PlaceShapers submission to the CLG Committee

Inquiry into the viability and sustainability of housing associations August 2015

1. Introduction

1.1 PlaceShapers is a national network of community-based housing associations formed in 2008. Currently comprising 116 members of varying types and sizes, our members own over 750,000 homes collectively, contribute around 25% of new homes provided through the National Affordable Housing Programme and provide services to more than two million people. As an alliance, our views therefore represent those responsible for around a quarter of registered housing associations' stock. Details of our members and more about what we do can be found on our website: www.placeshapers.org

1.2 We welcome the Committee's inquiry into the future of housing associations as this provides an opportunity for the sector's true value and diversity to be understood. Housing associations come in all shapes and sizes and operate in hugely varying locations and housing markets. Many have existed for hundreds of years whilst others have formed more recently for specific purposes. PlaceShapers reflects this diversity of size, type and geography and individually our members work closely with partner organisations locally to make a lasting difference in their communities. Clearly there are challenges ahead but notwithstanding the changing environment, our members remain determined to protect homes and services and to continue to provide much needed support within the communities in which they are embedded. This includes working with the Government to support delivery of its housing priorities (including through devolution deals) as well as working creatively to ensure that their social purpose values endure.

1.3 We believe that whatever your size and spread it is crucial to remain accountable at the local and regional level and to provide tailored additional investment to create sustainable, healthy communities. As such, alongside our focussed housing management and stock investment services, our members invest over £60m a year in local activities and partnerships to provide additional support for our residents and the wider communities within which we work. This excellent added value work includes integrated health and social care services, employment training and support (including apprenticeships and helping residents to start new businesses) and a range of neighbourhood services that foster social cohesion.

1.4 These crucial services save substantial sums from the public purse. For example, a London based member reports that it worked with 119 people through its employability scheme last year, 35% of whom had been unemployed for over two years. 43 are now in permanent, sustained employment and an independent social impact report indicates that each £1 spent on this service produces a £7.70 benefit to the economy. Another Hertfordshire based member has helped 600 previously unemployed people into work in the past two years including via a partnership with a local driving school to improve the job prospects of those previously without this skill.

1.5 Our 2011 publication "Localism that works" provides excellent examples of this added-value work with 16 inspirational case studies and a foreword by the Rt Hon Greg Clark MP in which he said: "This report is a vivid illustration of how PlaceShapers engage with the future of their estates and communities. Across the country they have helped people return to work, reduce crime, create jobs and transform local neighbourhoods. These case studies are a testament to what local initiative and local innovation can do for local communities." You can find the report here: http://www.placeshapers.org/document.php?o=24 and also a video animation produced in 2015 which gives more insight into how our members support health and housing service integration: https://www.youtube.com/watch?v=T-od5iXaDGQ&fs=1

1.6 This country needs housing associations to help maximise its housebuilding programmes and PlaceShapers has a strong contribution to make. Around 34,000 new homes will have been added by our members in the four years to 20115/16 and a 2013 survey confirmed business plan projections of at least 30,000 more new homes being developed between 2015-20, equivalent to more than 7% growth. Some of this may not now proceed in the light of Right to Buy, required rent reductions and welfare reform and there is a risk of a drastic loss of new homes being developed. However, our members are clear that they will do all they can to mitigate revenue losses without adversely impacting on their ability to add to the nation's supply of new homes of all types.

1.7 PlaceShapers is keen to support the Government's drive to provide greater opportunities for people to own their own home. Our members have for many years delivered programmes to support this aim and will continue to do so through shared-ownership, rent to buy, starter homes and outright sale. Around 20% of recent new developments by PlaceShapers have been of low-cost home-ownership products and we expect to see this proportion increase in future programmes in line with local planning agreements. However, we realise that there will always be those unable to own their own homes and our members will continue to provide secure homes and support for these people alongside other services.

