



The future
social housing
provider

Kath Scanlon, Christine Whitehead & Fanny Blanc

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

What associations currently do

The role and structure of the sector are currently in flux. There are three main sources of change and uncertainty:

- housing associations are increasingly involved in new development of all types as a way to cross-subsidise the provision of affordable housing;
- a spate of mergers, mainly among larger housing associations, is creating mega associations with 100,000 plus dwellings; and
- the appalling tragedy of June 14th has led many to question the role and capacity of social landlords more generally.

Yet most housing associations still concentrate on what they know best. The 1000-plus small associations mainly focus on effective management of existing stock, and many medium-sized and larger associations see their core roles as providing social and affordable housing, place making and (sometimes) care and related commercial services. There is no 'right' size for housing associations-the evidence suggests that they can be cost-efficient at any scale if they are clearly focussed and run a tight ship.

“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



“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

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.

Rents were near guaranteed, there was no shortage of tenants and the regulatory framework dealt with associations that had post-financial-crisis problems or individual governance failures. In future the environment will be much more challenging in at least five contexts:

1. Macro-economic pressures

Brexit presents significant uncertainty. Incomes and productivity are expected to stagnate and higher inflation and ultimately higher interest rates will all impact on costs. But the most immediate risk for associations building for market sale is of a recession in the housing market, which would impact heavily on profitability.

“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



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

Senior government official



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

Dutch housing expert

2. Demographic trends

In the wider south east, mobility out of London (itself conditioned by earlier international in-migration) will largely determine patterns of change over the next two decades. Longer-term trends are well established: the proportion of younger households with children is falling, the number of older people is rising and household size is going down. But against this last point, we see an important shift towards 'other' households. Made up mainly of unrelated adults (sometimes including couples, and almost always in work or education), they tend to live in the private rented sector for far longer than in the past. These trends suggest that associations may need to reconfigure their existing stock, and should look for ways to provide better managed, higher quality housing for newer household types.

3. Housing policy

There will be much greater emphasis on housing standards and possibly allocation as a result of the Grenfell disaster. Dealing with the consequences, whether direct or indirect, will take government resources and management capacity and may indeed dominate social housing policy for years to come. We could see less emphasis on voluntary right to buy and sales of high-value local authority housing, although government may continue to press social landlords to expand stock through sale and replacement. Other policies (notably Help to Buy and starter homes) could also affect social landlords. But the main issue is rents. Any future government, of whatever political persuasion, will want to incentivise efficiency gains by limiting rent increases. The new settlement is unlikely to be as generous as in the past. But England's associations are not (yet) in the position of those in the Netherlands, who get no supply subsidies, must pay a proportion of rents back to the government, and have been required significantly to curtail their commercial activities.

4. The welfare regime

In many ways this looks to be the biggest challenge to associations' core activities. Austerity continues to bite and there is little political will in any party to make welfare payments more generous. Housing associations will find it more difficult to collect rents because of continuing pressures on household budgets and the growing constraints imposed by the local housing allowance regime. At the same time, tenants will need more social support. More fundamentally associations will face a tension between their mission to support vulnerable households and the increasing business incentive to drift upmarket towards housing those who can pay their own rents.

5. The organisation of the sector

The main issues are around governance, risk and relationships with other organisations, notably the regulator, the finance industry and partners. 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.

Opportunities

Provision of good-quality, affordable housing is a national political priority and housing associations are well placed to help deliver it.

Many are of course already major developers, but large and small associations alike can be ideal collaborators with the public or private sectors. At their best they combine charitable aims, commercial acumen and a long-term commitment to the areas they work in.

Two promising areas are working with public bodies such as local authorities to build affordable homes on their land, and working with the NHS to provide move-on accommodation for patients leaving hospital, and/or taking a broader role in rehabilitation and health maintenance. There are practical difficulties here: the scale of NHS need is so enormous that it can dwarf the ability of individual housing associations to provide, and public bodies often make decisions that are financially rational for individual organisations but supremely irrational for the public sector as a whole. The experiment in Manchester, where the local authority controls the budgets for both social and medical care, should lead to a more sensible use of resources.

There are also opportunities for housing associations to move into other types of rented housing. Over generations they have developed deep expertise in managing social rented housing. Some are now beginning to apply this expertise more widely. One way to do this is for associations to develop their own market-rented housing; another is to collaborate directly with commercial Build to Rent developers looking for partners to manage across the spectrum from social to market rented housing.

Technology will undoubtedly transform the way that associations work over the next ten years, but the speed of change is such that it is impossible to be sure exactly which areas will be most affected. Digital working is already being rolled out across the sector, mainly to cut costs and increase efficiency rather than in response to tenant demand. Artificial intelligence offers myriad possibilities but few certainties. Self-driving cars are the most developed application, and if/when they become widespread could transform not only the design of new housing but also allow associations to repurpose much of the land on existing estates. Robotic social care has been much in the news of late but scientists and care providers are still grappling with both practical and ethical issues.

The sector is now beginning to look at modern methods of construction (MMC) and at least two associations have invested in factories to produce homes using volumetric techniques. The main advantage of MMC is certainty about time. The methods are not necessarily cheaper than traditional techniques, but are faster (and therefore less disruptive) and more predictable. The perception that 'prefab' buildings are necessarily substandard has changed: the finance and insurance sectors now generally accept that these buildings are of equal quality to those of traditional construction.

While the future presents a range of opportunities, each association must decide how best to move forward given its own ethos and strengths. Just as there is no one 'right' size for housing associations, there is no universal way to prepare for the future.

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

Officer, small housing association

Some possible scenarios

On the basis of our research we sketched out three plausible directions for the sector.

One is broadly positive for housing associations, one represents a continuation of the current trend, and one is more challenging. These scenarios do not cover the full range of possibilities, and it is possible—indeed likely—that the future will hold some element of each.

Scenario 1: Housing associations as trusted partners

- The economy grows by up to 2%. Rents are allowed to rise by more than CPI
- The aftermath of Grenfell leads to a flowering of ideas for social housing
- Local authorities increasingly partner with associations to build new homes on public land
- Groups of associations set up modular factories, producing some striking new schemes
- AI revolutionises various aspects of the business, and self-driving vehicles enable associations to repurpose land previously dedicated to parking

Scenario 2: Housing associations tread water

- The economy grows modestly but inflation rises. Rents increase by CPI
- The housing market declines, causing worries for associations that build for private sale
- Associations' cost of capital rises with the apparent higher risk. Questions about the wisdom of mixing social and private activity
- VRTB implemented slowly in the face of problems with the compensation mechanism

Scenario 3: The sector is embattled

- In the aftermath of Grenfell the term 'social landlord' carries a strong stigma
- The government limits rent rises to CPI - 0.5% 'to drive efficiency'
- Banks raise interest rates, leading to financial pressures at highly leveraged associations. Some face problems selling their market stock and seek a bailout
- Associations must separate market and social activities. Failures on the market side
- Activist tenants join association boards and demand a rethinking of strategy

The first scenario, in many ways the most attractive, is probably the least likely. On balance our research informants expected to see an outcome between Scenarios 2 and 3, and associations would do well to re-examine their strategies in that light.

Thank you

Flagship Group

31 King Street

Norwich

Norfolk

NR1 1PD

flagship-group.co.uk

