are not interested in rural sites or partnerships in remote areas, so they are complementary.”

Officer, small housing association

Just housing, or 'housing plus?'

Many housing associations provide a range of products and activities besides housing. These are not necessarily 'extras' but may be central to associations' core missions – social care, for example, is fundamental to some of the smaller specialist groups. But increasingly associations are moving into other areas as a way to subsidise their housing activities and/or capitalise on strategic strengths.

Social care

Some of the larger associations explicitly see social care as a core part of their mission (Metropolitan), while others do not seem to get involved at all (Hyde Group, L&Q). Various small, specialised housing associations were set up to serve particular vulnerable groups (e.g. people who are disabled or have dementia) and many provide care as well as housing to their tenants. The National Housing Federation lists an impressive array of health and care services, from specialist provision for dementia patients and those with disabilities (widespread) to falls-prevention programmes and hoarding support (more niche). Outward-facing services usually receive outside funding, most often from councils. Most but not all beneficiaries live in specialist care homes or hostels; some associations offer so-called 'floating support' to certain client groups but on the whole local authorities rather than housing associations are responsible for social care in the community.

Associations providing social care face the same situation as local authorities and private care homes: increased demand, difficulty recruiting staff (and the potential effects of Brexit on this sector, which employs many EU nationals), and relentless financial pressure. Funding is a major issue: the LHA cap applies equally to tenants who need costly extra care services and local authority social-care money often does not cover costs, so such tenants cost associations money. If this money comes from associations' own income, it is essentially their tenants and potential tenants (the poorest people in society) who pay; if it comes as cross-subsidy from associations' commercial activities it means that cross-subsidy is not available to build new affordable housing or provide other services.

Into the longer term it is difficult to see how associations can cross-subsidise care. Those who want to stay in the care business must work with local authorities and private suppliers to at least cover costs, but many will simply leave this part of the market.

Building maintenance and commercial for-profit activities

Commercial activities are usually related in some way to associations' housing functions: many have property-maintenance arms, usually known as Direct Labour Organisations (DLOs). We were told that DLOs could market services to private organisations such as build-to-rent operators, but this seems to be more hypothetical than actual at the moment. We spoke to landlords involved in a number of other areas, including solar power generation and running a (for-profit) nursery for pre-school children. The fact that associations have a social purpose can be a selling point for their commercial operations.

The most important issue is always value for money, for association and tenants alike. The many examples of associations that outsourced repairs and maintenance then brought them back in-house—and vice versa—show that there is no single answer. This is not to say that associations should not take risks and seize opportunities: they clearly should look to innovate and experiment. But no organisation should be performing tasks in which they have no comparative advantage, and all activities should be regularly reviewed in terms of costs and synergies.

Community activities

Many associations sponsor activities and educational programmes in the communities where their homes are located—one round table participant said their association's wider goal was 'to improve life expectations' in the communities it served. Access is not necessarily limited to associations' tenants but may be open to the wider community. A recent LSE study inventoried some of the community investment activities offered by social landlords (Belotti 2016). They include debt and welfare advice, jobs and skills training, energy-saving retrofit projects, initiatives to combat loneliness in older people, youth projects and digital training. Most associations that develop housing, and many that do not, put effort and money into 'place making' or community building in the areas where their housing is located. Again associations need to ensure these activities pay for themselves in financial and social terms if they are to be part of a longer term strategy.

“At the moment it’s difficult to make social care work and some or even most associations are avoiding it. But there are some successful ones - Sanctuary does domiciliary and care homes and at least breaks even.”

Major investor

“Before when associations weren’t subject to the LHA cap we could address those right at the bottom, who need support as well as a house. Now it’s catastrophic.”

Government official

“We’re getting out of social care - it just can’t be done for what local authorities pay.”

CEO of major housing association



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Is the environment becoming more hostile?

Many commentators, including former government ministers, argue that the sector had an easy ride over the last thirty years.

Associations have charged sub-market rents so generally faced no shortage of potential tenants; social rents were set by the regulator so there was no need to compete; these rents rose faster than general inflation and were supported by housing benefit so their incomes were secure; and the regulatory framework ensured that associations that got into trouble were taken over by stronger ones. As a result there have been no formal bankruptcies and associations have enjoyed considerable freedom to decide whether to develop rapidly; to diversify into other types of housing and related (and sometimes not very related) activities, as well as into other areas and regions; or simply to manage their existing stock while (usually) growing their capital base.

Looking back, except for a small number of individual failures of governance (at the extreme involving fraud) and some cases of over-concentration on particular activities, there has only been one period when the sector faced considerable stress. This was during and after the financial crisis, when a number of associations were caught out in particular by their exposure to shared ownership or market sale. Some of those affected transferred unsold properties to the rental sector, but more importantly the regulator stepped in to support associations in the worst difficulties and to ensure that the finance market remained comfortable.

It is therefore unsurprising that critics (including many in the government) continue to argue that associations have too little incentive to act efficiently or put their resources to the best social uses—even though associations did expand investment immediately after the financial crisis and have increased output (almost to the levels of the early 1990s) despite falling subsidy. These critics say that the passage of time and historic investment patterns mean efficient associations should have large operating surpluses that could be put to better use.

Things look more challenging under most realistic scenarios—although there are also some opportunities. The challenges fall into five main groups:

- a. The macro economic environment;
- b. Demographic trends;
- c. Housing policy;
- d. The welfare regime; and
- e. The organisation of the sector

Macro-economic pressures

Housing associations, like most other sectors, generally do better when the economy is performing well. The greatest concern must therefore be the possibility of general recession and continuing stagnant or falling real incomes—possibly due to Brexit. This would put increasing pressure on the demand for social housing and on the need for other services. It would also put pressure on government further to cut expenditure, with knock-on effects on local authority services and on welfare provision.

A recession in the property market would have the most immediate effects on housing associations as many of the larger ones depend on market sales, and to a lesser extent market rents, to fund their future programmes. The most recent edition of the Homes and Communities Agency's regular Sector Risk Profile (HCA 2016) focuses on this risk, particularly as more associations now depend heavily on the market for their revenues. The regulator has imposed more-demanding stress testing on housing associations, so individually they should have plans in place for a market downturn.

“The main impact (of Brexit) is uncertainty. If the housing market collapses, there will be less demand for housing but if inflation increases, there will be a higher demand. Both scenarios will require an adaptation for the business strategy.”

Officer, major national housing association

“Stress testing means associations have thought about what to do in a cyclical downturn. But what if they all stop building - what is the aggregate impact?”

Senior government official

“With commercial activity, you have the choice between investing your profits in your market activity to make more money, or gift the profits to the charitable bit. In the first case you are very exposed if the market turns down.”
Round table participant A “You mean when the market turns down.”

Round table participant B

While it is unlikely that interest rates will rise significantly in the near term, the fall in the value of sterling puts pressure on building costs as does the potential loss of skilled European labour. Equally there may be shortages of administrative skills that will impact on associations' efficiency. More generally inflation is expected to rise, putting pressure not just on costs but also on revenues via the lack of inflation adjustments to welfare payments and LHAs.

No individual sector can buck macroeconomic pressures. Housing associations can best prepare by ensuring that their finances are robust and resilient to change: the emphasis must be on cost reduction and agile responses to changing markets.

“There are big concerns about the property market. Everybody needs to know their exit strategy and its cost. There's a case for associations being involved in build for sale but they need to be sensible and aware of the need to slow down or stop if necessary.”

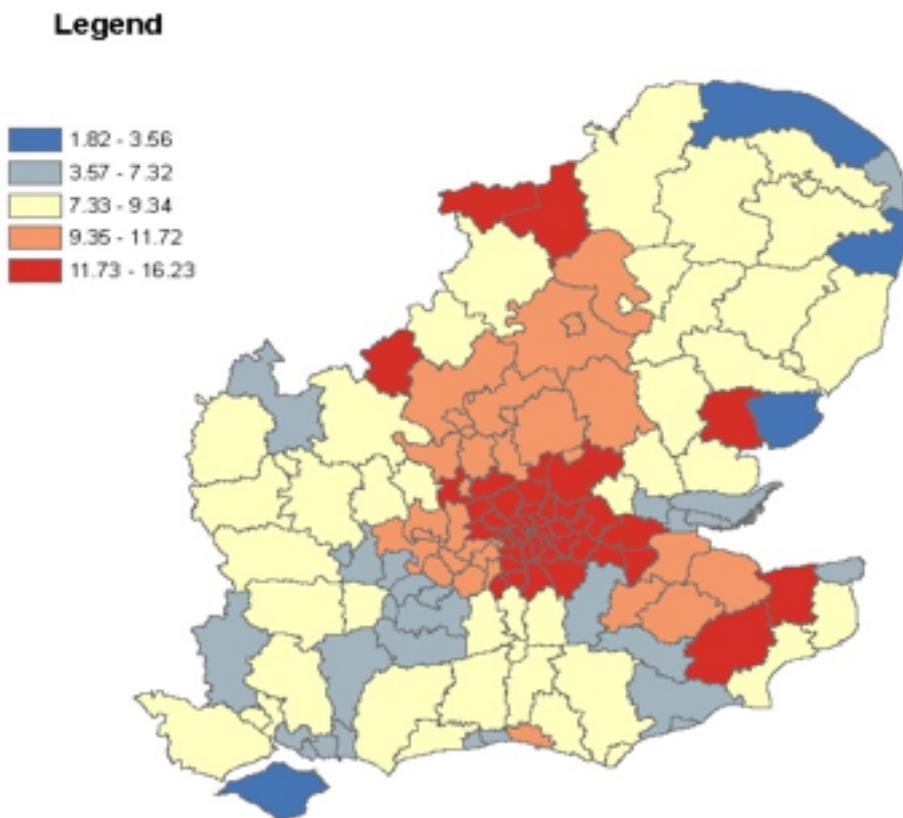
Major investor

Demographic trends: looking at the wider south east

Map 1 shows how population has changed across the wider south east since the turn of the century. The areas with the largest growth outside London are to the north and south east of the capital. Growth in the eastern region has been more around average (of 7000 to 9000 persons per annum) except in some coastal areas where growth is much lower and might well have been negative without the impact of outmigration from London.

