REFORM, RISK AND RESILIENCE: SOCIAL HOUSING IN SCOTLAND

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Reform, Risk and Resilience – Executive Summary

The social housing sector in Scotland, chiefly housing association and council housing providers, confront a wide array of external and internal risks, as well as the need to respond to and work with multiple stakeholders like their tenants, government, the regulator and lenders. Providers operate risk-based management practices to help them assess and mitigate these risks. At the same time, many providers are looking to a series of resilience-building processes and strategies that will support and strengthen them in the uncertain years to come.

This study draws on evidence, key actor interviews and case studies with which to chart and analyse important questions for the housing sector that go to the fundamental role and purpose of social housing in the 21st century.

Key Messages

- There is no simple answer as to whether the sector should reduce risk by diversifying or by returning to the core business - It is context-specific. While no combination is necessarily better than the other, individual providers will locate where they think best and most appropriate to them – but they must to do so in a strategic and informed manner.

- Providers must continue to improve and invest in customer intelligence. The research found that this had not previously been a strength of the sector. While the situation had improved, due in part to welfare and other reforms, this progress should continue.

- Related to the above - front-line services including support services and broader issues, such as expertise in household management and financial inclusion, are likely to become more central and less peripheral in the future.

- There were varied examples of partnership working given by research participants. This primarily focused on customers and particularly linked to wider issues (e.g. health and social care integration). One theme was that partnerships are not just necessary for operational service reasons – developing and delivering services through partnerships is not just desirable but a necessary strategic approach for resilient housing organisations.

- Providers should embrace and seek to embed the notion of the learning organisation. There are good business reasons for doing this but we also noted the importance of drawing on new ideas like scarcity of mental capacity both among impoverished customers and hardworking staff. Ensuring that appropriate holistic training is deployed will make the best use of the sense found in the research that 'we are all risk managers'. Learning is part and parcel of good governance.

- There will significant new business development opportunities, not least as a result of demographic change and the care sector's relentless growth. There is scope to build on the idea of whole life housing provision and flexible care solutions directly provided and in partnership with others. This opportunity also brings risks and new stakeholders as well.

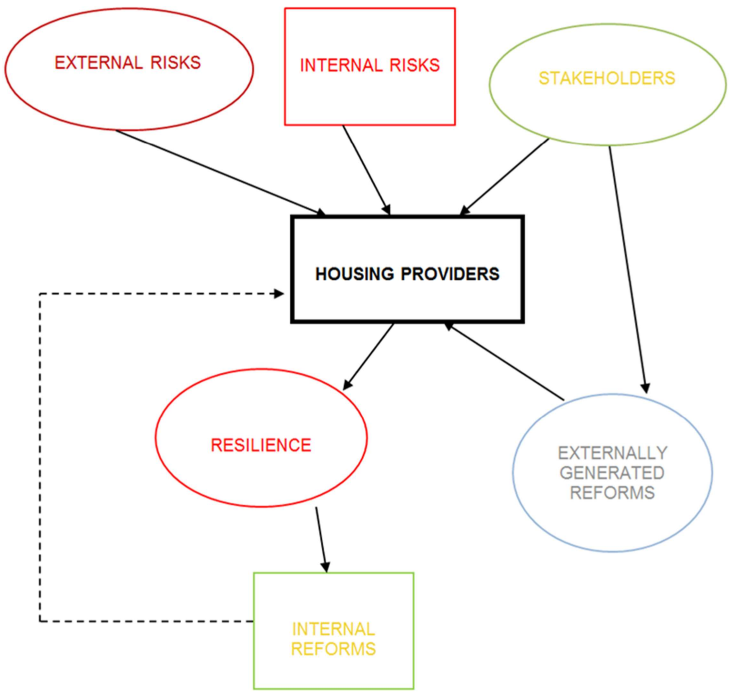
Context Matters

At the same time, however, there is an ever-growing requirement that social housing fits and plays a full role within what is increasingly known as the emerging Scottish approach to public policy. This is grounded in the Christie Commission principles of partnership, prevention, service integration, co-production, asset-based and efficient service delivery solutions. The Scottish Government organises its approach based on these precepts around the national performance framework, for which there are housing and regeneration performance indicators. The local articulation of these approaches to delivery can be found in community planning partnerships, increasingly viewed as the mechanism by which place-based holistic policies should be delivered. Housing should naturally play a major role in this emerging policy landscape.

The Relationship between Risk, Resilience and Reform

Figure 1 shows the interplay between external and internal risks that influence housing providers, as well as the impact of the requirements of multiple stakeholders. Housing providers respond to these risks by setting in train resilience mechanisms and reform proposals to facilitate that resilience. At the same time, other reforms such as those originating with the Regulator and with government policy innovation will also impact on resilience (though there may be unintended consequences for specific providers). This is also an on-going process with feedback loops.

Figure 1: Conceptualising Risk, Resilience and Reform in Contemporary Social Housing



Multiple Dimensions of Risk and Resilience

The principal external risks identified in the study reflect:

- Political uncertainty, UK and Scottish elections in the next 18 months and the constitutional and policy implications of the Smith Commission proposals, especially for welfare reform.

- The on-going austerity of reduced Government spending and the context of reduced housing subsidy.

- The evidence of housing supply shortages, the likely continued upper limit on new social and affordable supply, significant levels of unmet housing need and affordability problems.

- Long term adverse changes to private finance terms and availability will reduce conventional forms of funding and oblige developing providers to explore innovative approaches.

- Despite the Smith Commission's proposed softening on welfare reform in Scotland, the thrust of universal credit remains, as does the increased use of conditionality and pre-existing cuts in many relevant benefits.

- The remarkable growth of private renting and the opportunities offered by both institutional funding and regulatory reform in Scotland, may significantly enhance the sector and create both competitive threats and business opportunities for social providers.

- Demographic trends in particular, growth in numbers overall, ageing and increased single households will shift demand and need, will require provider response and create new opportunities and links to existing provision.

- Labour market and social fragmentation trends such as in-work poverty, the irregularity of many new jobs and wider trends in poverty and inequality need to be understood by front-line and integrated service delivery providers.