1.8 Our members also “build local”. They apply their unique community understanding, presence and commitment to build partnerships and bring about development that others may not be able to achieve, often working with local small or medium sized building companies to achieve this. Numbers are important – we need more homes fast – but it’s the quality and long-term viability of properties and community facilities that really count. Our publication “Build Local”, launched at our 2013 Annual Conference by Mark Prisk MP provides some good examples of what can be achieved: http://www.placeshapers.org/document.php?o=45

1.9 This submission represents the collective response from PlaceShapers. It covers the questions you are seeking views on in general terms, mainly because the impact of the Government’s proposals on the Right to Buy and welfare reform along with the changes announced in the budget to reduce rents will vary hugely around our membership. We expect that many of our members will respond individually to your call for evidence and in doing so will provide more detail on actual or anticipated consequences at the local level. That said, some of your questions will not be possible to address properly until the detail of the Government’s implementation expectations are published along with the Housing Bill. We would be happy to provide a supplementary response as and when such detail emerges and, of course, to attend a committee hearing to provide evidence to support your inquiry in person.

2. Proposals on the Right to Buy

2.1 As already stated, PlaceShapers is keen to support the aspiration of people to own their own home. Our members have a long history of providing housing for sale and can help people through the journey into home-ownership as their personal situations change. As well as helping people to get on to the housing ladder and supporting mixed communities, such investment also provides additional funding for cross-subsidising the development of new rented homes.

2.2 Understandably however, our members have concerns about the proposed extension of the Right to Buy to all housing association tenants. These are explored in more detail below in the context of two particular anxieties. Firstly, as a point of principle, we view the Government's intention to impose this scheme on independent organisations, including longstanding registered charities, as wholly inappropriate. And secondly, in practice, the proposed scheme could seriously jeopardise our capacity to support the government's ambition on the supply of new homes of all types if replacement costs are not funded effectively and in full and if homes that would be the most difficult to replace are not excluded from the scheme. We therefore hope for early confirmation that there will be full and timely compensation together with appropriate exemptions and safeguards.

2.3 In June 2015 we asked our members to tell us about the key issues they were concerned about and about any modelling they had yet done on the potential impact of the scheme. Over a third of our members responded and the notes below summarise their feedback. Many more members told us they were awaiting the detail of proposals before undertaking work on the subject.

2.4 The key issues of concern are as follows:

- The definition and timing of compensation.
- The methodology to be applied to valuations for sold stock and how current these would have to be.
- Replacement costs.
- The need for "like for like" replacement.
- The extent to which the independence of housing associations will be fettered by a scheme that could undermine the ability to make appropriate asset management decisions locally in consultation with local planning authorities. This includes homes built for charitable purposes without Government grant and homes provided through S.106 agreements requiring stock to be kept as social housing in perpetuity.
- The extent to which exemptions will be granted for specialist housing or units that will be impossible to replace.
- The scope for abuse by fraudulent applicants, by applicants for whom the property is not their principle home and from tenants who cannot afford to buy

and are offered cash by 3rd parties in return for rapid resales / subletting (that generally leads to such homes relet at higher rents in the privately rented sector).

- The resources required by housing associations to administer the scheme.

2.5 In response to these issues we call on the Government to consider the following when implementing the proposals:

- Full compensation for sold units on the date of sale to the existing tenant. This should be provided on an open-market basis or to cover full replacement costs, whichever is the highest.
- Where the home being sold has been built by an association originally set up to take transfer of LA stock, the Government should confirm that the proceeds of sale will not also be shared with the LA as is the case for former council tenants with a “Preserved Right to Buy” (PRTB). Not all Transfer Agreements are the same and without clarity on this point there is a risk that some LAs will expect to receive up to 80% of sale proceeds on new stock too. That would clearly make it impossible for affected housing associations to replace sold homes.
- This would also be an appropriate opportunity for the Government to ensure that non stock-holding LAs re-invest their share of PRTB sales receipts in the provision of replacement homes. Unlike LAs with retained housing stock they do not currently have to do this.
- Valuations for stock to be sold should be no more than 3 months old.
- We understand the Government wants replacement properties to come from new supply. Generally we support this but would suggest that individual housing associations and local authorities could come to local agreements (perhaps under devolution deals) for existing homes (including new and 2nd hand homes) to be included to support agreed local asset management strategies. In areas of severely restricted new supply (such as the South East) it may be necessary to purchase 2nd hand homes in order to comply with a fixed replacement timescale.
- Housing associations should be granted first refusal on repurchase of sold properties for a 10-year period. This would improve the prospect of replacing homes within the same LA area within the deadline and would support management efficiency – particularly as many RTBs will be in blocks of flats.