Map 1: Population change in the wider south east, 2001 - 2016

WSE: TTWA Level Migration Indicators 6
Total Population Change



Notes: 1. TTWAs are whole LAD approximations;
2. Indicators are basis, scaled per '000 residents in 2001

The starting point for looking at the future impact of demographic change on housing requirements and household needs is government household projections. The latest projections are based on the 2014 population estimates and were issued in mid-2016 covering the period to 2039.

One of the most important factors driving demographic changes in the wider south east, including East Anglia, is outward movement from London. Figure 1 shows evidence from 1991 and the projections to 2039 about moves to the various administrative rings around London. Household numbers have increased since 1991 and are projected to continue to expand to 2039. The projections suggest that the rate of change will be slower in the outer south east than in London and the outer metropolitan area.

Figure 1: Household numbers by rings 1991 - 2039

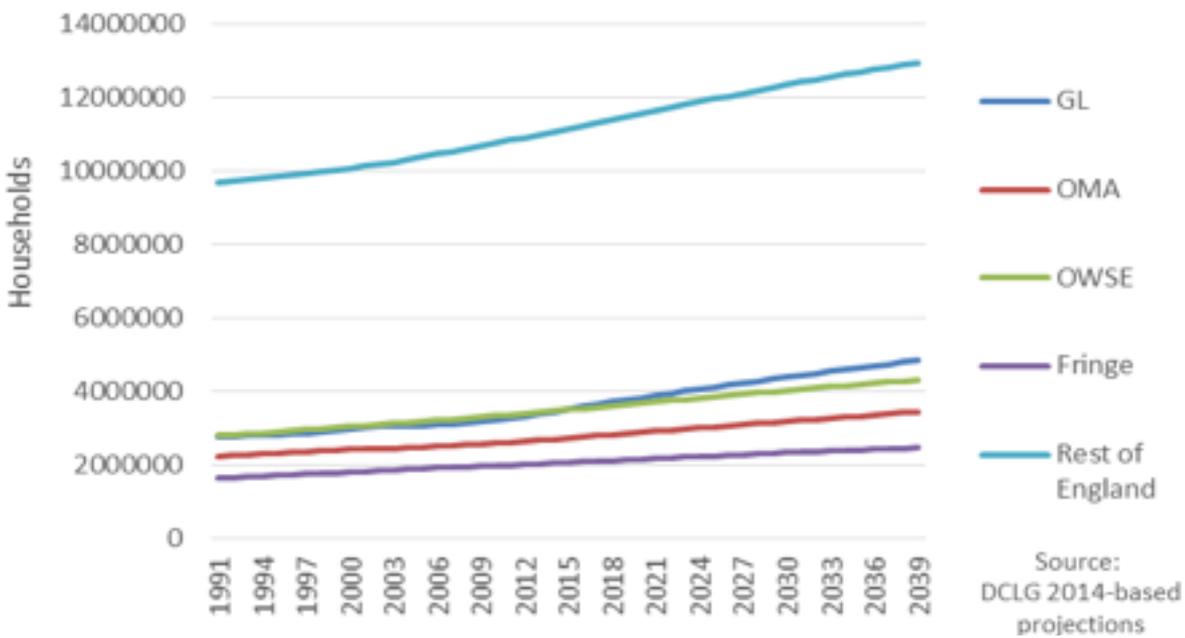
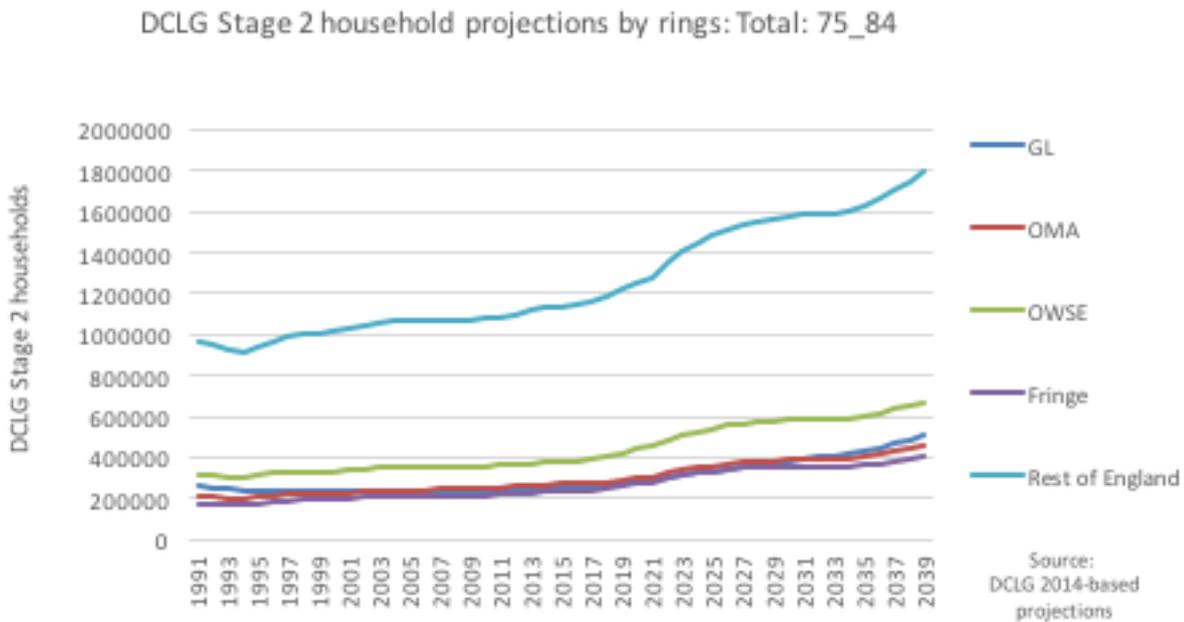


Figure 2, which shows numbers of households headed by someone aged between 75 and 84, demonstrates the increasing importance of older and more vulnerable households. The proportion of such households increases as one looks further out from London. The obvious, and well known, implication is that there will be more need for adult social care and for adapted and supported housing of all types.

Figure 2: Increasing numbers of older households (75 - 84): 1991 - 2039



However most of the important structural changes are among younger households. The two main ones are the decline in the number of family households with children, and perhaps as importantly for housing providers, the increase in 'other' multi adult households, which is expected to continue. Figure 3 shows the declining proportion of households between the ages of 25 and 34 that are family households. In 1991 this proportion was around 1 in 4 in the outer south east but by 2039 it is projected to decline to around 1 in 5. While accommodating family households will undoubtedly remain a core activity for most housing associations, it is not likely to be a significant growth area.

Figure 3: Declining proportions of 25-34 households with children

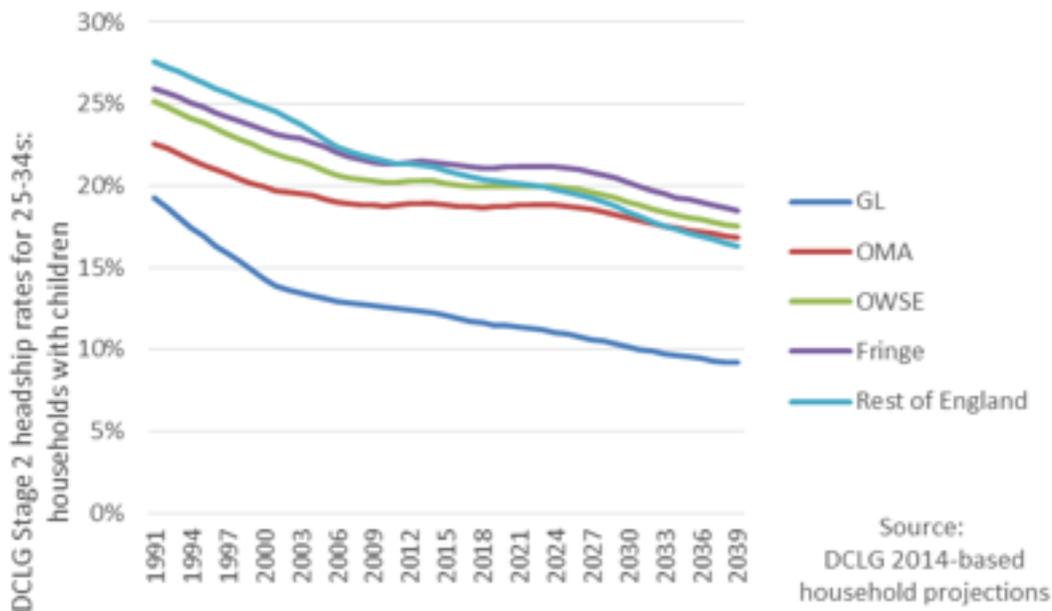
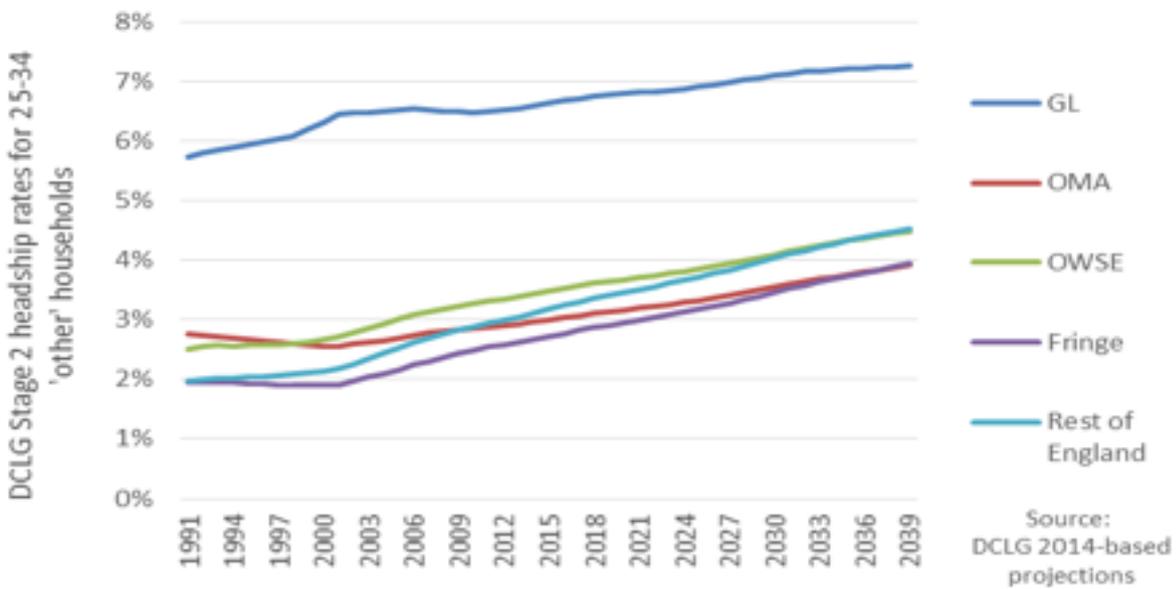