Internally-generated risks and the role of stakeholders are also important. Internal risks represent the past decisions, responsibilities, governance, human and other resources available, as well as the underlying outlook of providers. These path dependencies constrain providers but they also reflect their mission and outlook - but they may well also bring risks.

Key stakeholders include tenants, residents and local communities, central and local government, the Scottish housing regulator, lenders, and other service and business partners. These different constituencies exert different degrees and levels of influence over non-profit housing providers (and this varies over time). The importance and difficulty of navigating one's way through these different, and not necessarily consistent, requirements, helps explain the hybridity and ambiguity of contemporary social housing providers i.e. where they are located on axes between social and commercial orientation and also between core business and more diversified attitudes (see figure 2 of main report).

Resilience is equally multi-faceted. At a general level, it is about whether an individual, organisation or system has the capacity to withstand shocks and maintain purpose and function. But it can apply to social housing in terms of building in mechanism to reduce risk and set in place processes that can build and embed resilience.

In the research, key aspects of social housing resilience included focusing on strategic goals, on what is important rather than urgent. It was also deemed to be about facilitating organisational flexibility and responsiveness. Resilience is also about better customer and market intelligence. Good and appropriate governance was widely perceived as important, as was the concept of the learning organisation - drawing in new potent ideas from outside and embedding learning within the staff culture.

Next Steps

Three steps that should be followed-up as a result of this research are highlighted.

First, the lessons on good practice regarding risk management and reliance principles need to be further consolidated into practice. We noted in the report that there is training in resilience and that risk registers, their management and monitoring is an expectation of the Regulator. While all of our case studies clearly took this to heart in their actions - for the sector as a whole this all need consolidation into provider governance and behaviour on a consistent, comprehensive basis.

Second, where do specific providers want to be - are they matching their strategic vision to their operational capacities, resilience thinking and sufficient awareness of the risks they face? As individual providers and across their peers, this should be part of the strategic and medium term thinking of providers going forward. Whatever the decision and direction they resolve to follow, it should be grounded in a full analysis and wide consultation.

Finally, the sector as a whole should undoubtedly debate the strategic direction of the sector in terms of the following questions:

- What (or who) is social housing for in the 21st century?
- Is it the same kind of entity as that envisaged in the 1980s when the key elements of the present system emerged?
- We have a plural and diverse set of providers that achieve amazing things but face risks, constraints and challenges - What should be their purpose and what might be their limits, if they are to embrace the Christie Principles and perform the kind of multi-level function that could be of such benefit to Scotland?

Having some consensus around these questions would play a key role setting the framework for how such strategic goals might be achieved for the sector.

About the Study

The research was carried out in 2014 by Policy Scotland at the University of Glasgow and was funded by the Wheatley Group. The study builds on earlier work carried out by the University of St Andrews (*New Times, New Business*), though unlike the former, the new study is only about Scotland. The research team acknowledges the invaluable role played by its steering group drawn from across the Scottish housing sector. It is also grateful to those who participated in semi-structured interviews and also thanks the four case study organisations. All opinions views and errors are fully the responsibility of the authors.

A full report '*Reform, Resilience and Risk: Social Housing in Scotland*' by Kenneth Gibb, Des McNulty and Tony McLaughlin is available from both Policy Scotland at the University of Glasgow [http://policyscotland.gla.ac.uk] and from the Wheatley Group. [http://www.wheatley-group.com].

1. INTRODUCTION

Policy Scotland

Policy Scotland's mission is to generate and provide a space for local, national and international public policy debates. It builds on the University of Glasgow's research excellence in specialist policy fields including crime, housing, disability, transport, public health, economic and employment policy, education and welfare reform.

We foster co-operation between academics, practitioners and policy makers to confront contemporary policy challenges, undertake original policy research and engage with users to stimulate new thinking and spread good practice in Scotland and further afield. Our role involves translating academic research into formats that are most useful to policy-makers and practitioners, brokering engagement between non-academic users and academic researchers and co-producing work with people involved directly in relevant policy fields. This report is an example of the latter.

The Reform, Risk and Resilience Project

In early 2014 Policy Scotland approached Wheatley Group with a proposal to undertake a joint project to look at the challenges facing housing organisations in Scotland and how various types of providers are coping. The proposed research would build upon the findings of the 2012-13 'New Times, New Business' research project, led by the Centre for Housing Research at the University of St Andrews. The *New Times, New Business* project examined the provision of non-market housing at a time of austerity in an international context and involved a range of major international partners, one of whom was Glasgow Housing Association, the organisation from which the Wheatley Group evolved. One of the key findings of the project was that the market conditions that housing providers found themselves in, following the Global Financial Crisis (GFC) of 2008, made it necessary for housing organisations to look at new forms of leadership, organisational cultures and standards of governance appropriate for them to adapt and succeed in a radically changed world. In contrast, research for the present study was undertaken in 2014, the year of the independence referendum, and focuses on risks and resilience across the diverse Scottish social housing sector: national players, local authorities, specialist housing associations and community-based organisations all have to be examined.

Although we found the picture to be complex and multi-faceted, by common consent, the biggest challenge facing the sector is generally argued to be welfare reform and its consequences (albeit partly alleviated in the Smith Commission proposals). This policy thrust and austerity more broadly will continue for several years to confront a housing system that has already experienced significant change in recent years, e.g. as a result of the long term retrenchment of the availability of debt finance, the shortage of new supply, changes in tenure including the growth of the private rented sector (PRS), and a variety of issues around poverty, social fragmentation, demographic challenges and political uncertainties. This purpose of this research report is to examine how Scottish housing organisations are responding to current and future challenges, drawing on the themes of risk, resilience and reform.

Steering Group and Project Team

The Reform, Risk and Resilience project (hereafter RRR) has been greatly helped by a Steering Group comprising prominent individuals from across the Scottish Housing Sector. We are very grateful for their time and contribution to the project. The membership of the Steering Group is given in Appendix 1. The RRR project team is:

- Professor Kenneth Gibb, Director of Policy Scotland and Professor of Housing Economics at the University of Glasgow
- Des McNulty, Deputy Director of Policy Scotland, University of Glasgow
- Tony McLaughlin, Research and Policy Officer at Wheatley Group (seconded to Policy Scotland for this project)
- Emma Smith, Administrator, Policy Scotland

Aims and Objectives

The focus of the report is on how organisations identify, categorise and try to mitigate risk, drawing a distinction found in the literature and in practice between on the one hand between risk and danger and on the other between risk and uncertainty. The notion of resilience is explored as a way of separating out particular responses to risk that have building the capacity of the organisation or its tenants and communities as their focus. We define reform, originating from both internal and also external sources, as purposeful approaches taken to improve service provision and management in ways that are consistent with the principles set out by the Christie Commission (2011).