- Our members remain committed to the need to support balanced communities and to ensure that the housing they provide caters for all needs, including those who can't aspire to own their own home or afford market rents. There remains a very real requirement for social housing for those on very low and variable incomes where home ownership is not a reality in any circumstance. The potential for a net loss of homes let at "social rents" is one of great concern. We therefore seek assurance that social housing at social rents can replace social rent units where sold with replacement units not having to be converted to "affordable" rented homes or housing for sale or shared ownership unless this is what the association and local authority partner deem most appropriate given the local housing market.
- Additionally, we urge the Government to consider the possibility of portable discounts whereby a tenant could be offered the opportunity to buy a home from another housing association or one already in the private sector in order that their existing home could be retained for rent. This would provide more choice for the purchaser and reduce transaction costs. Our experience of the old "Tenant Incentive Scheme" suggests that a model whereby tenants can access grants to enable them to purchase on the open market would be very popular.
- Exemptions from the Right to Buy should include the following:
    - Homes for older persons.
    - Supported housing units (including self contained homes where floating support is provided is provided for vulnerable people).
    - Key worker housing (which includes self-contained flats subject to nomination agreements with 3rd parties).
    - Units that form part of major regeneration schemes already under way.
    - Rural settlements.
- Eligibility for the RTB discounts should exclude those tenants in arrears with their rent, those tenants in receipt of housing benefit, and those tenants with an assured shorthold tenancy. Family members who wish to share the right to buy should have been occupying the property as their only and principle home for the qualifying period and no applicant should have an interest in any other property.

- Members are concerned to ensure that they fulfil their responsibilities to counter fraud and in regard to money laundering and to that end request that the process demonstrating eligibility requires an obligation to evidence the source of monies to be used for the purchase. Mandatory fraud checks should be a part of the application process and sufficient time should be allowed for completion of investigations prior to an application being accepted.

- Additionally, provision should be built into the framework to ensure that administration costs (which could require new systems and staffing) and abortive costs can be recouped by the housing association. For example, the cost of valuations should be borne by the tenant and refunded on completion of a purchase. This is to address the practice by some of regularly requesting valuations (currently c£200) but not proceeding with the purchase. The same applies to the additional legal and administrative costs of replacing security / charges for private finance for properties to be sold.

- We also believe that any new legislation should ensure:

  - Ground Rents on leasehold property reflect private sector ground rents in the area.

  - The current requirement to identify future works for a 5-year period is reduced to 2 years or mirrors private sector leasehold requirements.

2.6 The issue of replacement costs and shortfall are worthy of separate discussion. There are a range of uncertainties on which our members need clarity, not least whether sales receipts would be shared with LAs under pre-existing sharing agreements for LSVTs (the point already covered in 2.5 above) and whether disposal receipts would be available to recycle in full for a replacement unit or would be subject to recycling on a restricted basis.

2.7 Notwithstanding those points, on the basis of the need for full compensation, our members tell us that:

- The funding gap would be anything from £20k - £80k in the North depending on the size of property and its location. For example, members working in different parts of the North-West and Yorkshire say that a property sold for £80k would cost around £100k - £135k to replace and a property in a higher value area of Greater Manchester, Lancashire or Sheffield would sell for £100k and cost £135k to replace. In lower value areas of the North-East a sold property may be valued at just £40k but would still cost between £90 - £130k to replace.

- Similarly one-for-one replacement in the Midlands is not possible with just full reimbursement of discounts. The average cost of a sale will vary from £50k - £100k but the average cost of replacement with a newly built home will be £100k - £130k, a gap of £30 - £50k.
- In the South, replacement costs are higher but valuations of existing stock are higher too meaning that any influx of money from sales may improve cash positions in the short-term. Over time, however, sales would degrade viability unless full value and rent income is recovered through replacements. Higher replacement costs suggest funding gaps of up to £40k per unit. Perhaps the biggest issue in high demand areas will be the inability to re-provide in the same locations given the limited availability, cost and competition for land.
- Anything other than full compensation would increase these gaps still further and put at greater risk the ability to replace sold stock. The extent to which borrowing facilities are required to support the building or acquisition of replacement units will also impact on plans to develop other new homes to increase the overall supply of affordable housing. Accessing private finance may also be constrained by the need to find additional security for every home lost that had previously been offered as security against existing loans. We therefore restate our view that full compensation for sold units should be reimbursed to the housing association on the date of sale to the existing tenant. This should be provided on an open-market basis or to cover full replacement costs, whichever is the highest.