Figure 4 shows the large increase in young multi-adult households (albeit from a low base). In 2011 the biggest number was in London, where the proportion is expected to rise to over 7% of households in this age range. However growth in this type of household is projected to be even more rapid in the outer south east and indeed the rest of England. We can therefore expect further shifts of existing homes into the private rented sector where most of this group tends to reside. It also suggests a major opportunity for some housing associations to provide better quality, more secure housing to this group of households.

Figure 4: The growth of 'other' 25-34 households



Housing policy

In the context of social housing, rents are the biggest policy issue. The government has promised to clarify the future trajectory of rents as soon as possible, hopefully later this year. However last time they did so the agreed policy was changed not long afterwards. That rent cut reflected a single-minded determination to reduce welfare costs rather than rational, strategic decision-making about the sector as a whole. The new settlement will probably allow social landlords to raise rents to cover inflation at CPI even though this is more generous than for most privatised industries which have to make efficiency cuts every year. Even so, landlords must cut costs and run lean organisations. This is especially so if they are looking to raise debt finance, as financial markets are becoming more concerned about the sector's capacity to adjust to changing circumstances.

A rather longer-term issue is the nature of each association's housing stock. The general tenant profile suggests more smaller units are required (even though there are clearly large numbers of families in need). Yet some associations have mainly three-bedroom dwellings, many of which are energy inefficient and costly to live in.

The current policy position with respect to new-build subsidy is that associations should be able to stand on their own, as they do in the Netherlands and Sweden. Grenfell Towers may put pressure on government to provide additional funding but this is not likely, at least in the near future, to be to expand the stock. Rather the incentive will be for associations and local authorities to increase their market involvement. There may well be disconnects in government, not only between worry about increased market risks and pressure on associations to expand, but also between improving existing social housing and adding to total supply.

The aftermath of Grenfell

The disastrous Grenfell Tower fire in June 2017, which killed at least 80 people, shook the country and turned the spotlight on social rented housing. Critics have focused on the Tory-controlled local authority as owner of the building, alleging that cost-cutting combined with indifference to the living conditions of social tenants created lethal conditions at the tower. The landlords (in this case Kensington & Chelsea Tenant Management Organisation) were characterised as evil, unprincipled, incompetent; the leader of the council and various of its officers and members resigned, and there is now an inquiry into how and why the fire started and whether any of the organisations involved bear criminal responsibility.

Much discussion has centred on the role of the council, with some arguing that local party politics were at fault. The debate has not (yet) led to similar accusations against housing associations, which are generally seen as non-political. However there is no room for complacency: as landlords housing associations carry out many of the same functions as local authorities. They allocate homes to tenants, and maintain and improve those homes within the constraints of their budgets. Many associations used the same cladding system as Grenfell Tower, and it may just be happenstance that a disaster did not occur elsewhere.

It is still early days but the fire will clearly have long-lasting and broad implications for social landlords and high-rise construction generally. The re-examination of procedures and organisations—indeed perhaps the rethinking of the ethos of social housing—could lead to major changes. Possibilities include the following (the list is not exhaustive):

- o Urgent removal of similar cladding systems (this is already happening)
- o Retrofitting of sprinkler systems in buildings built before they were required; installation of secondary escape routes (e.g. external stairs)
- o More frequent and rigorous inspections
- o Revision of allocation procedures for tall buildings, perhaps excluding households with small children and/or people with mobility difficulties
- o More demanding safety standards for future buildings
- o A change in demand as tenants reject high-rise housing
- o Requirement for more tenant involvement in management

“Trust and reputation are a big risk for the sector.”

Senior government official

Help to Buy

Currently the Help to Buy Equity Loan Scheme accounts for more than 30% of the new-build market (and even more in 2016). The scheme, which has been running since 2013, provides a five-year interest-free loan of up to 15% of the value of the dwelling. The price ceiling of £600,000 means it encompasses the whole new-build market in many areas outside London and the South East. The scheme impacts heavily on both demand and supply. It is currently in place to end by 2020 although there is detailed discussion around maintaining it in some form into the future as it is so embedded in the market.

Help to Buy affects social landlords in three ways:

- it provides an owner-occupation alternative to shared ownership so can reduce demand for some types of housing association homes. This is not thought to be a major issue for most associations;
- for those associations involved in development, Help to Buy expands the range of potential purchasers for their products and enables another form of affordable housing; BUT
- if the scheme were to be run down it would heavily impact the confidence of both households and developers, and could result on much lower levels of activity with possible downward pressure on house prices. This would negatively affect those associations that now develop but could offer opportunities for others to enter the market during the adjustment period.

'Voluntary' right to buy (VRTB) and sales of high-value voids

The 2015 Housing and Planning Act, which became law in May 2016 despite bitter and determined opposition in both houses of Parliament, heralded several major changes. The implicit goals of the law with regard to social housing (the Act covers other areas as well) were:

- to increase targeting
- to enable more tenants to buy their homes
- gradually to reduce the amount of social housing in high-cost areas and increase provision in cheaper neighbourhoods. In part this was to be done by emphasising development by associations which develop over wider areas.

The Act contains general outlines of several new policies, the most important of which are summarised below. The policies do not take effect until Parliament adopts implementing regulations, which in some cases also contain details of how exactly the policies will work. Although the Act received Royal Assent more than a year ago, implementing regulations have not been forthcoming for some of the main policies, and the government has explicitly abandoned one of them: in November 2016, the housing minister said the pay-to-stay policy of higher rents for higher-income households would not be implemented.

The government's original intention was to legislate to extend the right to buy, afforded to council tenants in 1980, to tenants of housing associations. The major associations wanted to avoid this legal obligation so in a bid to preserve their independence they negotiated a 'voluntary agreement' (National Housing Federation undated) to offer tenants the opportunity to buy their dwellings at the same discounts available to local authority tenants, which can reach up to £103,900 in London. Associations were not bound to sell tenants the units they lived in, but could offer a 'portable' discount on other properties. They would retain receipts to help fund new homes. The agreement stated that for every dwelling sold, a new social or affordable unit will be built. The replacements would not necessarily be the same size, dwelling type, or in the same area as the unit sold, nor would they necessarily be let at social rents.

Five associations piloted VRTB in 2016, and a further one-year regional test is due to look particularly at one-for-one replacement and portability, which were not tested in 2016 (Wilson & Barton 2017). The sector expected the pilot to run in 2017/18, but as of mid-September 2017 no details had been forthcoming from government about the pilot region or eligibility criteria for tenants. Full national roll-out of the policy could not therefore happen until late 2018 at the earliest. There are also doubts about whether all associations will participate. Of 602 members of the National Housing Federation only 54% voted in favour (although they own more than 90% of housing association stock), and as the scheme is voluntary the government cannot sanction associations who refuse to comply.

VRTB goes hand in hand with the sale of high-value council homes, as the latter were meant to pay for the former - although this is no longer formally the case. Housing associations selling homes at a discount under the voluntary right-to-buy (VRTB) will lose money on each sale. The Act provides a mechanism to compensate them. Local authorities are expected to sell 'high-value' council homes when they become vacant and transfer the receipts to government, which will use them to pay associations the difference between the market value and the discounted sales price of VRTB stock. The definition of 'high value' is expected to vary by region and perhaps by local authority but regulations have not appeared.