Within the conceptual framework set out in section two, we draw on grey literature (annual reports, briefing papers and similar materials) as well as conventional sources to analyse the contemporary and immanent risks inherent in the operating environment of the Scottish Housing Sector in part three, focusing on regulation as well as the management of risk, on attempts to manage change in anticipation of future threats as well as on responses to immediate pressures. The fourth section of the paper outlines the approach taken by the project team in gathering evidence from primary sources, including elite interviews and case studies, the findings from which are set out in the fifth and sixth sections of the report. The final section reports the project's key conclusions and sets out policy recommendations.

2. RISK AND RESILIENCE: MULTIPLE PROBLEMS AND DIMENSIONS

The Multiple Meanings of Risk

Registered Social Landlords were accustomed to a relatively stable financial and regulatory regime between the early 1990s and the Great Financial Crash (GFC). As we will see in the next section of the report, the operating environment has changed considerably for social housing providers' post 2008. In that context, "risk and uncertainty create distinct challenges for the performance and effectiveness of non-profit organisations" (Gibb and McNulty (2014)). The concept of risk can have many meanings and layers. The Oxford dictionary defines risk as "a situation involving exposure to danger"[1]. However the notion of risk can embrace upsides as well as downsides e.g. financial returns to a risky economic prospect may be positive and profitable, or negative and loss-making.

Mainstream or neo-classical economists make behavioural assumptions concerning individual preferences regarding risk averseness, risk neutrality or even a positive appetite for risk-taking – without worrying about the implications of genuine uncertainty or indeed how to make reasoned real world decisions based on risk in practice (Wilkinson, 2008). Their interest is not the dangers posed by a specific risk, but how an individual or organisation behaves in response to risk more generally. Classical writings on risk from an economic perspective include those of Knight (1921) and Keynes (1937). The former famously distinguished between risk and uncertainty by arguing that unlike risk, uncertainty meant that that there was not enough information with which to assign numerical probabilities to future outcomes.

Keynes took this argument further by distinguishing that which is certain from that which is probable and that which is, thirdly, quite unknowable (which he described as genuine uncertainty). Decision-makers must accept that they live in a world that is characterised by often pervasive uncertainty. However, assigning a numerical value to risk based on the probability of an outcome (often characterised in terms of weighted likelihood and impact) has become the cornerstone of the managerial technique of risk management which most businesses have adopted. From this perspective, risks are eventualities that can be anticipated, measured and mitigated against.

Writers from different disciplines, following Beck (1992), have viewed risk as a social construction rather than a probabilistic calculation. It is the perception of risk, rather than the likelihood of something happening, which fires the public imagination. Zinn and Taylor-Gooby (2006) argue that possible catastrophes, such as environmental damage linked to climate change, loom large in many people's minds, even though we may be safer from physical danger than ever before. Pressure on public authorities to regulate and control risk is not always consistent with the degree of exposure to danger (a perception not helped by frequent poor use and dissemination of statistics on

[1] http://www.oxforddictionaries.com/

probabilities of risks). In the context of social landlords, risk is about the assessment and management of the dangers to social housing organisations and their customers. In the course of the interviews for this project, a clear theme was a heighted awareness of risk and the proactive use of risk management techniques among social landlords and across their staff and operations.

More than one interviewee mentioned the recent case of Cosmopolitan Housing Group. Cosmopolitan was an English social housing organisation that, having heavily invested in the provision of student accommodation, failed to manage the risks involved appropriately and proportionally following merger with another larger housing association. It came to the attention of the English social housing regulator that Cosmopolitan was experiencing cash flow problems and risked likely financial collapse. Eventually, Cosmopolitan was rescued by becoming part of the Sanctuary Group in March 2013.[2]

In a follow-up report commissioned by the English Regulator the primary cause of the collapse at Cosmopolitan was perceived to be a serious failure of governance within the organisation over a number of years, with previous regulators in England such as the Housing Corporation and Tenant Services Authority failing to appreciate the severity of the risks within Cosmopolitan. The report concluded that had regulation in the early 2000s been more comprehensive, the crisis might have been avoided. (Underwood, Kane & Appleby, 2014)

The fate of Cosmopolitan Housing Group has not just influenced thinking within social landlords. Given that the Cosmopolitan failure was considered of systemic importance, it has affected the approach of the Scottish Housing Regulator (SHR). The SHR has published advice to social landlords on "Financial Risk and Viability" under three headings: Welfare Reform, Borrowing and Debt and Group Structures and Diversification[3], highlighting the increased risk associated with the implementation of welfare reform and associated rises in arrears, the need to continually test the robustness of business plans, and the need to protect the interests of tenants by having appropriate governance and management arrangements in place.

The SHR repeatedly stresses in its advice that RSLs need to maintain a strong focus on financial health and financial sustainability. It sees its role as protecting tenants from management failings – either through increased rent or reduction in services provided – and insuring that any adverse impact is minimised. A key role for the governing body of each association is to challenge management and to get assurance that everything possible is being done to manage the risk to financial health. It is within that context that the SHR has a clear regulatory expectation that RSLs will have robust business planning and risk management processes in place.

[2] One of the authors, Kenneth Gibb, was a board member of Sanctuary Housing Association during this episode.

[3] It is important to note that risk perceptions are likely to be different for local authority social housing providers to RSLs, because of the way that the respective landlords are funded and governed.