3. Proposals in the Budget

3.1 We recognise and support the need for the Government to manage public finances effectively and in particular the welfare benefit bill. Through our connections, experience and added-value investment we assist the delivery of savings, particularly by supporting people to move from benefits into work and through our integrated health and housing services.

3.2 Housing associations agreed a ten-year rent deal with the last government. This allowed for rent increases of CPI+1% until 2025 and commenced in April 2015, thus providing certainty to revenue steams and enabling housing associations to plan ahead and agree future development programmes and additional added-value services. The requirement to reduce rents by 1% for each of the next four years announced in the 8th July Budget was therefore a shock to our members and to the sector generally given the agreement reached only last year.

3.3 Whilst the reduction is good news for tenants, it seems perverse that this is being applied equally to those whose rents had not caught up with “target” levels as a result of the plan to converge rents for similar property types being abandoned. Loss of this facility was already taking capacity out of our members’ business plans to fund new supply with the only way of recouping this being by converting more properties to “affordable” rents when they become vacant, leading to higher housing benefit claims than would be the case where the market rent benchmark is unaffordable, but little difference in income where the market is suppressed. For example, a Midlands based member of ours has 3,000 rents not at target level including two-bedroomed houses currently let at £50 per week, the rent for which will have to reduce to £48 by 2020. This housing association had already lost £30m over the life of its 15-year business plan as a result of not being able to gradually increase rents to target levels (which for the two-bedroomed example given would be £82) and now faces substantial additional lost income. Despite these challenges, this same member has 300 further new homes in its development pipeline to 2018, a third of which will be for shared ownership. It has also helped over 1,000 people into work since 2010 including through the creation of 671 apprenticeships.

3.4 In terms of the impact on our members’ finances and plans generally, we have already gathered feedback from around 25% of our members who between them estimate an income loss over the four years to 2019-20 of £198m, an average of over £7m each. A small number of members have indicated that they face substantial losses and that their liquidity and / or compliance with covenants will be at risk without serious short-term mitigation. The general approach appears to be to try to avoid having to cut development or stock reinvestment programmes or added-value services with a focus on operating costs reductions to make up the lost income. This will be difficult and for many it will not be possible to avoid scaling back on new development and other services (including job-creation initiatives) if viability is threatened.

3.5 A particular challenge arises in respect of rents for supported housing and we have called for all supported housing schemes to be exempt from the required rent cuts. Typically 80% of the costs on these schemes comprise staffing costs that cannot be reduced as they are specified in great detail as part of contracts agreed with inspectors such as local authority commissioning teams and the CQC. Costs are already under pressure as a result of local authority funding constraints so the financial viability of such provision will be threatened if they are not exempt from rent reductions. Many vulnerable people occupy independent living schemes managed by housing associations. They receive great support and the result is a real saving to the public purse. Any destabilising of this would undoubtedly cost more. An example would be the Hestia 10-unit project for complex needs in Middlesbrough that has been independently judged to be saving at least £250k a year from the public purse in support costs. It would be a tragedy for such schemes to have to close and would undoubtedly have knock-on effects on other services such as health and probation.

3.6 Clearly, as a network we want to do what we can to support our members, working with the regulator to help here. We are also setting up discussions with key lenders and valuers to ensure an open dialogue with these key stakeholders. And we are looking at how we can help broker discussions between members on partnerships or collaborations for cost sharing / saving purposes where this might assist too.

3.7 In general terms, we share the view of others within the sector that housing associations should be allowed more rather than less flexibility over rent setting policy, setting rents where-ever possible that are affordable in the context of average earnings and local markets.

3.8 As for other Budget proposals, there was some good news in that young people between 21 and 25 will not have their entitlement to housing support removed as had been rumoured and nor will tenants generally have to pay the first 10% of their housing benefit. However, the removal of support from 18-21 year olds does risk young people becoming homeless or being required to return to homes where, for many, relationship breakdown and abuse drove them out in the first place. We await confirmation of the Chancellor’s assurance that vulnerable people will be protected and urge the Committee to press for this to be delivered and for the criteria to assess vulnerability to be shared very quickly.

