

Can social housing afford not to become more commercial?



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Commercialisation. It's the new buzz word in the social housing sector alongside 'big data'. But aside from diversifying into areas such as market rent and shared ownership, is there a real understanding of the extent of commercialisation required?

Looking back to the sector's roots?

There are genuine and viable calls for the housing association sector to look back to its roots and pursue mutual or co-operative forms of housing provision, but there is an inevitable need to adopt a more commercial approach merely to survive moving forward regardless. The reason? Welfare Reform.

Aside from the 'spare room subsidy' it's highly unlikely the wider aspects of welfare reform will be undone by any future government. Unless the two Ed's do get in and genuinely bring back socialism. Which seems unlikely given the message over the last week from the new shadow work and pensions minister that Labour will be even tougher on benefits than the ConDems.

So the sector is genuinely faced with a financial tsunami which will make the bedroom tax look like small beer. If Labour don't win in 2015, it'll be even worse. Under 25's ineligible for any benefits.

Universally Plainly Speaking

Universal Credit. It's coming sometime soon to social housing. Maybe not this year, or next, but certainly by 2017. For the average 'housing association' or council with 5000 or so properties and a £20m annual rent roll, that means £12m a year in rents will be 'at risk from the average of 60% of tenants who have been accustomed to their 'rent' being paid by 'the social' but will get it direct to themselves as part of their Universal Credit.

The research to date points out that as many as 20% will at the very least struggle to manage the £'s in their pocket or their credit union account to pay rent. That's an average of £2.5m in rent. And rent arrears are forecast to double. That's an average of an extra £1m owed at least per landlord. Then there are those who will prioritise their expenditure accordingly. Accordingly in this case being what incentives or sanctions are on offer from all of those they owe money or need to pay bills to.

Put yourself in me, your imaginary average customer's shoes.

Like most households reliant on benefit, I'm struggling to make ends meet and live from week to week. I know I have to pay my rent, and want to, but I also know that the council tax people, the Prov'y and the Wonga's of this world who I've borrowed from will add fees and interest to any payments I don't make, and they'll go for attachment of earnings, court orders on my bank account, and ultimately send in the bailiffs to take away anything of value in my home to cover the initial debt and fees. They'll start with high value non essentials like the TV and electronics, then furniture, but will leave me with beds and essentials like the fridge and cooker.

I can't do without the basics either. Gas, lecky and water are a must for the kids and they're all going up while my benefits are coming down. Food's going up. The kid's school is forever demanding money for something or other. And my rent went up again this year at way above inflation.

I know from other neighbours that my landlord will threaten me a bit with a few letters, texts, phone calls and visits, and might even take me to court after a while. But if I miss payments and run up a few weeks or even more in arrears, I'm getting all that interest free. Sure they'll add on any court costs if they decide to take me to court, but I'll come to an agreement before the court date, and in any case the judge will sympathise with my plight, and I'll have to pay a fixed amount each week for 25 years to pay back what's owed. I suppose if they threaten me with that pesky ground 8, I'll have to come to an agreement before all that court malarkey and stick to it for a while.

Either way, my 'social' landlord won't charge me interest and won't send in the bailiffs. Who and what do I fear the most? It's not my 'social' landlord. I might get a job and be able to pay or if worst comes to worst I'll get rehoused somewhere eventually – maybe just use a different name. The council will probably stump up a deposit for me on a private let nearby, and my social landlord will probably write off any debt I owe them. Or I could just go for that individual bankruptcy thing I've heard a few people do if they did. I hear it means you can't get credit but I'll still be able to borrow from the provy and Wonga's of this world if I need to.

Time for a Reality Check?

65% of rent is a whole lot of risk which needs to be managed. Faced with the imaginary average customer's squeeze on income, their weekly priorities, and benefits being paid direct to them, what should the sector do?

There is surely as clear a *raison d'être* as there's ever been for adapting a more commercial approach across the board in the sector's operations.

Competition has been a buzz word across the sector for years in terms of best value and value for money, but the sector needs to seriously begin competing with and adapting to its rivals methods in the queue for customer's money & business if it is to survive. Increasing the numbers of staff working on income or becoming technologically astute isn't going to secure income if hands are tied to sanctions like court processes which are bottom of customer's priorities. Is it time to begin thinking through socially responsible restraint strategies and mixing that with mobile payment enabled rent collectors?

Court procedures themselves are becoming more expensive, and don't add value. Evictions cost on average £9k. Surely it will be better to collect the rent?

And it not just income that needs commercialising. An unintended but not unforeseen consequence of the bedroom tax has been a huge rise in the number of voids; costs associated with bringing them back to lettable standards and then rent loss while they stand empty because there are no applicants who can afford the bedroom tax deductions that will be applied.

There's been talk among some in the sector of demolition of such perfectly good properties, while more creative organisations are offering them for sale at discount prices for homesteading/shared ownership, creating shared tenancy homes, or even market renting them. There is a need to adapt a commercial approach to asset management which focuses on flexible tenures and approaches to lettability of properties rather than a simple churn them around, get the nominations in, and aim to comply with decent homes/Housing quality standard approach

Incentives for customers are also back on the agenda, and rightly so. The standard opposition to incentives, especially payment of rent, is usually 'why should we incentivise what people should be doing'. The real question is 'why not', when just about every major retail operation operates them because they're cost effective, and when you're competing for income and needing to reduce your costs, you need every advantage you can get.

And why shouldn't social housing require deposits from new tenants? Ask Jo public and they'll probably be astounded they've never been asked for before.

Faisal Islam's advice this year on the best way of improving disposable incomes across society was to reduce housing costs. In a commercial world, companies do reduce the cost of their goods in response to competition and the economy. Social housing has increased rents at above inflationary rates for the past 10 years regardless. Reducing rents rather than increasing them might also make commercial sense. 75% of something is better than 100% of nothing etc.

The Future?

A price freeze on energy bills or tax levy on payday lenders as promised by Labour won't stall the inevitable need for commercialisation of operational approaches across the social housing sector—even for mutual's, unless the incentive of mutuality means rent and maintaining tenancies as required is first priority for customers. Not likely.

Time's up for social housing as we've known it for the past 20 years. This 'forelock tugging' sector used to guaranteed incomes needs to face the new commercial realities if it means to continue delivering the social value, philanthropy, or additional homes it aspires to deliver.

About the author

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Since 2007 we have undertaken a range of strategic work for organisations, and since 2011 have been at the forefront of providing strategic and operational advice, assistance, insight and training for landlords in preparing for welfare reform.

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