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A perfect storm

Risk perspectives from social
housing senior leaders



Forethought

A series of interviews has shed light on the complex challenges facing social housing senior leaders nationwide. For our 2019 report, we've included a special focus on Scotland.

While Brexit continues to dominate the political landscape, the housing crisis remains arguably Britain's biggest domestic policy challenge.

The UK and Scottish governments have set ambitious housebuilding targets to plug the shortfall – and registered providers (RPs) of social housing are expected to play a key role in ensuring these targets are met.

While building huge volumes of homes throws up any number of questions – from how to finance them, to where to find the land and labour – these questions form just one part of the complex set of challenges facing leaders within the housing sector today.

The key emerging risk identified is the rapid adoption of innovative and challenging technologies;

the rise of the 4th Industrial Revolution.

For this report, we have interviewed housing association CEOs and senior leaders across the UK. These interviews provide valuable insight into how the sector sees itself, and how it is responding to the challenges it faces both today and in the years to come.



How did we get here?

Much has changed since Zurich Municipal last canvassed views from across the sector for an in-depth report on the state of social housing.

In 2016, Zurich Municipal published a report, 'The metamorphosis of social housing', based on a series of interviews with social housing leaders.

The report's title referenced the huge changes taking place within the sector at that time, with many RPs morphing into more commercial organisations. It concluded by looking ahead to the coming years, and posed the question: 'How far will commercialisation go?'

Today, this polarisation has broadened out to a wide spectrum of business models. In England, our latest interviews show that many are adopting a 'Robin Hood' model – building an increasing number of homes for market sale and using the surplus to fund new social housing. National Housing Federation figures show that housing associations in England started work on 6,526 homes for market sale last year .

"We see ourselves as a very commercial organisation," said one interviewee. **"We have to make money to be able to build homes and serve the most vulnerable people."**

Interviewees are aware, however, of the vulnerabilities inherent in this model. One of the biggest concerns, particularly for housing associations in certain pockets of England, is the prospect of a housing market crash, which could seriously affect their ability to build new social housing.

One CEO described this scenario as a potential 'perfect storm'.

"What will tank the London property market, and is it already happening?" they asked.

A complex set of challenges

While our interviewees from Scotland were clear that investment in properties for market sale was not on the agenda, housing associations north and south of the border continue to face many of the same challenges. These range from building enough homes to meet demand from different demographics, to innovating their internal processes and navigating new technologies and emerging risks.

Technology features more heavily in this report than in our 2016 edition. There is increasing discussion about the extent to which housing associations should be using artificial intelligence and automation to interact with customers, and growing debate about whether it should be a case of digital interaction by choice or digital by default.

We are also now in a post-GDPR world, and concerns about how to handle data also feature heavily in our latest interviews. **"We've changed our view on what our biggest risk is – it's now data,"** said one finance director.

Grenfell Tower a wake-up call for the housing sector

In our 2016 report, one CEO admitted that their organisation was building **"to the lowest specifications allowed by building regulations,"** in order to drive down costs.

The Grenfell Tower tragedy has undoubtedly placed greater scrutiny on building regulations, health and safety, and high-quality tendering.

One senior leader interviewed for this latest report described the huge amount of work his organisation had carried out post-Grenfell, despite having no cladding on its properties.

Another interviewee said Grenfell had also forced housing associations to reconsider how they interact with tenants. **"Housing associations had stopped listening to their customers, but Grenfell changed that,"** he said.

Many of the worries in 2016 about Universal Credit and rent arrears remain. However, as one observed in our 2019 report: **"The longer people are on Universal Credit, the less likely they are to go into arrears."**

Brexit adds a layer of uncertainty

Unsurprisingly, there is greater focus on Brexit this time around. While the biggest concern for many is the sheer uncertainty of it all, there are specific worries about the potential impact on housebuilding. **“It could affect our ability to find people with the right construction skills,”** observed one CEO.

Another shared concern is about the impact on maintenance. “There could be issues around parts, labour and costs,” said one interviewee. **“We’re having to deal with the unknown.”**



Our 2016 report

Then and now

2016

“The world of boards is changing massively. They are all moving to become much more commercial.”

