A New Role for Housing Associations

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September 2012

Introduction

Housing association’s core role is providing housing for those in greatest need underpinned by traditionally high levels of capital subsidy and the majority of revenue funded indirectly through Housing Benefit. Many housing associations have evolved to become highly capitalised and more than just social housing providers playing a key role in their communities, undertaking a range of wider activities and diversifying the range of affordable housing provided.

The operating environment is undergoing significant and perhaps structural change with cuts in public expenditure, changes in social policy and long term demographic changes. To sustain a role in providing new housing supply with lower levels of capital subsidy, housing associations will have to develop and deploy financial models which will involve driving value from existing assets, innovation, greater risk and new relationships with the financial sector. There is also significant potential for housing association to develop a broader role and provide a wide range of services within communities.

This paper will consider the potential of housing associations to develop as more diverse and commercially aware enterprises. The paper will look at existing involvement in wider activities, the market position of housing associations, potential business models for the future their impact on the sector.

Foundations for a New Role

Many housing associations have a long and established track record in being flexible and providing services and developing activities around their core purpose of social housing. Examples are:

- The development since the 1990s of a range of affordable housing tenures for households unable to access social housing and often unable to afford market prices. This includes private retirement, housing for sale, shared equity, market rent and mid market rent. Non charitable and non-registered subsidiaries have been established to undertake commercial housing activities.
- Factoring services to home owners provided by many RSLs which were established or have grown through stock transfers and those RSLs actively involved in mixed tenure development. These services are often not operated on a strictly commercial basis.
- Telecare services developed by specialist older person housing providers and services sold to other RSLs or individuals.
- Care and Support services provided either through subsidiaries or alongside housing services. Annual turnover can exceed £5 million and services are primarily funded through Block Funding, contracts or framework agreements with local authorities. In recent years local authorities have sought to drive down cost which has made these services essentially break even.
• A range of other public agency contracted services such as Private Sector Leasing, Care and Repair and Older Person Services.

• Wider Role funded activities by the Scottish Government. Although many of the activities demonstrated successful interventions and outcomes, they were not evenly spread across the RSL sector and have in the main developed around available grant funding and not as sustainable services. From a 2008 survey by EKOS Consulting, the top five represented type of wider role activities include:
  a) Employment and training schemes
  b) Youth services and indicators
  c) Community facilities
  d) Community arts, culture and recreation
  e) Money, debt and welfare advice.

The scope and contribution of wider activities has not been clearly defined by housing associations or fully understood by Government (central and local). The potential has to some extent being limited by the narrow association of activities with the wider role funding stream. It has generally been the larger RSLs, now considered to be of systematic importance by the Scottish Housing Regulator, that have developed a range of broader activities, delivery structures and any significant scale. Castle Rock Edinvar, for example has a turnover of some £32 million of which, £4 million comes from care and support services, £2.5 million comes from non-social housing rented activities and £1.3 million from service provision. Few organisations have undertaken non core social housing landlord activities as commercially driven and profitably enterprises.

Favourable Market Position

The extent of change in the operating environment cannot be underestimated. We are in a period of prolonged austerity for public expenditure (both revenue and capital). The allocation of public funds is increasingly competitive and linked to outcomes. Models for securing capital funding are moving away from traditional debt based lending. The population is ageing. Personalisation is being introduced in the welfare benefit and social care system which will blur the distinction with self funders. There are significant changes in the housing market driven by the inability of younger people to access home ownership.

A period of change presents potential opportunities for business growth and diversification. Housing associations have significant advantages which create a platform to benefit from opportunities that will emerge. Key inherent advantages are:

• An established position in communities which has been built around a community anchor role, a long term commitment to sustainable investment and a commitment to mixed tenure and mixed income neighbourhoods.

• Maturity and strength of existing businesses with strong balance sheets, under borrowed assets, guaranteed revenue streams and solid profits. The Scottish Housing Regulator’s scrutiny gives external funders confidence.

• Some organisations have experience of operating in social and commercial markets.
• An understanding of housing’s relationship and interface with other areas of social policy (social care, health, financial inclusion, regeneration, employability and education).
• The not for dividend model ensures profits are re-invested into communities or for a social purpose. The charitable status of many RSLs also provides a tax efficient business model.
• Status and a client base which includes some of the most socially excluded households in Scotland gives access to other funding streams such as Big Lottery, People and Communities, European Structural Funds.
• Close and multiple relationships with policy makers in Scottish Government and local authorities.

A New Role

Oxfam Scotland has recently created a Humankind Index as a new measure of prosperity and what matters to people. The most important assets in people’s lives according to Oxfam’s consultations are:

• An affordable, decent and safe home
• Good physical and mental health
• Living in a neighbourhood where you can enjoy going outside and having a clean and healthy environment
• Having satisfying work to do (whether paid or unpaid); having good relationships with family and friends; feeling that you and those you care about are safe; access to green and wild spaces; and community spaces and play areas.

The Index showed that local measures are key to people living well. This framework perhaps helps define the space in which housing providers could operate and perhaps helps provide a new understanding of how places work and affect the lives of residents.

Housing associations represent a significant potential resource in communities with the capacity, infrastructure and knowledge of local markets. Organisations need to be able to take independent decisions and understand the impact of these decisions on the long term interests of residents, communities and the organisation.

There are three categories of activity where housing associations could develop and expand.

1. Rented Housing

Changes in the housing market and the increasing significance of market rented housing are recognised and accepted. The term ‘generation rent’ has been used to identify the trend of younger people renting rather than buying a home. Financing requirements have locked many young people out of the housing market, despite the fact that prices have fallen and rent costs are rising. Housing associations are currently developing mid market housing alongside shared ownership, shared equity and social rented housing to reduce capital requirements. There is an opportunity for associations to move into mainstream market rented provision and use their experience, reputation and structures to become key players in developing a more structured and mature rented sector.
Capital investment decisions will increasingly be made on returns on capital underpinned by market conditions.