To ensure viability and mitigate financial risk and viability, the SHR expects that registered landlords will:

- Focus on cost control and achieving value for money
- Analyse the risks arising from Welfare Reform and take action to manage and mitigate them
- Plan ahead to address any pension deficit and consider the effects of likely future changes in the accounting treatment of pensions
- Be vigilant in relation to covenant compliance and take prompt remedial action to address any potential breaches
- Ensure that assumptions underlying the business plan are sensible and realistic and that financial forecasts are consistent with those assumptions
- Ensure that there are effective risk management and governance arrangements in place especially in relation to diversified activities
- Monitor cash flow to make sure that (the organisation) is able to pay debts as they fall due; consider all of the risks in the business plan, model the financial effects of changes to key assumptions and have contingency plans in place as appropriate; and
- Ensure that it is able to detect timeously any serious risk to the financial sustainability of the organisation and to initiate appropriate corrective action.

(Scottish Housing Regulator, 2013)

As noted above, awareness of risk and the need for effective risk management have become increasingly significant concerns both of housing association managers and the regulator in recent years, prompted both by the lessons of the financial problems faced by Cosmopolitan and an awareness of threats arising from external pressures on housing providers. In the next section we will assess these external threats and in section five we will draw together evidence from interviews of key actors within the Scottish social housing sector. In the interviews, key actors are asked to identify what they see as the key risks both to their own organisation and to the sector more widely. Responses reflect their perception of measurable risk but also symbolic risks, reflecting the complex and contradictory uses of the term.

Resilience

As with the concept of risk, resilience has multiple meanings. Zolli and Healey (2012) show how the concept can be used to refer to economic, ecological, social or technical systems and to both people and organisations. They define resilience as:

"…the capacity of a system, enterprise or a person to maintain its core purpose and integrity in the face of dramatically changed circumstances" (Zolli and Healey, 2012, p8)

The elasticity of the concept is one of its attractions to many of those who use it. For instance, Housing Quality Network (HQN) currently offer training on "Resilience and

Mental Toughness” for housing professionals from all parts of the United Kingdom, which stresses the ability to “bounce back” from setbacks as being key to individual resilience. Interestingly, publicity for this training highlights “exceptional resilience skills” as a key competency for housing professionals faced with a more challenging operating environment, stating that:

“New concepts of delivery, different relationships with partners, responsibilities with less boundaries, regulatory uncertainty, and tighter time constraints mean we need exceptional resilience skills to achieve performance and bounce back quickly from adversity and setbacks”. (HQN, 2014)

Another way of interpreting the concept is focused on the resilience of an organisation. A paper by Hamel and Valikangas points to an organisation’s ability to go beyond merely responding to setbacks as being fundamentally important to ensuring its resilience and consequently, its success. They note the emergence of several disruptive trends, including; technological discontinuities, regulatory upheavals, geo-political shocks and abrupt shifts in consumer tastes as key challenges for organisations. The authors conclude that; “strategic resilience is not about responding to a one-time crisis. It’s not about rebounding from a setback. It’s about continuously anticipating and adjusting to deep, secular trends that can permanently impair the earning power of a core business. It’s about having the capacity to change before the case for change becomes desperately obvious.” (Hamel and Valikangas, 2003, p3)

During the key actor interviews for this project, the theme of organisations continually reviewing and examining an organisation’s strategic purpose was to the fore, reflecting Hamel and Valikangas writings on the topic of organisational resilience. Almost everyone interviewed referred to flexibility as one of the characteristics that a resilient organisation should display. Flexibility in this context means that organisations can adapt their management and staff structures and put the necessary financial arrangements and controls in place to meet the many challenges that the housing sector faces.

A recent conference paper by Taylor (2013) sets out her understanding of the different meanings of resilience as they relate to Scottish housing associations. Taylor defines resilience relating to business, psychology and ecology as:

- Business (continuity): the ability of an organisation’s business operations to rapidly adapt and respond to internal or external dynamic changes which include opportunities, demands, disruptions or threats – and continue operations with limited impact on to the business
- The ability to recover quickly from illness, change or misfortune, in other words buoyancy or an ability to bounce back
- The ability to resume original shape or position after becoming bent, stretched or compressed – elasticity

- The process of recovery – to learn/adapt to difficulty, to have the capacity to respond to a disturbance
- The ability to absorb disturbances – to re-organise and still have the same identity.

(Taylor, 2013, p5-6)

In terms of strategies of resilience to help housing associations deal with adversity and external shocks, Taylor points to the need to help shift attention from purely growth and efficiency to a focus on recovery and flexibility. Similar arguments are made by Hamel and Valikangas, who note that "momentum is not the force it once was" in ensuring an organisation's success and that resilience requires "a capacity for continuous reconstruction". (Hamel and Valikangas, 2003, p4)

Taylor offers some guidance for housing organisations to become more resilient. This advice sets out what Taylor sees as the key actions and characteristics which housing associations should adhere to secure the resilience they need to prosper:

1. Maintain good relationships
2. Avoid seeing crises or stressful events as unbearable problems by; keeping a long term perspective, focus on a broader context or the big picture, recognise loss followed by renewal and find positive meaning in spite of difficult or traumatic events
3. Accept circumstances that cannot be changed
4. Taking care of mind and body by; paying attention to needs and feelings and managing strong feelings and impulses
5. Having a positive self-image and developing confidence, strength and abilities
6. Having good problem solving and communication skills
7. Feeling and being in control
8. Developing realistic goals and working towards them
9. Maintaining a hopeful outlook and expecting good things.

(Taylor, 2013, p12-13)

The concept of resilience is multi-layered and multi-dimensional and can be applied in different ways. In housing, the terms can be used in the context of a customer, a leader or a frontline member of staff. It can also be used to describe the characteristics of an organisation or even the housing sector as a whole. A resilient organisation is one that has the correct people with the correct skills. Individual resilience underpins organisational resilience. This comes through strongly in the interviews and case studies discussed later in this report.