If implemented, the changes will reduce the amount of social housing available in the short and medium term. The Act requires that each social home sold be replaced by a new affordable home (two in London). If this does happen then over the long term the social stock will regain its previous level or even exceed it, but there will almost inevitably be an overall reduction in inner London. In the long term, the provisions could increase the overall amount of social housing nationally, although this would take many years. However history gives grounds for pessimism about one-for-one replacement: it has been a goal for some years that councils should replace every home sold under Right to Buy, but in fact the number of new homes never matched the number sold let alone exceeded it.

The view in the sector now is that both policies may be quietly dropped, in part because the aftermath of the Grenfell Tower fire is consuming so much of officials' and ministers' time. The delay may also reflect a rethink about whether the policies are desirable or sustainable. Even so, there has been no official disavowal of these provisions of the Act and right to buy for housing association tenants was a manifesto commitment. Social landlords must therefore plan for (slow/partial) implementation of the new policies at some indefinite point in the future, while allowing for the possibility that business as usual will continue for some time.

The welfare regime

The welfare challenges are very immediate and very obvious. First, the four-year freeze on many welfare payments, together with LHA levels that are well below market levels, mean many tenants will have to contribute towards their rent (which has associated administrative costs). Some will simply not be able to pay without very significant distress. The reduction in the welfare cap is already hitting families with three or more children. Secondly, constraints on housing benefit for under-35s are penalising some needy households, even though those with particular problems are excluded. Finally, with the roll-out of Universal Credit (which is paid to the tenant rather than the landlord) associations will clearly face major challenges in collecting rent.

We heard that some housing associations are now refusing local-authority nominations because the welfare changes mean the households will simply be unable to pay the rent. This, together with associations gradually withdrawing from social care, means that their tenant base will gradually become somewhat more affluent, leaving the neediest to be accommodated in council housing. This is already the pattern across much of Europe.

All of these factors make both tenants and associations less resilient, yet there is very little will in any of the political parties to modify the welfare regime. Together with rents, welfare changes will have major impacts on the shape of the sector and on outcomes for individual housing associations.

“The sector will probably drift upmarket - not intentionally but because that’s the way the incentives line up.”

Senior government official

The organisation of the sector

The sector faces serious uncertainties around its legal status. The government intends to ensure that it is re-classified as private, but at the same time wants to keep control of core decisions such as rents.

However the most important issues here are probably to do with merger and diversification. Many in the sector think they have great potential to rationalise costs, to use associations' existing capital base more effectively and to encourage innovation. But much of the more general evidence on mergers suggests that they rarely pay for themselves, at least in the short to medium term.

The attitudes of financial institutions and ratings agencies are key. Government policy changes, together with a series of mergers and acquisitions, are beginning to have important effects on the sector's ratings and potentially on the interest rates at which associations can borrow. The City is starting to be concerned that some associations are overextended, and merged associations could find their borrowing too concentrated with a few lenders. The mix of funding sources is likely to change significantly over the next few years, especially if associations continue to increase their role in market rented products. Some can be expected to look to equity providers.

The issues around diversification are similar. If associations diversify into areas where they have little experience they are unlikely to be able to compete effectively; if the diversification is too closely related (as with market housing) it increases risks.

“Concentration risk rather than regulation will limit expansion at the top end.”

Financial official

“Most of the accounts suggest that returns on market development and other activities are lower and the risks are higher - so why don't associations stick with the core?”

Major investor

“Development is sexy and glamorous but management is not. That's a danger!”

Former government minister

Building for the market can create a Janus-faced organisation with two very different cultures: one that looks to the needs of the poorest in society while the other builds for often affluent owner-occupiers (see for example the recent Financial Times article [Evans 2017]). The CEO of one large association told us his organisation has more higher-income private 'customers' than low-income social ones.

Finally, it is perhaps appropriate to look to what has happened in the Netherlands (see next page), where housing associations now pay a high new levy to central government, and regulations to separate their social and private activities, and even to constrain the activities they can undertake, have been strengthened. If English housing associations came under increasing financial stress, or faced allegations of misuse of charitable status or evidence of mismanagement or consumer dissatisfaction, similar rules could well be put in place here.

“British housing associations seem to be in a pre-parliamentary inquiry stage now. Travelling back in time to the Netherlands in 2007.”

Dutch housing expert

Housing associations in the Netherlands: An object lesson

Dutch housing associations own 30% of the country's housing stock. Social housing in the Netherlands has long been considered an international benchmark, providing well-managed, high-quality homes on genuinely mixed-income developments.

In the last decades though the image of the sector has suffered, the rules about permissible activities have been tightened, and the sector is much more heavily taxed.

There were two main reasons for this: one financial, one to do with EU law. In 1995 the financial ties between Dutch housing associations and government were severed: associations' existing debts to government were written off and they received a one-off payment representing the present value of future subsidy streams. Associations used their newfound wealth to improve existing housing and develop new homes. They were active across the housing market, buying and selling existing housing and building homes for owner occupiers and market rent. This hybrid, cross-subsidising model was a deliberate goal of both national government and (most) housing associations.

However a highly visible minority of large associations also branched out into much more risky activities, leading to public scandals (e.g. Vestia was brought down by speculation in derivatives; the Maserati-driving CEO of Rochdale was convicted of bribery).

A parliamentary enquiry into the activities of housing associations concluded that some associations 'lacked a moral compass' and recommended the government exercise stronger control over their activities. It also recommended increasing the role of tenants and limiting the size of associations.

EU rules have also had an effect. Social housing in the Netherlands was traditionally considered a mainstream choice, and it was a matter of policy and indeed national pride that middle-income families were content to live in the sector. However in the early 2000s the European Court of Justice looked at the social housing sectors of Sweden and the Netherlands. The court ruled that under EU competition law, associations in these countries were competing unfairly with private landlords, and decreed that only tenants with low incomes should be accommodated in housing that benefited from state support.

In 2011 the government set an income ceiling for housing-association tenants, and the Housing Act of 2015 required associations to separate their social and commercial activities. This made it almost impossible for them to continue building owner-occupied or market-rented housing, and eliminated any possibility of cross subsidy from market to social activities.

Finally, in 2013 the government imposed a 'landlord levy' on all owners of dwellings renting for less than €711/month. This levy, which is purely a revenue-raising measure to address the Dutch budget deficit, is expected to raise €2 billion in 2018. Some 85-90% will be paid by housing associations. In effect then subsidy is now flowing from housing associations to government rather than the other way around (van der Veer 2017).



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Opportunities

Much of the country suffers from serious housing affordability problems which can only be solved in the long term by building more homes - in particular more genuinely affordable homes - and by maintaining and improving what we already have.

Associations are the obvious providers of affordable housing in many areas but at the same time they are increasingly working with other major stakeholders, notably local authorities and developers, to provide places that people of all types and incomes want to live and residential environments that are more than just accommodation. As a group they carry out a vital quasi-public function which comes significantly from their long-term commitment to the areas they work in.

Working with public landowners

There are opportunities for associations to work more closely with public landowners. Relying on S106 to generate affordable homes has disadvantages. The number and location of new low-cost homes depends on decisions by private developers and therefore on market cycles, and while all major developments by housebuilders produce a proportion of affordable homes, most of the new housing is sold at market price. To produce more concentrated amounts of affordable housing, associations can work with the public sector to build developments that are mostly or entirely affordable. Each partner would bring something to the table: local authorities or other public bodies would contribute land at below market value, and housing associations would bring the development expertise that most councils have long since lost. This is now beginning to happen—for example the Mayor of London recently sold a seven-acre site in north London to Catalyst and Swan housing associations to build an all-affordable scheme of 330 shared-ownership homes.

Improving links between health and social care, and improving housing conditions

There are opportunities for associations to work more effectively with other service providers. The most obvious linkage is with the NHS, providing move-on accommodation for those ready to leave hospital and possibly playing a broader role in rehabilitation and health maintenance services as is done in many European countries. There is also very considerable potential for housing associations to partner with NHS foundation trusts who wish to develop their own land to provide affordable and market housing for employees and the wider community.

As our population ages, a core issue for the whole society is how social care can best be provided and funded, and how to link it seamlessly with medical services, hospitals and indeed hospices. Associations are well placed to act not just as place makers but as leaders in integrated service provision. They could concentrate on delivering both care and physical improvements in the home (including adaptations and accessibility not just within their own stock but also through linkages with other agencies that provide improvements) which could help to reduce bed-blocking and prevent repeated visits to hospital and doctors. They could also sell their services to other landlords and providers.

There are two main difficulties here. First, the scale of health-sector need is so great that it dwarfs the ability of any individual housing association to provide. We were told about a medium-sized housing association that was proud to have produced six move-on flats for patients coming out of hospital—but the local hospital, with a throughput of thousands of patients a day, needed hundreds of such flats or indeed a hotel or two. Second, budget holders often make decisions based on the financial interests of their own organisations rather than the public sector as a whole. We heard about local authorities that refused to fund patients' rent in move-on units as it was higher than LHA, meaning the patients remained in hospital. This was cheaper for the local authority but much more costly for the public sector overall, as the NHS continued to pay for hospital care. The experiment taking place in Manchester, where the local authority controls the budgets for both social and medical care, should lead to a more rational system. This could be adopted by other combined authorities such as Cambridge & Peterborough but it may be many years before it becomes more widespread.

It is obvious from discussions that there is a multiplicity of opportunities, but also challenges in terms of availability of subsidy and finance. Most importantly any diversification opportunity should only be carried forward if it is clear there is comparative advantage and the capacity to keep costs under control.