“The sector is splitting and polarising in terms of scale, mission and culture.”

“Employees are looking for us to have more risk appetite, more entrepreneurship.”

“We need to scale back from offering a Rolls-Royce service.”

2019

“Housing associations had stopped listening to their customers – Grenfell changed that.”

“Housing is becoming a political issue. The young feel they are getting a poorer deal than their parents.”

“The state is getting a fabulous deal from housing associations – paying £70,000 to get a £350,000 house.”

“There is a real poverty challenge emerging, and I feel cuts in local authority funding have gone too far.”

How do housing associations see themselves now?

Our interviews highlight contrasting perspectives on subjects such as organisational structure and culture, social value and the role of technology.

In our previous report, 'The metamorphosis of social housing', one interviewee suggested that the housing sector was broadening in terms of **"scale, mission and culture"**.

Three years on, this assertion seems self-evident. Some housing associations are now doing a bit of everything – building new homes for market sale and shared ownership, while continuing to invest in social housing.

Others have chosen not to build for market sale, but are changing in other ways. One CEO described their organisation's transition from a social landlord to a landlord of mixed tenures: **"Our positioning now is that we 'rent stuff'. We're tenure agnostic."**

Serving so many different customer groups can lead to different expectations in terms of service delivery.

"Our delivery models need to change to meet different expectations," said one. **"Many of our customers are homeowners and expect a certain standard of service."**

At the same time, there is an awareness that the quality of construction and maintenance cannot be compromised for any group of customers.

"Tenants should enjoy the same quality as owners in terms of homes," said one CEO.

"I want my successors to look at the quality of our builds and be proud. That sometimes costs a bit more, and we can't do that on every scheme, so choices do have to be made."

Those organisations that build for market sale are also acutely aware of the need for 'profit with a purpose'. As one put it: **"Commercialisation is not evil; it's necessary to make building social housing possible."**

Addressing social challenges and building thriving communities

In recent years, the concept of 'place-shaping' – where regional organisations (including housing associations) collaborate more closely to deliver improved services for local communities – has become increasingly prominent.

But during our interviews for this report, the broader theme of building community resilience shone through again and again.

"We wouldn't describe ourselves as place-shapers. We use the phrase 'thriving communities'," said one interviewee. **"We're trying to get away from having a parent-child relationship with our customers. We want to support them to help themselves, to help them get a home, get back to work, and make their communities better places to live."**

"Key to that is making sure we've got the resources in place to have people on the ground, by taking away bureaucracy and admin."

'Social care support is just not there'

While many housing associations are adopting a 'Robin Hood' model – selling homes to fund their investment in social housing – some are also taking on additional services that have little hope

of generating returns, such as social care, but which can contribute to building community resilience.

"Providing care and support is part of what we do," said one CEO, **"even though there isn't enough margin for social care to be a profitable sector. For us, it just needs to be cost-neutral. It doesn't need to make money, but it can't lose money either."**

Housing associations seem aware that they are filling gaps created elsewhere.

"Local authority cuts have gone too far," remarked one interviewee.

"Support for social care is just not there, and standards are falling. We have to rethink what our role is in these communities, and go back to our roots."

There is also recognition that housing associations have a crucial role in providing the right blend of housing to meet the needs of different demographics, including the 'working poor' and younger people who cannot afford to buy.

"The housing market is dysfunctional at the moment," said one CEO. **"We want to build homes for all parts of the customer pathway."**

Where does the future lie for housing associations? The dramatic vulnerability of social provision through established channels such as local authorities opens the door to a new dynamic in place-based service solutions.

Housing associations may change beyond recognition in the coming decade.

The developing role of artificial intelligence

Housing associations are increasingly turning to digital technologies, including artificial intelligence (AI) programs, to help streamline their internal processes and improve the way they interact with customers. But what are the risks, and should it be a case of digital by choice or digital by default?

“Over 90% of our customer interactions are over the phone – this isn’t sustainable. Digitalisation will be an important part of the future.”

This observation from one interviewee cuts to the heart of a digital transformation taking place within the social housing sector, a transformation driven in part by necessity.