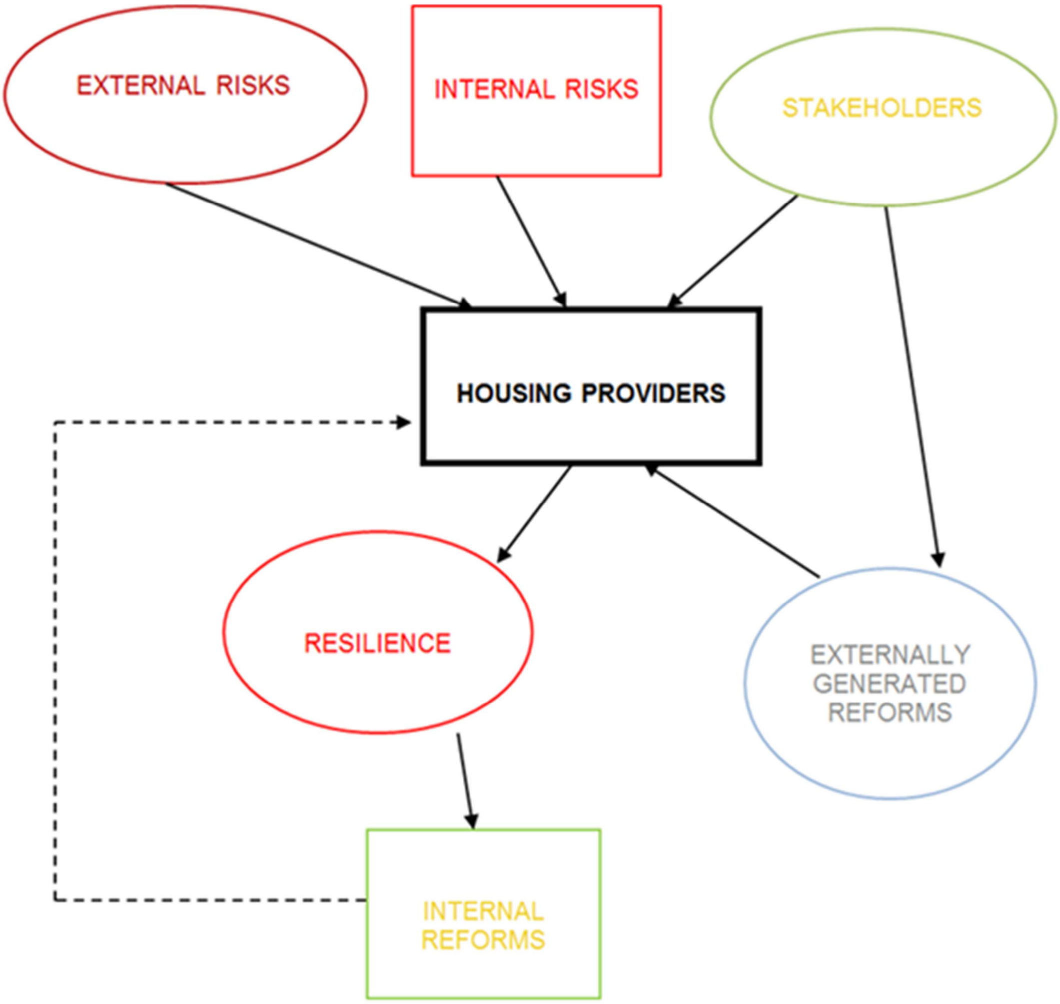
Figure 1 shows the interplay between risk, resilience and reform within the housing sector. The housing provider that sits in the middle of this stylised chart may be large or small, national or local, specialist or general. Three principal drivers impact on the housing provider. First, there are a series of external risks (discussed in detail in the next section) but these chiefly concern changes to the operating environment that the provider has little if any control over. Examples of such drivers would include the credit crunch reducing private finance terms, conditions and availability. This would be equally true in terms of welfare reform or austerity cuts in housing public capital expenditure. Internal risks speak to both the deliberate actions of the organisation, which have consequences e.g. decisions to diversify or to take on new IT systems, but also are the consequence of the historical path and niche that the provider is located in (e.g. previous funding and housing stock, property quality, mission or purpose, and wider housing market conditions, etc.).

The third driver is the provider's set of stakeholders with whom they interact and who have more or less influence in shaping what the social housing organisation can do. These stakeholders would include the policy and practice direction provide by the Scottish Government, in some cases delivered by local government or other service providers. It includes the key role played by the SHR (and perhaps also OSCR and the Care Inspectorate). Lenders may also be important stakeholders, as would other professional bodies such as legal, audit, surveying and other technical professions. Other critical stakeholders include the organisation's tenants, residents and communities who are served by the provider. Most providers will also have commercial partners. The point is that the hybrid commercial-social nature of non-profit housing providers means that they have multiple stakeholders and varying degrees of discretion over what they can do. This is fundamental to what we mean by what social housing is actually for – a key recurring theme of this project. As is clear from the diagram, stakeholders may themselves generate a series of external reforms aimed at improving housing sector performance, which directly impact on the housing provider (e.g. a future Government imposing limits on rent increase nationally).

Figure 1 also indicates that, in response to the environment facing them, progressive providers will generate a series of resilient responses. These will be customised in terms of the position, experience and path that the organisations in question will have been on, though they will also be affected by professional good practice, willingness to innovate and the learning culture within the housing organisation. These include the examples identified above by Taylor (2013) and other illustrations are identified later in the report. The application of these resilient principles will also generate a series of internal reforms aimed at embedding resilience and dealing with external and internal risks. Note also that there will be positive feedbacks from the reforms back to the housing provider.

Figure 1:

Conceptualising Risk, Resilience and Reform in Contemporary Social Housing



Locating Social Housing Providers

It is also helpful to place the social housing sector's different providers types within some kind of consistent framework. We draw on Dutch research by Vincent Gruis to do just this (Figure 2 below). Gruis (2008) provides a useful typology for Dutch housing associations organisational archetypes. There are several dimensions. First, four different ideal types are organised around two axes:

- 'Prospectors' versus 'defenders'.
- Commercial versus social orientations.

Prospectors look for market opportunities and experiment in response to emerging trends. Defenders, in contrast, have a specialism and a narrow market domain for their product or service that they do not like to stay from but instead seek efficiency improvements in what they do. This is the vertical axis. The horizontal axis distinguishes organisations that are relatively socially oriented against those that are more commercially oriented. On this basis Gruis (pp. 1080-81) fills in four cells representing different combinations of these characteristics

1. *Social housing manager* – an emphasis on traditional social housing tasks, a focus on social returns reinvested in housing and efficiency of housing management.
2. *Societal innovator* – the landlord works across different parts of the public and private sector, seeks to diversify and identify new opportunities, it is interested in social returns but invests them more widely than just housing.
3. *Social housing investor* – a focus on traditional housing activities and their efficient management but seeks to generate financial returns as a going-concern.
4. *Societal real estate investor* – the entity works across the whole real state sector seeking opportunities to earn financial returns with a broad property portfolio that includes social housing.