Building, owning and managing private rented stock

Policy emphasis now is almost all on new build and the role associations can play in adding to the existing stock, which works well for a subset of associations. But although renting is becoming the majority tenure in London and some metropolitan areas, and indeed is growing across the country, relatively little attention has been paid to associations as providers of all types of rental properties. These range from traditional social housing through affordable and intermediate rents to full market, even luxury high-end rental dwellings.

The skills required for running market rented housing are somewhat different from those for social housing, but there are lessons to be learned in both directions. These include the understanding that each 'unit' is someone's home, that management should provide services that tenants value, and that good-quality responsive management and effective cost control have major long-term benefits.

“PRS tenants are not so different from social tenants and we need to develop more housing for this portion of the population. It is really important to create mixed communities and not to provide housing only for the two ends of the spectrum.”

Officer, major national housing association

In some contexts, mixing social, intermediate and market rental can be a way for associations to stabilise revenue streams. It is also in line with government's wish to build a stronger professional management ethos.

Techno transformations

It is a truism that technology has changed most things over the last few decades, and that the pace of change is accelerating. The challenge for housing associations is to understand how best to benefit from technological change and where to look for opportunities: the spectrum of innovation is very broad, but association boards and officers have limited time and, often, expertise. There are three areas that are sure to be relevant: digital working, artificial intelligence (AI) and modern methods of construction (MMC).

Digital working

Many associations both big and small have customer websites and/or apps where tenants can pay rent, request repairs etc. The move to digital appears mainly to reflect associations' desire to cut costs and increase efficiency (which is no bad thing) rather than a groundswell of tenant demand. Indeed, associations recognise that many tenants, especially in older age groups, are uncomfortable or entirely unfamiliar with online interactions and several (e.g. Peabody) offer digital inclusion training for their tenants. Over the next few decades the proportion of digitally illiterate tenants will shrink, but the move to less-expensive and more flexible digital working will probably be more gradual than associations would like.

“Housing associations have a different skill set from market landlords, so it's better to stick to what we know.”

Officer, small housing association

“It is better to be digital by choice, not by default. Some people can use online tools and others can't.”

Interviewee, major national housing association

Artificial intelligence

Artificial intelligence could potentially transform housing associations' ways of working but as yet there is no clarity about the specific ways in which this transformation might manifest itself.

There are two areas with well-advanced AI applications that could change the way housing associations work: self-driving cars and social care. At the moment self-driving cars are the most developed application, and offer the clearest possibilities. Self-driving transport could improve connectivity in outlying developments, and improve accessibility for mobility-challenged people in urban areas. Individual car use could be discouraged or prohibited in both existing and new developments in favour of a much smaller fleet of self-driving cars that would serve the residents. This would allow repurposing of car-parking space in existing schemes. Ground-floor areas could be landscaped and turned into play areas, exercise parks or allotments, while underground car parking could be converted into generous on-site storage units for each flat, or working/commercial space if daylight is sufficient.

Social housing estates are an ideal test-bed for these ideas, as it makes sense for the cars to serve a compact area with an overarching organisation (the social landlord) to provide the docking spaces for the cars, set protocols for their use, train residents, disseminate information and pay the initial capital costs. There would need to be full buy-in from tenants as co-designers of the schemes, perhaps initially by soliciting 'sustainability pioneers' to live in testbed new developments.

In terms of social care, researchers have lately been looking at the potential for using 'companion robots' (which may be designed to resemble baby animals or children) in care homes for older people (Dautenhan et al 2015; Klein 2016). The goal is often to enable social interaction, either between the resident and the robot itself or to facilitate residents' social interaction with each other. They do not supplant human caregivers but allow them to focus on other tasks, and could be particularly suitable for use with residents who, for example, have dementia or are aggressive. However these innovations are still in the experimental stages and therefore very costly. More importantly, scientists and care providers alike must grapple with serious ethical issues around using machines rather than human beings to care for vulnerable people (Vandemeulebroucke, 2017). Housing associations that do provide care are well placed to work with scientists in piloting these technologies and developing an understanding of when, and if, their use is appropriate. However it is unlikely that non-specialist housing associations will be in the forefront here.

Predicting how associations will use AI "is like trying to predict what websites would eventually exist in a pre-internet age. All we really know is that smarter and cheaper AI will change a lot."

University researcher in artificial intelligence

Modern methods of construction

The term modern methods of construction or MMC (see next page) generally refers to offsite, factory-based building products. They range from self-contained pods (e.g. bathrooms) or subassemblies used in otherwise traditional constructions, all the way to complete factory-made homes. The main advantage of so-called volumetric construction is certainty about time. The method is not necessarily cheaper than traditional techniques, but is both faster (and therefore less disruptive to neighbours) and more predictable: the process is much less subject to the vagaries of the weather, and the fact that all features and finishes must be designed in from the outset means there is less danger of costly last-minute modifications.

The perception that 'prefab' buildings are necessarily substandard has changed. In the last few years there had been a paradigm shift, and the finance and insurance sectors now generally accept that these buildings are of equal quality to those of traditional construction. Indeed it is often difficult to identify the construction method, as different combinations of box size and shape, arrangement and surface finish can produce a huge range of designs, many of which could easily be mistaken for standard construction. Even so, the techniques have not yet been fully incorporated into routine building practice: the method of design affects the valuation of these buildings, and building standards are not coherent.

The modular market is booming, and big names such as Berkeley Homes and Legal and General are investing in factories for volumetric housing. Fewer social landlords have been among the early adopters. Recent research showed that housing associations were less likely to have used MMC than house builders, partly because they did not always choose the method of construction used: they often acquired new homes through S106 agreements, or used design-and-build contracts if they commissioned their own (Lychgate Projects 2016).

Some housing associations are now becoming involved. Billericay-based Swan Housing Group and West Midlands-based Accord, for example, have both set up modular factories in the last few years. To run at an efficient level the factories depend on a steady pipeline of orders, and Swan is therefore hoping to interest other housing associations in partnering with it.

MMC: Leaving behind the 'prefab' image

Wembley is known for football and for the stadium's iconic arch, but there's something else distinctive about the neighbourhood: it is home to a growing cluster of buildings built using modular pre-fabrication techniques.

Not far from the stadium is 29-storey Apex Tower, the tallest modular building in Europe at over 90 meters high. It opened its doors in September of this year as a 580-bed student residence run by private operator Scape. Remarkably, it took only twelve months from planning permission to completion, and the construction process proper lasted less than nine.

Steel-framed 'boxes' were assembled offsite in a factory and arrived complete with electrical outlets, bathrooms, decoration and even built-in furniture. The units were assembled 'like Lego bricks' around a concrete core that houses the lifts and emergency exits. The assembly process was very quick, adding up to 60 boxes per week. The job required relatively few workers but they were highly skilled as the tolerances were so fine: only 1.5 cm separates the

units in the final building. The steel walls of the boxes are load-bearing, and with appropriate modifications the technique could be used to build towers up to 40 storeys tall (LSE London 2017).

While steel frames are ideal for tall buildings, timber-framed buildings are more suitable in many situations and can also be produced using offsite methods. Rogers Stirk's prize-winning PLACE Ladywell, which provides temporary accommodation for 24 homeless families in Lewisham, is one high-profile example. The timber-framed units were built in a Leicestershire factory and brought to the site by special low-clearance lorries—the maximum unit size was determined by the height of the south London railway bridges en route. The scheme occupies a piece of local-authority land that will eventually have another use, so while the building looks like a permanent one the pods can in fact be repeatedly dismantled and 'redeployed' elsewhere (LSE London 2016).

Scale and structure

The sector is experiencing a spate of mergers, almost all amongst the largest associations. Medium-sized and smaller associations often have less incentive to merge and the regulator is neutral, recognising that associations of any size, if properly run, can be cost effective. Even so, there are clearly economies of scale for certain housing association activities. For more diversified organisations there can be real benefits (both to the associations themselves and the sector overall) if a new, merged body is the optimal size for the business(es) it runs. Associations should look at potential partners if there are both synergies and cost reduction potential for their particular organisations. Whether or not a merger makes sense depends on the specifics of the associations concerned. There is absolutely no benefit in mergers for their own sake.



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Some possible scenarios

The evidence presented here and elsewhere suggests that the future environment in which housing associations will be working will be much tougher than in past decades, even though the need for high quality affordable housing is increasing for a wide range of household groups.

What will 'tougher' mean in practice? Scenarios can be helpful to focus thinking. On the basis of our research, and of discussions with senior government and housing association figures, we have identified the main factors that will affect the sector over the next five to ten years. Some are economic: overall growth, inflation and interest rates. Some are to do with government regulation (an area where prediction has been notoriously difficult over the last few years): the future trajectory of rents, rules around associations' commercial activities. And some reflect the wider technological and social context: digital working and artificial intelligence, attitudes to social housing.

For each of these factors we have set out three plausible directions—one that is broadly positive for housing associations, one that represents a continuation of the current trend, and one that is more challenging. This 'scenario builder' tool is shown on the next page, followed by three possible scenarios each based on the conditions in a single row. Of course it would be equally possible to combine conditions from two or indeed all three rows.