We spoke to one CEO who, by using state-of-the-art technology and streamlining back office functions, has reduced his organisation’s workforce by more than 50% and has plans to go further.

The other key driver of digitalisation is user demand. Customers increasingly expect to access information and services via digital channels.

‘With technology, you have to make sure the human is dominant’

One CEO said they were looking to introduce AI across a number of functions, starting with voice chatbots in their call centre, and progressing to deal with various aspects of the rental process, including chasing arrears.

“Some people say technology is the answer, but it is about the people,” cautions one. **“With technology, you have to make sure the human is dominant and that you are not just using technology to cut costs.**

“I have an issue with digital by default. I think it should be digital by choice. Choice needs to be joined up within the back office, so that



individuals can choose how they interact at any given time.”

Data security is perhaps an even bigger concern for housing associations than the implications of digital by default.

A number of interviewees said their organisations were targeted daily by cyber attackers. **“One of our suppliers, which runs surveys on our behalf, got hacked, so the risks extend down the supply chain,”** said one.

Underpinning these challenges is a broader concern about whether digital risks are properly understood at board level.

“I now believe that data is our biggest risk,” said one interviewee. **“We have a third-party data manager to ensure we are doing**

things correctly, but it can be a struggle to get board members who really understand what is at stake.”

The role of GDPR is a significant challenge to the development of artificial intelligence and predictive analytics.

“Privacy by design is a core part of GDPR,” said one senior leader. **“I have concerns about the legitimacy of predictive analytics under GDPR.”**

The Scottish perspective

While housing associations across Britain face many common challenges, the political, economic and social landscape in Scotland means senior leaders north of the border are responding to these challenges very differently.



One of the key challenges facing housing associations in Scotland is the government's ambitious target to build 50,000 affordable homes by the end of the current parliament in 2021. Of that figure, 35,000 are earmarked for social rent.

Our interviewees in Scotland were divided on the achievability of this target. Although the Scottish government is pouring more money into the Affordable Housing Supply Programme – in January, it announced an extra £70m for the affordable housing budget in 2019/20 – for many, the maths just doesn't add up.

"I don't believe the 50,000 homes target will be met," said one CEO.

"It costs £140,000 to build a property, but we only get £70,000 of housing association grant, and that doesn't apply to provision of extra care."

A key challenge – for some at least – is finding land to build on. Indeed, for one CEO, access to land was **"the only thing"** holding back their association.

Another remarked on their complex relationship with their local authority.

"They have an ambitious build and development programme," said this CEO. **"They are either keeping land to themselves or they've already assigned it to other housing associations. If we are serious about developing, then we need strong ties and relationships with local government."**

"If we can't build, we will end up as a management and maintenance organisation. What's our purpose?"

Ensuring their organisation retains a sense of purpose was something all our interviewees saw as a key challenge.

How sustainable is funding for affordable housing?

There is also concern about what will happen after 2021. The Scottish Federation of Housing Associations has urged the government to commit funding beyond the current parliament. During our interviews, CEOs questioned what would happen if additional funding was not forthcoming.

“The Scottish government seems to be saying that funding is not sustainable beyond this parliament, and that we [housing associations] will need to find other ways to source this money.”

Despite these challenges, there is a consensus that not enough homes are being built to meet demand, and that something has to change.

“There is a housing crisis in Scotland,” commented one respondent. **“In the past few years, housing has become unaffordable for many.”**

In some areas, homelessness is another major challenge. One interviewee said there has been a proliferation of rough sleepers in their area in recent years.

“There’s significant deprivation, and drugs are more widely available – it’s a real problem,” they said.

Nationally, while rates of homelessness have fallen over the past decade, this trend has levelled off in the last couple of years. Indeed, latest figures show a 2% rise in applications to local authorities for homelessness assistance.

‘We want to make a tangible difference’

Distinctly in Scotland, there is a proliferation of small community housing associations of 500 units or fewer, many of which were set up in the 1970s.

Consistent throughout our interviews with Scottish CEOs was the sense of determination, not just to make a difference to local communities, but to be an active part of those communities.