3.9 On the other hand, the reduction of the overall benefits cap to £20,000 / £23,000 will be devastating for thousands of families who will be on the receiving end of this, including many who work hard in low paid, part-time employment and already struggle to make ends meet. All social landlords are now assessing what this means for their customers and it is already clear that for many families with two or three children, rents (even at reducing levels) will be unaffordable. The fact that the reductions will come entirely off housing benefit will leave many landlords with no choice but to take action when tenants start to fall behind. This means that homelessness is bound to increase and with it huge personal distress and additional financial pressures on local authorities whose services to support the homeless are already under strain. We hope that the Committee will see assessing the impact of the Budget changes on homelessness as an important part of its work.

3.10 The proposed “Pay-to-Stay” scheme for higher earning tenants appears somewhat blunt on first reading and does not reflect the reality facing low-income families in many areas. The Budget itself capped higher-level taxation at £43K, suggesting a belief that those earning less than this amount should not be deemed high earners. And yet tenants with a household income of £40k in London and £30k outside London could now face huge increases in rent. This would include a couple with a joint income of just £15K each in areas outside London where market rents are high. In some parts of London couples with joint incomes of just over £20K each could face totally unaffordable rent increases of up to £400 per week. Some such tenants will be key workers with time-limited “intermediate” tenancies and rent levels determined as part of contracts agreed with their employers (such as hospital trusts). We trust that these tenancies will be exempt from the scheme.

3.11 We are relieved to hear that the Government in any event is to propose tapers within which any such rent increases would be applied gradually as income levels rise and hope that this will also take into account wide variations in market rents geographically. However, our members are also concerned about the practicality of obtaining household income information that will be sufficient to operate the policy and keeping that up to date. The cost of administering this scheme will be significant and we ask that consideration be given to household income data being provided to social landlords from existing government sources.

4. Welfare reform proposals

4.1 We have made some general comments above in relation to proposed changes to the welfare system and expect that our members individually will add to these with evidence of the potential impact in their communities. This no doubt will cover other proposed reforms such as those relating to tax credits and the roll-out of universal credit with direct payments of housing support costs to tenants.

4.2 In terms of the impact of changes to the welfare system made in the last Parliament, we will rely on our members to provide you with detail. Suffice it to say that in general terms life has got a lot tougher for many of our residents who struggle to make ends meet on the little money they have left each week, with reliance on foodbanks increasing as a result. Our members have invested heavily in income management, benefits advice and employment support and have done all they can to protect tenants from homelessness. This has included helping tenants affected by the "bedroom tax" to downsize or increase their income to cover the shortfall, a task often impossible to achieve in areas of the country with few smaller homes available and limited employment prospects. A number of our members have participated in research aimed at tracking the impact of welfare reform on their residents over time and we expect you will be interested in their findings. The "Real Life Reform" project is an example of this: http://www.northstarhg.co.uk/news-details.php?newsid=19

5. Other issues

5.1 The role of the Regulation Committee of the HCA

5.1.1 PlaceShapers values the regulatory framework that exists for housing associations and believes that this remains important for accountability and maintaining the confidence of key external stakeholders such as lenders and commissioners.

5.1.2 Whilst individually our members occasionally experience interventions that do not seem proportionate to the issue in question, this we believe is more linked to on-going skills shortages within the HCA. We are concerned that public spending constraints may further challenge the regulator's ability to discharge its role effectively and expect that the possibility of fees being charged for regulation may resurface in this context. We agree in principle that there is a case for this. However, we feel strongly that this should not be a substitute for government funding and that any additional resources are used to further enhance the quality of regulatory services with fees introduced alongside a clear contract setting out what the sector can expect in return.

5.1.3 We have an open relationship with the HCA's regulatory team and the Chair of the Regulation Committee and value the dialogue that this has generated in response to past and present challenges. This includes opportunities to comment on proposed revisions to regulatory activities and to pilot new initiatives such as the "In Depth Assessments" currently being rolled out as a more effective approach to risk appraisal. We have also invested in support for our members in relation to compliance with the HCA's "Value for Money" regulatory standard, both to help evidence the contribution being made to this agenda and to provide guidance on the completion of annual self-assessments. Our members are currently finalising their value-for-money statements for 2014/15 and we will be repeating an analysis of these carried out last year in order to provide summary detail of our collective achievements. For 2013/4 we identified efficiency savings totalling £109m in the 105 statements reviewed. This represented an impressive 2.8% saving on a turnover of £3.84bn; an achievement we are sure will have been exceeded in 2014/15.