Scenario builder

	A	B	C
Macro-economy	1-2% growth, incomes of lower-income households increase in real terms; interest rates up 1% and inflation stabilised	1% growth; real incomes of lower income households at best constant; interest rates constant (or possibly up a bit), inflation rising because of Brexit	0 growth; average real incomes constant but falling for lower income households; interest rates pushed up to address Brexit; inflation rising less fast
Welfare regime	Payments rise with CPI and caps rise with incomes	4-year hiatus maintained then rises with CPI; caps held in money terms	Welfare payments rise with CPI but additional eligibility constraints are imposed. Caps held in money terms. Lenders increasingly concerned about HA rent arrears under Universal Credit.
Rents	CPI + 1% + upgrading costs	CPI	CPI - 0.5%
Regulation	Reclassification of HAs as private organisations is smooth. New system of regulation works efficiently.	Reclassification somewhat delayed. Continuing modifications to system in response to events.	Increased regulation to address risks associated with non-core activities. Once again an agreed rent settlement is subsequently changed.
Property market	Fairly soft landing from economic and policy change so HAs can maintain or even expand market activities. They become more involved in market rent.	Some decline in housing market but not enough to put major players into significant difficulties. None requires rescue but costs of capital rise with apparent higher risks. Some concerns about shared ownership market.	Property market declines particularly in London and at least one major HA runs into trouble. Many make losses on some of their activities; retrenchment. Finger-pointing on HA boards; resignations.
AI/digital working	A move to digital working across the organisation reduces costs by up to 10% and increases customer satisfaction. AI enables a paradigm shift across many areas of the business.	Digital working improves responsiveness though some tenants refuse to engage. AI solutions prove difficult to implement in practice except for fairly basic, repetitive tasks.	Ambitious programmes to adopt digital and AI go over budget and over time, per NHS Digital. Promised cost and efficiency savings do not appear and tenants feel alienated.
Public/government attitudes	A renewed public and government awareness that social and affordable housing is truly important	Social housing and social landlords seen as providing a necessary but residual service	Suspicion of social landlords post-Grenfell

Three possible scenarios

Scenario 1: Housing associations as trusted partners

- The economy is growing by up to 2%. Rents are allowed to rise by CPI plus 1% or even more if housing associations carry out desired improvements to the fabric of buildings (as in Germany), e.g. improving fire protection and energy efficiency
- The aftermath of the Grenfell Tower disaster leads to a refocus of architectural, engineering and policy attention on social housing, and a flowering of ideas
- After some successful early adopters demonstrate the potential, local authorities increasingly approach housing associations to offer to partner with them for building new homes on public land, in effect replacing the subsidy lost by the long-term decline in government grant
- Groups of forward-thinking associations set up modular factories in several regions. Architects are keen to explore the technical possibilities and the sector produces some striking new schemes
- AI revolutionises some other aspects of the business: Self-driving vehicles replace tenants' private cars in both existing and new developments, enabling a repurposing of land previously dedicated to parking.

Scenario 2: Housing associations tread water

- The economy grows at a modest rate, but inflation begins to rise because of Brexit. The government allows rents to rise by CPI
- The housing market declines and there is concern among those associations that build for private sale, though most anticipated the fall and have prepared for it.
- Costs of capital rise with apparent higher risk, though the Bank rate remains low. Questions begin to be raised about the wisdom of mixing social and private activity
- Most associations begin to implement VRTB, albeit slowly. There are continuing problems with the compensation mechanism, as the high-value sales policy runs into practical difficulties and the government looks for another funding method.

Scenario 3: The sector is embattled

- In the aftermath of Grenfell the term 'social landlord' carries a strong stigma, and there is public distrust of and anger with housing associations. Tenants increasingly demand to be rehoused from tower blocks. Demolitions.
- The government limits rent rises to CPI - 0.5% 'in order to drive efficiency'
- Banks raise interest rates in response to Brexit and the fall in the pound leads to serious financial pressures at the more highly leveraged associations. A couple of the bigger, market-developing associations face problems selling their market stock into a declining housing market, and seek a bailout.
- The government requires associations to completely divide their market and social activities. Some of the market-only organisations fail, and their social counterparts must dramatically scale back new build.
- The requirement for more tenant involvement on boards brings in a cohort of activist members who demand a rethinking of strategy.

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Conclusions

In ten years' time England's social landlords will almost certainly face a more difficult environment than they have over the last ten years.

Government will be looking for the sector to stand alone to the extent possible, while the comfortable certainties of yesteryear - that all rent would be paid, that rents could be adjusted to cover costs, and that housing benefit would take the strain - are probably gone forever.

The sector is likely to be more diverse, with a few very large associations (not necessarily the ones we can identify now) owning say 50% of the housing association stock, and private organisations coming into parts of the market where they can see profit potential. Most of the very large organisations will be involved in developing all types of housing as well as commercial and mixed-use schemes. Management, particularly more responsive, tenant-centred management, may well be less of a priority. At the other extreme there may be 1,000+ small associations doing a good specialist job, often dependent on volunteers.

In between will be the medium to larger associations who often have strong local and regional ties and can provide a wider range of housing products and a larger range of services - as long as they manage their costs extremely carefully, maintain a clear focus, and continue to emphasise management quality and responsiveness. These associations will depend much more on technology than they do now, though many of the digital and AI innovations they will be using in 2027 have yet to be thought of. They will be expected to provide 24/7 services and communication with tenants at the same time as cutting costs. This means management must be light on its feet and highly responsive; something of a culture shift for a sector that has historically been somewhat conservative and paternalistic.

Medium-sized associations do have real strengths to draw on. These include meaningful involvement with local communities, not just in providing affordable homes but also in place making and in working with public land owners, developers, social and medical services, planners, support and information services and many others. They are in many ways the ideal collaborators. Which type of collaboration is most appropriate will depend on the time, place and organisation - but these are the associations that can best identify the possibilities and maintain the human face of social landlordism.

Two factors in particular may constrain associations. The first is the continued pressure to cut welfare support, which will make associations focus more on collecting rents and other revenues and on supporting tenants to manage their finances. This will include helping them access whatever support is available, including any provided by the association itself. The second factor is the changing system for funding social care and determining who can access it. The current system is broken and only some specialist associations can make it work financially. Yet it is one of THE challenges for the future and associations need to step up to suggest how it might be fixed, to take opportunities that are offered and to make their own opportunities in collaboration with other stakeholders.

Finally, in our discussions there was enormous concern that the English system might be moving towards what might be called the old European model, where housing associations accommodate better-off, easier-to-manage tenants while the poorest find themselves either in low-quality local authority housing or at the bottom of the private rented sector. The current incentive structure is pushing associations of all types and sizes in this direction, but they should fight to avoid it.

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Annex A: Social housing trends in England

Social housing is made up mainly of rented dwellings, owned by local authorities, housing associations and to a limited degree by non-charitable organisations. It is allocated administratively mainly to more vulnerable households (often as determined by local authorities) at rents that are below market levels. The distinctions between social and market landlords are blurring: social landlords increasingly provide other types of housing as well, both for owner-occupation and rent, while other types of landlord provide a growing range of affordable homes. Housing associations are non-profit organisations with clear mission statements. They aim mainly to provide below-market rental housing and shared ownership homes. They are also able to undertake a wide range of associated activities.

The changing face of social housing

The role of social housing has changed radically in the last 60 years, as has the public perception. In the mid-20th century social housing was seen as an integral part of the English housing and social-welfare system, providing good-quality homes for (mostly) lower income working households. The heyday of social housing construction was in the post war period. In 1950 local authorities built 87% of new homes in England, and throughout the 1960s and 1970s the proportion of new homes built by local authorities fluctuated around 40%. The sector continued to grow until 1979. Housing associations - mostly charities - were marginal players at least until 1974 when a subsidy regime was put in place that enabled them to build rented housing to be let at fair rents.

Fast forward 40 years and the situation has changed radically. Social housing made up 31% of England's housing stock in 1979 (DCLG LT 104) but by 2016 had shrunk to 17.3% - a reduction of 1.44 million units or around a quarter of the 1979 stock. Much of the reduction arose from council tenants exercising the Right to Buy, introduced by Conservative prime minister Margaret Thatcher from 1980. The original measure did not allow local authorities to replace the homes sold and revenues went directly to the Treasury. At the same time local authorities' capacity to borrow to build additional homes was constrained.

The Thatcher government strongly favoured private housing associations over public-sector landlords and in the 1980s tenants in each area were given a vote on whether local authority stock should be transferred to a new housing association (usually through a debt-financed management buyout). Local authorities now own only a minority of the social housing stock: there are 1.6 million council houses vs 2.5 million housing association homes, and almost all new construction has been by housing associations. This position is now changing, at least in principle, as local authorities are increasingly able to build both market and consequentially affordable homes.

In the first decades of the post war period, new council housing represented an undoubted improvement for most residents in terms of space, facilities and condition. More than just acceptable, for many it was aspirational. However this position changed in the 1970s and 1980s as mortgages became more accessible to most working households and incomes, and housing aspirations rose. This shifted the demographic balance more towards vulnerable household and those not in the labour force, at the same time as inflation and rent controls made it more difficult to maintain and improve the social housing stock. Social and physical problems arose and the tenure became associated in the public discourse with concentrations of poverty, worklessness and 'no-go' estates. Central government policies to introduce social and income mix and refurbish or replace substandard homes have transformed the quality of many social-housing neighbourhoods but public opinion has remained negative. A vocal lobby of social landlords, tenants, housing activists and politicians champions the value of social housing, but there is no broad-based public movement in support of the sector.