Figure 2:

Social Housing Archetypes

Defender

Social Orientation

Social Housing Manager	Social Housing Investor
Societal Innovator	Societal Real Estate Investor

Commercial Orientation

Prospector

Source: derived from Gruis (2008) p.1081.

Of course, these are descriptive archetypes (and not in any way normative) and organisations may be either in-between specific cells or indeed reflect different archetypes in specific parts of their organisation. Nonetheless, this is a useful simple device with which to consider the evolving nature of social housing. While UK social providers have tended not to move as far to the bottom right quadrant as Dutch associations did prior to 2008, it is the case that several UK providers have decided to re-position themselves away from the top left quadrant in figure 2. It is also interesting to note that the subsequent Dutch literature suggests that since the financial crisis in 2008, and due to a series of external and internal risks or challenges, there has been an evident retreat north westerly back to the core of social housing activities by housing associations (Priemus, 2010; Priemus and Gruis, 2011). There is nothing inevitable or evolutionary about the direction of travel. Rather, it is subject to external and internal pressures and how swiftly and effectively providers can respond resiliently to new or emerging challenges.

3. CONTEXT, REFORM AND THE CHANGING OPERATING ENVIRONMENT

Housing system change

The modern housing system is a complex combination of tenures and housing stock, of household types, and of private sector and non-profit providers. Its dependencies include the workings of land and finance markets and the policies of government and its agencies. In Scotland, housing is devolved but in the period covered by our research welfare benefits were largely reserved, taxation policy remains unequally shared between devolved and central government and mortgage market and banking along with public spending rules are wholly reserved. Some of these arrangements may change following the recommendations of the Smith Commission but control of the levers that affect housing policy will continue to be split between Holyrood and Westminster. Housing is also fundamentally of the place it is located in, its social and economic characteristics and conditioned by place and it has integral links and spill over relationships with local planning policies and processes.

For these reasons we first consider the broader contextual drivers that influence the housing system and those factors that directly and indirectly have a bearing on contemporary social housing. As we will see, welfare reform is a key challenge for the Scottish social housing sector and a key driver of this research. However, while acknowledging that for many in the housing sector, welfare reform is a 'game changer', it is also important to note that it is but one of a number of factors driving behavioural and systemic change in the sector.

The Scottish housing system has changed dramatically over the last two decades. We have identified a number of important dimensions that impact on the operating environment of social providers and inform questions of risk and resilience:

- Tenure change
- Housing supply challenges
- Demographic change
- The GFC, recession, austerity and the changed lending climate
- The housing market, affordability and the cost of housing
- External cost of living issues impacting on housing affordability – e.g. food and fuel poverty
- The changing nature and growth of poverty in the UK and Scotland
- Welfare reform
- On-going political uncertainty.

Housing Tenure

Changes to housing tenure in Scotland in the last 15 years are shown in Table 1. Prior to 1999, there had been a period of sustained growth in home ownership, which took Scotland towards UK levels of owner occupation but with lower proportions of private renting and social housing playing a bigger role than in England. Since 1999, social renting has fallen back from almost a third to now less than a quarter, though this trend has decelerated after 2008 with reductions in private sector housing building.

The most significant changes are due to social homes being lost to the sector through the Right to Buy and the growth in the private rented sector, which has more than doubled. Tightening mortgage markets and a lack of alternative low cost tenures have contributed to the growth of generation rent (if we look at households headed by those under 35, the private rental market is now the largest tenure – CASD, 2014). This is a remarkable change, affecting the demands and expectations of households and it has significant implications for social housing providers. It would be dangerously naive of social landlords to dismiss this as temporary and wholly driven by frustrated preferences to live in other tenures.

Within social housing there has also been compositional change. Housing Associations, constituted a small proportion of Scottish housing stock, fewer than 4%, in 1994. Over the subsequent two decades, there was significant housing association growth, with over 11% of Scottish households residing in Registered Social Landlord (RSL) properties by 2013. This proportion has remained stable, unaffected by the GFC in 2008, the abolition of the Right to Buy (which led to a slight bubble in sales in parts of Scotland) and the resumption of council house building.

Table 1 Tenure Change, Scotland, 1996-2013 (households, % of total)

Tenure	1999	2006	2013
Owner-occupied	61%	65%	61%
Social rented	32%	25%	23%
Private rented	5%	8%	13%
Other	2%	2%	2%

Source: Scottish Household Surveys (see CASD (2014) p.10]

The increase in the proportion of the Private Rented Sector (which now represents 14.6% of Scottish housing stock in 2013[4]) is partly a consequence of supply 'slack' resulting from restricted access to both mortgage finance for homeownership and social housing tenancies. The growth however also suggests that an increased number of people are living and staying in the PRS through choice, in order to live in particular areas/locations where there are economic opportunities and perceived high amenities. Such areas are particularly targeted by buy to let purchasers/landlords. There has also been growth in the number of private rented households in Scotland requiring Housing Benefit to help with their rent rose by 62 per cent, from 60,000 in 2008 to 97,000 in

[4] All statistics taken from Housing Statistics for Scotland – Scottish Government 2014

2013 according to analysis from the Joseph Rowntree Foundation (2014), which suggests that private landlords are now accommodating increased numbers of poorer households.

Whatever the factors behind the growth of the private rented sector, its increasing importance to the Scottish housing system has been recognised, both in strategic and practical terms. In their 2011-produced strategic document "Homes Fit for the 21st Century", the Scottish Government stated that the PRS was an integral part of the housing system and set out its policy intentions of facilitating growth and improving quality in the sector (Scottish Government, 2011, p13-14).