2. Community Investment Services

Housing associations have the potential to provide a wider catalytic role in communities. There is significant potential for associations to extend existing work with local communities and local authorities to provide a broad range of services in responsive to local needs and integrated at a community level.

Previous unsuccessful attempts to persuade politicians to invest in housing to generate benefits in other areas of social policy can be redefined. The environment exists for housing associations to make business decisions, rather than wait to be led by Government, to develop and offer a range of products and services which interface with housing provision. Building on existing wider activities, this can include a more structured approach to publicly contracted services such as preventative health, care and support, childcare, employment and training and financial inclusion.

The ability for housing associations to cross subsidise wider activities from rental streams will come under scrutiny through value for money tests and interest cover covenants. Community investment services will need to be sustainable cost centres although services could be developed or tested with support from the Big Lottery or other funding streams.

3. Commercial Services

This can include both business to business and business to customer services provided on a commercial basis. There is a clear overlap between commercial activities and developing a broader rented housing provision and community investment services. Property management provides the background for a factoring service and management services to property investors. Services provided through self directed support can be marketed to people who independently fund their care costs. New and developing areas of business could include green services (perhaps linked to the Green Deal) and an integrated package of services for the older persons market to allow people to continue to live in their homes including home help, home maintenance, equity release and personal care.

In the longer term the provision of outsourced public services directly related to place management may be considered including environmental services, leisure management and even some education services.

This will involve a transformation which not only includes a new business model but also a new language and mindset and new techniques and skill sets. It is about customers not service users, pricing and not costs of service, sales and not allocations and finally choice rather than rationing. It involves understanding and analysing markets and developing new products and services or growth through business acquisition not RSL transfer of engagements. It involves diversifying income streams, removing dependency from government grants and moving into self funding markets. It involves increased profitability to support capital investment and re-investment in communities.
Places for People Approach

The Places for People’s approach which has developed over the last 10 years is based on developing a diverse business underpinned by a commitment to ensure successful places by increasing access to housing opportunities, developing comprehensive place management solutions and producing new housing supply. Creating a sustainable business model involves securing capital investment to increase new housing supply through a range of financial instruments supported by strong revenue streams, a broader customer base and more profitable cost centres.

Development activity is focussed on large scale, mixed use regeneration on an assembled landbank which will be increasing developed in joint venture arrangements with the private sector spreading risk and benefitting from their delivery processes. Capital investment decisions are based on returns on capital. New social housing development will form a minority of future new supply in Scotland as more commercial funding models are applied.

Housing products include developing flexible choices for a range of income groups to access the housing market. Increasingly these products involve market or intermediate tenure interventions and recognise the increasing demand for a broader
range of rented housing. Places for People in Scotland will rent over 1000 non social housing units during 2013.

The provision of financial products and services such as small loans or mortgages forms part of an overall access package. Recent sales of shared ownership properties in Edinburgh were supported by Places for People mortgages.

Service provision is developed around the core expertise of housing management, property management and services which support independent living. These services have been developed for existing customers but will be increasing provided to a wider market place including individual customers and other businesses. In England, Places for People has just launched these services under an @Hand brand in Milton Keynes.

Facilities Management involves the provision of services which support long term place management. In Scotland this is focussed on a factoring service but in the future could involve energy management services and lettings services.

Regeneration services focus on areas of community investment such as employability and financial inclusion. Previously, Places for People identified child care services as an issue in the regeneration of neighbourhoods and developed Places for Children and in 2012 the company was sold. The aim is to redefine the role of housing organisations to be not just delivery vehicles or interested stakeholders but strategic or lead partners in regeneration and neighbourhood planning.

### Segmentation of the Sector

Providing people with affordable and secure homes will remain the main focus and purpose of housing associations. The operating environmental and the challenges and opportunities that it presents will inevitably lead to greater segmentation of the housing association sector.

Potential future business models could be developed around three reference points:

1. **Social Rented Landlords**

Many housing associations will focus on being landlords of their social rented housing current stock. It is likely that these organisations will house an increasing vulnerable customer base and they may develop some wider services such as financial inclusion which allow tenancies to be sustained. Key questions will be how Governments’ respond to having potentially deeper concentrations of deprivation in social rented housing stock and past grant not having the potential to support new investment as it is locked in the balance sheets of non-developing organisations.

2. **Social Housing Enterprises**

Some housing associations have already adopted a social business or social enterprise model. These organisations currently have the capacity to respond to grant restrictions and continue to develop through releasing value from their existing
assets and through mixed tenure projects. They will also be committed to undertake wider activities or community investment to help residents improve their life chances and deliver social outcomes. Regulatory requirements will be a key constraint. There is already evidence of the growing gap between housing associations which fit this model with non-developing organisations.

3. **Place Management Businesses**

This involves the emergence of housing organisations which include registered social landlords. These new commercially based business models develop mixed income communities and provide services in social and commercial markets. This model will require capacity, flexibility and capability. A key question is whether Scottish RSLs which are part of UK housing groups with their financial capacity and direct access to capital markets and which are regulated on more consumer based standards are much better placed to respond to this agenda.

**Conclusion**

Many housing associations in Scotland have experience of wider activities but the contribution of these activities has not been clearly defined. The operating environment presents major opportunities to develop products and services to address market failures and develop new models for delivering public services at a community or local level. Housing associations have a unique market position and represent a significant potential resource in communities that offers the potential to develop a broader role and broader housing based businesses. These new place management businesses will focus on the economic, social and environmental outcomes of investment decisions.

It is uncertain to what extent Scottish housing associations have the freedom, vision, appetite or capacity to respond.