Figure 1: Household types among social tenants (simplified)

Source: English Housing Survey 2015/16

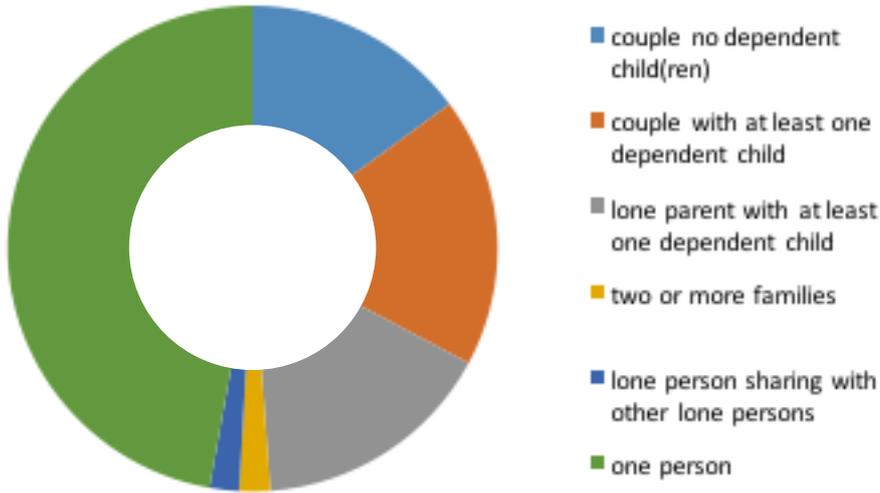


Figure 2: Proportion of social tenants by age cohort, 2003-04 - 2015-16

Source: English Housing Survey various years

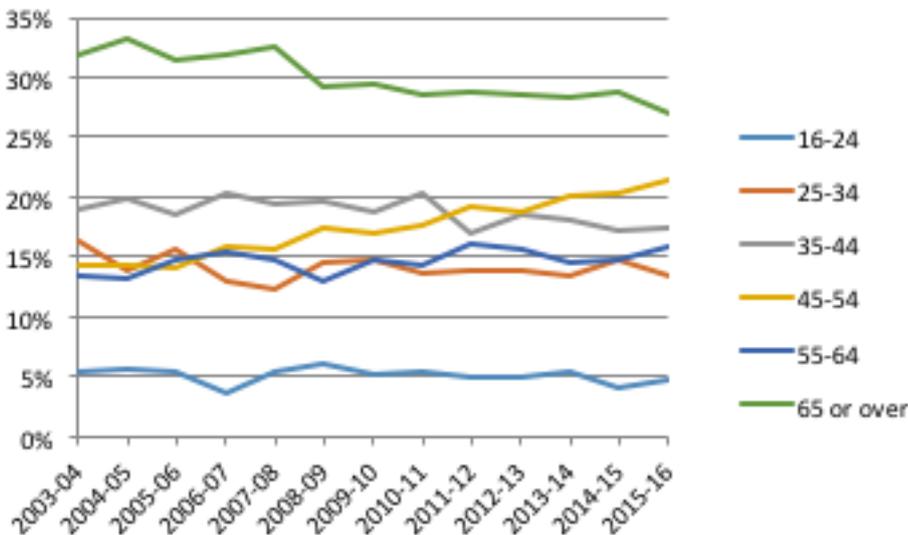


Figure 1 clearly shows how shows the very large proportion of single person households accommodated in the social rented sector. Many of these households moved in when new social construction was at its height and have grown old in the sector. However as Figure 2 shows, the proportion of older people declined quite considerably in the early part of the century, mirroring the effect of the Right to Buy in the 1980s and 90s. The current age structure reveals the growing importance of more vulnerable single households of (middle) working age.

The second-largest group is households with children. These were traditionally the focus of the social rented sector but the proportion of single-parent households (16%) is now almost equal to that of two-parent families (18%). Many of the couples without dependent children (15%) are older people whose children have left home.

On the supply side, the mix of tenure types and their spatial distribution within the portfolio of each association reflects the prevailing national policy and subsidy regimes at the time of the homes' construction. Few housing associations have complete freedom to determine their tenure mix as they operate within the constraints of current policy, especially when building new homes. Housing from the 1960s often takes the form of single-tenure estates let at low social rents (many of which were originally built by local authorities and later transferred to housing-association ownership). Newer affordable housing is usually in mixed-tenure schemes, and the affordable element is split between social and other types of affordable.

In recent years the discussion about England's 'housing crisis' has focused not on the social sector but rather on affordability and access in the private market. The main issues have been the difficulties faced by would-be first-time buyers, and high rents and insecurity of tenure in the private rented sector. The debate has been about how to increase housing supply generally; about whether longer PRS tenancies are a good idea; about how to encourage older people to downsize. Social housing is seen as mostly irrelevant for working households needing a home in higher-cost areas: the social stock is shrinking and its tenants have relatively strong tenure security, so access to social housing for new households is difficult in most parts of the country—indeed close to impossible in many areas. When there are vacancies these must often go to homeless and vulnerable people.

Since the GFC, successive governments have brought forward a steady stream of housing-policy initiatives, strategies, plans and schemes. Most are designed to address the cost of housing in Southern England, and have reflected strong political support for owner occupation. There are three main approaches:

- stimulating housing construction;
- helping first-time buyers purchase new homes; and
- increasing provision of 'affordable' housing (see below).

Funding social housing

After 1945 and until the 1970s the development of new local authority homes was funded by a mix of central-government-provided revenue subsidies and local taxation. From 1974 government also subsidised housing associations to build new homes, initially by a residual grant (taking account of rental revenues). In 1979 the government constrained local authorities' rights to subsidise social housing and at the same time limited their capacity to borrow. They also introduced a new capital grant regime for housing associations, making them the only providers of new social housing.

In 1988 a new public-private funding regime was established. Housing associations competed for capital grants, which were supplemented by debt finance from banks and the wholesale market. The amount of grant has varied over time with economic and political circumstances (funding increased in the early 1990s and again after the financial crisis) but has generally been on a downward trend.

A new source of funding appeared in 1990 with the passage of the Town and Country Planning Act. This defined affordable housing as a 'material consideration' in planning, and under S106 of the Act local authorities could require developers to include a proportion of social housing (or sometimes a financial contribution) as a condition of permission to build larger residential schemes. In 2015/6, 39% of all new affordable housing (including shared ownership) and 47% of new social rented housing was built using this approach (sometimes also with additional subsidy). These S106 units are then generally transferred to housing associations. New social housing is now significantly a by-product of market development; looked at another way it is funded not only by government but also by a tax on developers and landowners.

The other major source of funding is the capital markets. Most housing associations have strong balance sheets, so can borrow at very low interest rates. In 2010 the coalition government introduced a new Affordable Rents regime, under which associations could set rents on new housing, or new leases of existing housing, at up to 80% of market rates. They could use the additional finance raised from these higher rents to reinvest in the Affordable Rents programme, to develop other types of affordable housing (including social housing with lower rents and shared ownership) or to improve existing units. The objective of the new regime was to provide a mechanism by which affordable housing output could be maintained without large-scale capital grant. In that it has been successful, generating more dwellings per unit of subsidy in each round.

The government has challenged associations to use their capital base more effectively to increase overall house building and provide for a wider range of customers. This has led to a change in traditional business models, with several (mainly larger) housing associations becoming more commercial and market-facing. A few such associations have 'profits' from market sales and revenues from market-rented properties that outweigh government grants and even in some cases rental income.

In recent years banks have been willing to lend at low interest rates to housing associations: their reliable rental streams have increased by more than the rate of inflation, and they have enjoyed an implicit government guarantee through housing benefit. However in 2015 the government announced that all social landlords had to cut rents on all their properties by 1% per annum for four years to increase affordability and reduce the housing benefit bill. (Some 63% of social tenants now receive housing benefit, according to the English Housing Survey 2014/15, and the majority of association rental revenue has come from government.) For new tenancies, social rents were also capped at the level of the local housing allowance specified for the private rented sector. This adversely affected associations' cash flow and potentially impacted on financial-market confidence, although it has not yet demonstrably limited their ability to borrow to build new homes. The government is expected to set out the post-2020 rent regime later in the year, and it is hoped this will enable associations to raise rents at least enough to offset inflation (Housing White Paper 2017).

The regulatory framework

The strategies and operations of English social landlords are subject to strong government control: regulations channel and constrain their activities in myriad ways. Central government dictates how social rents are set, how councils may spend rent receipts, and what types of leases must be used. For local authorities, this degree of control is a given—as creations of Parliament they can only carry out those activities that Parliament permits, in housing as in any other field. In the social housing context they are heavily constrained by their limited capacity to borrow within the Housing Revenue Account. However their financial framework now allows them to set up development companies and joint ventures that can help support affordable housing provision.

Housing associations by contrast are in principle private bodies, but the degree of government control over their activities led the Office of National Statistics to reclassify them in 2015 as public-sector organisations. Their substantial debts now appear on the public-sector debt totals. The government is keen to reverse this, and has reiterated 'its position that housing associations belong in the private sector and we are committed to implementing the necessary deregulatory measures to allow them to be classified as private sector bodies' (Housing White Paper 2017). On the other hand, housing associations enjoy operational freedom outside the social housing sphere subject only to their charitable and mission status.

Housing associations are regulated by the Homes and Communities Agency (HCA). The regulation enforces standards in seven areas - three are 'economic' (governance and financial viability, value for money and rent) and four relate to consumer experience (tenant involvement and empowerment, home standards, tenancies and neighbourhoods and communities). Because associations are non-profit, their surpluses from rent or commercial activities are ploughed back into the acquisition and maintenance of property rather than distributed to shareholders.