Government pulled together a broad–based 'Tenancy Review Group'. This Group assisted in the production of Scotland's first specific PRS-specific housing strategy, '*A Place to Stay, A Place to Call Home*'[5]. The title of the Strategy in itself is revealing, as the PRS is now being seen as a long-term housing option. The review group also looked at examining current PRS tenancy arrangements to gauge whether they should be changed in the light of the increased importance of the sector. This in turn led to consultation on a New Tenancy regime, which has as its aim the modernisation of the tenancy regime for the benefit of both tenants and landlords. The consultation paper acknowledges the changing demographics of people living in the sector for longer time periods, with an estimated 80,000 households with children being housed in the sector in 2013 as opposed to 20,000 in 1999[6].

Demographic Change

Housing demand is strongly shaped by demographic change. In the long-run the success of the housing system to meet need and market requirements will depend on its capacity to meet the shifting demands arising from changes in the number, type, age and location of Scotland's households. CASD (2014) suggests that:

- The overall population and the number of households in Scotland are increasing. Population increased by more than 250,000 between 2000 and 2013. Between 2012 and 2037, households are expected to increase by 330,000.
- Within this increase in total households, most of the growth will be in one person households, lesser growth (approximately half of solo households) for two person households; while three plus person households will shrink. Falling average household sizes are likely to be here to stay.
- Much of this can be explained by the ageing of the population. We know that projections for Scotland show, relative to the rest of the UK, a relatively older population structure and a higher dependency ratio of older to working age people. Forecasts out to 2037 suggest that the largest growth in population will

[5] http://www.scotland.gov.uk/Publications/2013/05/5877
[6] Scottish Government - 2014 http://www.scotland.gov.uk/Publications/2014/10/9702/2

be among the over 75s (growing from 13 to 20 per cent followed by the 60-74 age group (remaining at 22% of the total).

These demographic changes are important drivers of demand for and opportunity to provide transitional, specialist housing for the elderly, additional low-level support in the home e.g. care and repair, garden aid as well as adaptions and telecare, and for more intensive support which combines some nursing as well as personal care. It suggests the need for a deepening relationship between housing providers and organisations delivering health, social work and care, particularly in the context of the merging of the budgets for health and care and recognition of the important role that housing providers could play in supporting rounded solutions for specific needs. More broadly social housing providers may also have a wider initiating and innovative role in helping active older households' down-size and move to more integrated housing and lifestyle compatible communities [Best, 2009].

Housing Supply

Housing shortage and how to increase supply across the tenures is the key focus of the Scottish Government's overall housing strategy. This is made clear in the introduction: "Scotland needs more homes. Our population is growing, the average household size continues to fall, and as always there will be some old housing that needs to be demolished and replaced. The overwhelming view of respondents to the housing discussion was to emphasise the importance of new supply to meet the needs of our people"[7].

All-tenure housing completions hit a 20-year high in the financial year 2007-08, at a level of 25,787 housing units. Corresponding with the financial crisis, however, completions dropped off sharply, slowing to a low of 14,054 in 2012-13 before making a slight recovery in 2013-14 to 14,737 (CASD, 2014). This is well short of the Scottish Government (private and social) housing supply target of a minimum of "20,000 homes each year just to accommodate housing growth[8]". The Scottish Government has additionally pursued a strategy of delivering at least 6,000 new social and affordable units each year, two thirds of which were to be demonstrably social (new housing association and council social housing for rent) plus one third affordable supply (mainly low cost home ownership but with a growing proportion of mid-market and national housing trust affordable rented supply).

This social and affordable supply target has been achieved for the first three years of the current parliament (2011-14) but has relied on both the relatively high level of affordable supply in the private sector and increases in the grant per unit for social housing delivery. The global financial crisis and the subsequent tightening by the banks available finance hit housing associations hard in their ability to deliver new supply

[7] Homes Fit for the 21st Century, page 6
[8] Ibid

housing. In 2013-14 2,911 units were completed, the lowest number since 1997-98 and not much more than half the sector high of 2009-10. In the local authority sector, following minimal new build between 2003 and 2007, landlords have gradually increased completions to 1,140 in 2013-14. This may be a fairly small number in the context of overall housing completions but is significant in that some Local Authorities now feel they have a development role[9].

Economic and Financial Crisis and Response

The GFC was experienced as a succession of shocks that buffeted and severely damaged the Scottish housing system. The initial banking crisis and credit crunch greatly restricted financial institutions willingness to lend to potential mortgagors and social housing providers. The constriction on lending brought to an abrupt end the mixed finance system that had been quietly evolving since 1988, characterised by reliance on cross subsidy from the market place, which had underpinned a long period of stable high volume finance for housing.

The banking crisis precipitated an economic recession. Job and income loss threatened to create an unprecedented housing market collapse with possible wider repercussions for the economy. While prices fell back in 2008-2010, they did not do by as much as the earlier 1990s market recession. Instead, it was the volumes of build, loans and transactions that collapsed dramatically (and along with them, land prices fell strongly too). Repossessions and arrears rose sharply but again did not reach the previous peaks of the early 1990s (arguably because of interventions to the banking system by the UK government and the relaxation of social security support for mortgage payers – Gibb, et al, 2013).

The UK Government response to recession included deficit reduction and austerity after 2010 and large cuts to public budgets, with cutbacks in capital expenditure disproportionately affecting housing (though twice as much proportionately in England as in Scotland). Housing has also been affected by benefit changes, where housing benefit changes have had a significant impact and further proposed welfare reforms (see below) are expected. Major public services cuts are anticipated, following a period of retrenchment, particularly affecting local government services. It is in this context that we see the significance of the Christie Commission's focus on Scottish public service reform around principles of partnership, prevention, performance enhancement and service integration – as relevant to the housing sector as elsewhere.

Housing Markets, Prices and Affordability

The Scottish economy measure in terms of GVA per head is typically the third richest standard region in the UK (though it stands to fall back relatively in periods of wider national economic growth). The Scottish housing market faced a significant fall in house

[9] Scottish Government New Build Statistics, accessed 6 November 2014 http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuild

prices post 2007-08 (now caught up back to the earlier peak) and this reflected Northern Britain's experience more than that of London and the South East. But the fact remains that the prices of housing across Scotland fell less than might have been expected and considerably less than the volume measures mentioned earlier. This should be set beside the faltering and largely flat or falling levels of real incomes in the period since 2007-08 and the belief that much of the recovery's additional jobs have been in part-time, low wage or indeed involuntary self-employment. Despite historically low mortgage rates, it can be argued that affordability remains highly problematic across the UK and Scotland in that respect is no different.