“Our management committee wants to make a tangible difference to the community,” said one interviewee.

“We have to find some way to make a difference, either through construction or a community purpose.”

Another remarked: **“When someone applies to us for a house, it is the beginning of a working relationship. By the time they get a home, they understand how we work and our ethos. Culture is key to our association.”**

This CEO talked about wanting to **“protect tenants from the government”** – for example, by standing up against policies that put tenants at a disadvantage, such as charging them to park outside their own homes.

“Some associations are far too cosy with the government,” they said.



Japanese example highlights need to embrace new technologies

While there is a recognition that more must be done to help young people find a good-quality, affordable home, there is also an awareness that new solutions must be found to provide care and support for the growing elderly population.

There is also the additional challenge of providing care to elderly people in remote, rural locations. As one put it: **“How do you deal with the vast spaces of Scotland?”**

Just as in England, Scottish housing associations expect technology to play a greater role in the delivery of social care.

“We cannot afford to provide care in the future as we do now – we will need more technology,” said one. **“Japan is investing a significant proportion of its GDP on robotics because of its ageing population.”**

Housing associations are also increasingly using smart devices in telecare, but one financial director admitted to being “terrified” about the personal data collected by these devices falling into the wrong hands.

“We are the data owners and processors for all the data that is fed into these monitoring devices,” they said. **“There’s a lot of sensitive and personal data coming through, and we’re terrified to send any of it out in case we do it in the wrong way.”**

To address such wide-ranging challenges, housing associations are considering a range of approaches, including altering the make-up of their boards.

“The older guard are coming towards retirement, and we’re seeing people coming in who have commercial backgrounds,” said one CEO. **“We are addressing skill sets on the board, but it’s been an education process.”**

Another commented: **“We’re trying to break the top-down approach, to make managers more accountable and able to take ownership.”**

However, housing associations have little influence in controlling the political headwinds.

Brexit, for example, will be a challenge for housing associations across the UK, but there are specific concerns about its impact in Scotland.

“What worries me is that it could lead to another Scottish independence referendum, at a time when the UK needs a period of stability,” said one senior leader. **“We’re currently lumbering from one thing to the next.”**

This view wasn’t shared by all. **“The independence referendum can’t happen soon enough,”** said another.

The Scottish viewpoint

“Our focus is on housing, not other commercial enterprises.”

“There’s lots of risk involved with providing care for sheltered accommodation. We’re not a big enough organisation to provide that.”

“We’re not risk averse but, equally, we’re not risk stupid.”

“I don’t believe the target of 50,000 homes by 2021 will be met.”

“My job is to protect tenants from the government.”

“There is a housing crisis in Scotland. In the past few years, housing has become unaffordable for many, whilst as a nation we are not building enough homes to meet need.”

“The old guard are coming towards retirement, and we’re seeing people coming in who have commercial backgrounds.”

“If we’re serious about developing, then we need strong ties and relationships with local government.”

“When someone applies to us for a house, it is the beginning of a working relationship. Culture is key to the association.”

“Our biggest risk is Universal Credit. About 50-60% of our tenants are on Universal Credit, and while most will be fine, and some will get there with help, the remainder just won’t be able to deal with it.”

“If we’re not able to build, we’ll end up as a management and maintenance organisation. What’s our purpose?”

Final thoughts

While housing associations are innovating and adapting to the challenges they face, retaining a sense of purpose remains their overriding objective.

During one of our interviews, a CEO remarked how social housing had, until recently, been seen as a “sleepy” sector.

In 2019, this is certainly not the case. Senior leaders are acutely aware of the need to innovate in order to meet the challenges of today and tomorrow – whether that be exploring the potential of artificial intelligence and robotics, or investing in modular factories.

However, what is even more apparent from our conversations is the need for

housing associations to retain a sense of purpose – to truly make a difference to the people and communities they serve – even as they explore new ways of operating.

“Heart, kindness and compassion are key,” said one interviewee.

“It works best when property, people and money are in balance.”

Zurich Municipal would like to thank all those who agreed to be interviewed. Without them, this report would not be possible.

For more information or to provide feedback on any of the topics covered in this report, please contact us at:

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