5.2 **The accounting consequences for the national debt of the government's proposals**

5.2.1 We are not in a position to comment in detail on this matter except to say that the accepted independence of housing associations to date has avoided over £60bn of debt being included as part of the public sector borrowing requirement. This is a position that we assume the government will want to protect and will thus guard against any steps that could have this unintended consequence.

5.3 **The need for sector consolidation**

5.3.1 In addition to the two issues above raised in your call for evidence, we wish to comment on a third topical issue, the often quoted perceived benefits that could be derived from sector consolidation with widespread mergers leading to a much reduced number of housing associations. Our member housing associations are committed to providing homes and services through efficient and effective businesses. We are open-minded about how this is achieved and for some merger has been the solution. However, this does not work for every housing association and we have challenged the view that such consolidation would deliver massive efficiencies and facilitate even greater levels of investment in new homes and services. There is no clear link between organisational size, service quality and lower costs, as any comparison of operating costs will show. The only research completed on this by KPMG / CIH in 2012 ("Does size matter?") concluded that there were no automatic benefits for effectiveness and efficiency from mergers.

5.3.2 PlaceShapers is not anti-merger or anti-big. We have large, medium and small housing associations within our membership, including those who have merged with others and those who have chosen not to having considered the perceived benefits to be unproven.

5.3.3 We do not doubt that the challenges ahead will mean that some housing associations have no alternative but to consider merger; indeed it will not be surprising to see a growing number of "rescues" involving housing associations of varying types and sizes. Similarly, there will be those who consider that merger may be the best way or releasing unused capacity and driving through efficiencies on a scale needed. However, that will not always be the case and our focus is commitment to our local areas. As a sector we need to learn from experience and as independent businesses we need to determine the best future for our homes and communities within this context. We know from feedback that many of the MPs and local authorities we work with particularly value the strategic and operational relationships they have with locally based providers. We hope therefore that the Select Committee will acknowledge the need for a balanced debate on this subject.

6. Concluding comments

6.1 Britain's housing crisis will not be solved without a massive housebuilding programme. This needs to be across all tenures and to include investment in new housing at genuinely affordable rents as well as new routes into home ownership.

6.2 Community based housing associations such as our members are key providers with more than 90% of us actively developing and providing new homes. We have the development expertise and local relationships to unlock sites, to negotiate agreement with those who may initially oppose new homes and to ensure the necessary investment in the wider community. Our 2013 publication "Build Local" is a useful source of evidence of what can be achieved.

6.3 Despite being key providers, our financial capacity to add to supply is constrained by the current market and funding environment and is at risk as a result of the proposed Right to Buy and reductions in rental income.

6.4 Providing improved value for money is core business for our members and collectively we are driving that agenda forward and delivering substantial savings year-on-year to generate increased capacity for new homes and services. However, many of us are already borrowing to our limits and whilst we are exploring and accessing all types of new funding opportunities, including through the bond markets and cross-subsidising schemes internally where-ever possible, the step-change required in supply cannot be achieved without continuing levels of government investment. Only in this way will we (and others) be able to provide new housing at a cost within the reach of those who need it without perpetuating a dependency on welfare benefits or denying access to those for whom the market cannot offer solutions. We urge the Committee to consider recommendations on this point.

6.5 The current spotlight on the housing association sector is understandable and as a sector we have perhaps undersold the scale of our activities and the excellent added-value work we do. This is something we are grappling with collectively and need to tackle. PlaceShapers is an impressive subset of the housing association sector, creative and innovate with strong ethics generally and a desire to improve the life chances of people who live in our communities. We came together to ensure the voice of community-based providers was heard and to facilitate joint working and support within our membership. We remain willing to provide local leadership and project management for a number of key Government objectives such as devolution, the integration of health and social care, the helping of our customers back into work and, of course, routes into home ownership. To achieve this we need certainty over our income streams and respect for our independence. We look forward to being able to discuss these issues and indeed our submission in general with the Select Committee in due course.