In terms of structure and aims there is very wide variation within the 1700+ associations in the sector. Housing associations may or may not be registered charities (most are), and they may or may not be geared towards assisting particular social groups (older people, the disabled). There is also a fundamental split between those associations that develop, and those that own and operate existing homes but do not build new ones. Smaller organisations tend to provide a more social product than bigger ones. Some of the challenges we describe impact on both types equally but this document focuses on questions affecting the major, developing associations.

In recent decades there has been an overall decline in the amount of social housing available and many changes in the way it is provided and funded. There have also been very significant shifts towards accommodating those at the lower end of the income scale, as well as more vulnerable households who may require additional support - in 2015/16 the English Housing Survey found 45% of social tenants were in the lowest income quintile, while 20% were economically inactive for reasons other than retirement. There is now general under-provision for two big groups: those with similar characteristics to social tenants but who cannot access social housing because of the shortage of stock, especially in high-demand areas; and working-age households who can afford more than social rents but cannot afford market housing. Both of these gaps are being filled by the private rented sector often with the help of housing benefit.

Over the last few decades many associations have become strongly business oriented while maintaining their charitable and philanthropic status. Housing associations are major builders of market-priced for-sale homes, and many partner with commercial developers on large urban regeneration projects. Equally they are involved in Build to Rent and other projects that provide market rented housing. They are therefore playing an increasingly important role in the overall housing market.

Defining and redefining social and 'affordable' housing

The definition of social housing has evolved over the decades. In the 1940s to the 1960s it was rented housing provided by local authorities at cost rents, mainly to working households and to those escaping inadequate housing conditions. In the 1970s and 1980s the introduction of housing benefit (which was available to all eligible tenants) and financial pressures meant rent regimes became more market oriented and the range of providers was extended to include subsidised housing associations. New tenures were added to the simple trio of social rental, private rental and owner occupation; these included intermediate rent, shared ownership, and certain incentive schemes to help people into owner-occupation.

With the introduction of S106 in 1990, policy discussions more often centred on 'affordable' housing; in the 2000s the term 'social housing' has technically applied only to housing let at target rents set by central government. But although almost all social housing is affordable (average social rents are about 50% of market), not all 'affordable' housing is. Officially, 'affordable housing' includes low-cost owner occupation (e.g. shared ownership and, soon, starter homes) and various types of submarket rental (e.g. discounted market rent, affordable rent [up to 80% of market rent]). These offer less security of tenure and have higher rents than traditional social housing. There are also various demand-side subsidies for first-time buyers, resulting in a burgeoning constellation of lower-cost housing 'products' that confuses even housing professionals. How the terms will be used in the future is yet to be determined.

Annex B: Visions, missions and activities of major housing associations: G15 + Flagship Group

(largest-smallest by number of home)

Name & number of homes	Macro-economy	Commercial activities	Care/support activities (see registrations with CQC)
Clarion (125,000–formed by merger of Affinity Sutton and Circle)	First and foremost, at its heart, Clarion Housing Group is a social landlord – we mix public and private money to provide affordable homes, overwhelmingly for people who can't meet their housing needs in the market.	Clarion subsidiaries include Latimer, which develops homes for market sale and private rent, utilising the revenue generated to fund our affordable rent and sale homes. Grange Management (Southern) Limited Property management company specialising in management of retirement freehold blocks and estates.	
L&Q (90,000)	Vision: Our vision is that everyone has a quality home they can afford. Mission: Our mission is to combine our social purpose and commercial drive to create homes and neighbourhoods you can be proud of.	We offer homes for both those looking for high quality new build homes, and those that want to own a home, but can't yet afford to do so. Only set up in-house maintenance service in 2016; before that used contractors.	Not prominent on website
Metropolitan (38,000)	The organisation's overarching plan and vision is to help its customers achieve the greatest possible levels of personal independence	Not prominent on website	We deliver care and support to customers with a wide range of needs, specialising in services for older people and for people with mental health issues and learning disabilities. We also deliver a wide range of shorter term services which provide customers with intensive support



Name & number of homes	Macro-economy	Commercial activities	Care/support activities (see registrations with CQC)
A2Dominion (36,130)	To improve people’s lives through quality homes and services.	<p>The Group offers high-quality sustainable homes for sale and shared ownership, available through its FABRICA by A2Dominion brand.</p> <p>It also provides affordable, private and social rented homes, student, key worker and temporary accommodation, as well as supported and sheltered housing.</p> <p>Pyramid Plus is the name of our asset management companies that provide services to the private, public and not-for-profit sectors.</p> <p>Formed in 2013, Pyramid Plus London LLP is a joint venture company with Breyer and Pyramid Plus South LLP is a joint venture company with Mitie. 150 employees. Services include general maintenance, responsive repairs, voids and facilities management and a 24-hour customer services centre. See http://pyramidplus.co.uk/our-services/</p>	
Genesis (33,000)	Creating and sustaining thriving communities	<p>No longer building new social homes; only other types of affordable/shared ownership and private sale.</p> <p>Maintenance contracted out to Kier, not in house</p>	<p>Genesis provides support and care to more than 5,500 people across London, Hertfordshire, Essex, Suffolk and Norfolk for customers who have a wide range of experiences and support needs. We provide a range of services to 4 core customer groups:</p> <ul style="list-style-type: none"> · older people · Those who have become homeless or have complex and multiple needs · people with a learning disability · people with mental health needs



Name & number of homes	Macro-economy	Commercial activities	Care/support activities (see registrations with CQC)
Notting Hill (32,000)	<p>Our mission: Notting Hill Housing exists to provide good quality homes for those who could not otherwise afford them.</p> <p>Our vision: To be London's leading housing organisation with residents who love where they live and staff who love where they work and what we do.</p>	<p>Whether you're looking to buy your perfect home or a space to run your business, we've got a range of properties to suit your needs. The profits we make are reinvested to develop additional housing to meet the needs of more people across London. Jan 2017 report to investors: no plans for building new social rented homes Overall target for development is 1,400 homes p.a. (250 Affordable Rent, 500 Shared Ownership, 350 Market Rent, 300 Market Sale).</p>	<p>In LB Hammersmith & Fulham, offers wellbeing services help individual older people to remain in their own homes.</p>
Peabody (29,000)	<p>We want to make London a city of opportunity for all by ensuring as many people as possible have:</p> <ul style="list-style-type: none"> · A good home... · A real sense of purpose... · A strong feeling of belonging.. 	<p>We also provide homes for market rent and outright sale to support the funding of affordable homes. Some commercial units are also included in our portfolio.</p> <p>repairs contracted out to a number of outside organisations—see http://www.peabody.org.uk/resident-services/all-about-repairs/who-we-work-with</p>	<p>A range of classes, activities, befriending schemes, digital training—but looks like no personal social care.</p>
AmicusHorizon (28,000)	<p>Our mission is making homes, helping people. We provide good quality, well managed homes, affordable to people on a range of incomes. We also help build communities by supporting residents into jobs and training. All our surpluses are invested in order to achieve our mission.</p>	<p>Shared ownership development—no obvious full-price market sale.</p>	<p>Shared ownership development—no obvious full-price market sale.</p>

Name & number of homes	Macro-economy	Commercial activities	Care/support activities (see registrations with CQC)
Family Mosaic (26,000– to merge with Peabody)	Improving health, wealth and wellbeing through housing	Not prominent on website	We provide care and support to over 8,000 people to help them live more independently.
Flagship Group (22,000)	Purpose: To provide homes for people in need Vision: To deliver homes our customers love	<p>We offer a range of house types and tenancies, including open market sales and private rented, all of a high standard in locations where people want to live.</p> <p>RFT was established in 2013 to deliver an in-house service for the Flagship Group. We are a facilities, maintenance and repairs specialist. We understand the challenges that affect you and tailor our services to suit you. We focus on efficiency, effectiveness and above all, doing things right – for you, your asset and your customer.</p>	No longer registered with Care Quality Commission
Catalyst (21,000)	To create a self-sustaining business, which uses commercial disciplines and profits to provide affordable homes, improve neighbourhoods and change lives.	<p>Catalyst by Design is our non-charitable subsidiary company which develops homes for private sale. We use the profits to cross-subsidise our charitable work.</p> <p>We can develop financial products, homeownership schemes and housing support services that offer practical solutions to local affordable housing needs</p>	<p>Community investment team focuses on:</p> <ul style="list-style-type: none"> · employment and skills · financial inclusion · families and young people · building the resources, strengths and skills of neighbourhoods and communities

Name & number of homes	Macro-economy	Commercial activities	Care/support activities (see registrations with CQC)
Network Homes (20,000) Formed by merger of four N London housing associations	To open up possibilities for as many people as we can, by continuing to grow a forward-thinking, service driven and financially strong organisation that builds, sells, rents and manages good homes in thriving communities.	We operate commercially but our profits are ploughed back into our ambitious development programme and we aim to build a further 3,000 homes by 2017.	Offers employment advice and support
Southern Housing Group (27,000)	A business with social objectives	Whether it's traditional council housing, shared ownership, affordable rent, private market rent, or outright sales, we offer a range of services to communities across the south east of England. Recently brought maintenance service in-house.	Offers care & support services on the Isle of Wight
East Thames (15,000 but now subsidiary of L&Q)	Our mission is to combine our social purpose and commercial drive to create homes and neighbourhoods we can be proud of	Building quality new homes in East London and Essex and improving neighbourhoods	East Thames delivers care and support services to people with a diverse range of support needs including older people, people with learning disabilities and mental health needs, young people, women fleeing abuse and other vulnerable groups.



Thank you

Flagship Group

31 King Street

Norwich

Norfolk

NR1 1PD

flagship-group.co.uk