CASD (2014) report Scottish-wide house price to earnings ratios falling from an historical peak of a little less than nine in 2010 and falling back to just below 8.5 in 2013. This reflects a worrying trend increase in this ratio over recent decades, one that is increasingly problematic for aspiring home-owners. Of course, there are other dimensions to affordability and local markets vary hugely but these are very high numbers and for Scotland, unprecedented. Should we expect a correction or a mean reversion to some historically more comfortable level of house prices to incomes that might soften the affordability-driven rise in housing need?

International evidence suggests not. A recent paper by Knoll et al (2014) looking at 14 countries' (very) long term real house price trends back to 1870 suggests that real house prices have been rising for a considerable time albeit around a volatile trend but that this is actually accelerating. Among other things, this reinforces Picketty's argument (2014) about the growing importance of housing wealth for 'insiders' in modern capitalist society and the worry that many have about the consequences for issues like the funding of care if a cohort or more are excluded from home ownership asset welfare by unaffordable prices just when the state is rolling back support.

Poverty

Poverty and in particular, in-work poverty and social fragmentation, have long been issues considered by social housing providers both in terms of housing need but also its more insidious effect on the communities served by social housing providers. These issues have been very prominent in the thinking of social housing providers in recent years given the welfare reform agenda and pressures on household incomes resulting from the economic fallout from the global financial crisis.

According to the most recently available statistics[10], published in July 2014, poverty is increasing, particularly in the disadvantaged communities that are served by Scottish social landlords. 16% of individuals in Scotland were living in relative poverty in 2012/13. This was a 2% increase from the previous year, which equates to 110,000 more people living in poverty, bringing the total to 820,000 individuals.

[10] National Statistics – published July 2014 http://www.scotland.gov.uk/Resource/0045/00454875.pdf

This pattern held true across the generations, with increased child poverty particularly significant. Some 19% of children in Scotland live in poverty. Over the same time period as above, the number of children living in poverty doubled at twice the rate of the population as a whole. In 2012/13, there were 180 thousand children in Scotland living in relative poverty, 30 thousand more than in 2011/12.

Recent modelling by the Institute for Fiscal Studies suggests that up to an additional 100,000 children will be pushed into poverty by 2020 with the proportion of children living in poverty in Scotland forecast to increase to 26.2% by 2020, after housing costs are taken into account. (Browne, Hood & Joyce, 2014, pp27-30)

In work poverty is a persistent problem social tenants commonly face, which has increased in recent years. In April 2013, the Scottish Government implemented a Scottish 'living wage' of at least £7.45 (this has subsequently been raised to £7.85) for all public sector workers. According to research by KPMG[11], however, despite the Scottish Government and lobbying groups encouraging private sector organisations to pay the 'living wage', more than 400,000 workers in Scotland are still being paid less than the living wage, leading to fears that those earning below the living wage who expect their finances to worsen during the next 12 months and that debt levels will continue to rise among this group.

The proportion of people in poverty who live in working households increased in 2012/13. In 2012/13, 52 per cent of working age adults in poverty were living in households where at least one adult was in employment, as were 59 per cent of children in poverty[12]. In-work poverty also entails continuing reliance on benefits like Housing Benefit in work – it is understood that UK recipients in working households receiving HB has more than doubled to more than one million recipients since 2008. Clearly there is a trade-off between low wages and benefit entitlement and whether tackling poverty requires the private sector to pay for a living wage or for society to pay through reliance on, and extended dependence with, welfare benefits in work.

For housing providers, whether a significant proportion of their tenants are living in poverty has consequences not just in additional rent risks but also in terms of needing to provide advice and support to households and individuals, promote financial and digital inclusion, take steps to maintain community cohesion and deal with anti-social behaviour linked to multiple deprivation.

Political uncertainties

This research took place under the backdrop of the Scottish Independence Referendum, which took place on 18th September 2014. The interviews with key actors for this project gave the impression that housing policy had somehow been to some extent 'on

[11] As reported by the BBC, 3rd November 2014 http://www.bbc.co.uk/news/uk-scotland-29871003
[12] National Statistics – published July 2014 http://www.scotland.gov.uk/Resource/0045/00454875.pdf

hold' since the Edinburgh agreement in October 2012, which specified the terms of the referendum between the UK and Scottish Governments.

Despite the decisive 'no' vote political uncertainty has to an extent continued, epitomised by the resignation of the leaders of the two most popular Scottish parliamentary parties following the referendum.

The Smith Commission under Lord Smith of Kelvin was given the task to "convene cross-party talks and facilitate an inclusive engagement process across Scotland to produce, by 30 November 2014, Heads of Agreement with recommendations for further devolution of powers to the Scottish Parliament"[13]. This was a very challenging timescale – a senior Civil Servant reported that in excess of 13,000 members of the public had responded to the Commission's online consultation even before the deadline for submissions from invited organisations[14].

Many have criticised the timescales, which stipulates the publication of draft legislation by January 2015, as unrealistic, warning of the risk that agreement would unravel because there was insufficient time to consider the technical issues associated with devolving powers[15]. The Commission, however, can perhaps be looked upon as being the beginning of a legislative conversation, rather than the end of the constitutional settlement following the Referendum.

The Smith Commission period was highly relevant to the housing sector not least because of the belief that the already largely devolved housing policy environment would be further strengthened by the devolution of welfare benefit powers and in particular Housing Benefit. In reality, the November Smith Commission report did not go as far as many commentators anticipated. While it did propose devolving all income tax, as well as other taxes and proposed assigning a proportion of VAT to the Scottish Parliament, the changes proposed to welfare benefits relating to housing were less dramatic, chiefly:

- Within a retained universal credit system, the housing costs element could be varied by the Scottish Parliament
- The frequency and nature of payment would be moderated toward the Northern Ireland approach
- Direct payments to landlords for housing costs could be continued
- Discretionary Housing Payments to be devolved.

Nonetheless, the attenuation of Housing Benefit as a reserved function and its likely impact on Scottish public spending in the future, will give the Scottish Government a new interest in rent-setting and national level norms regarding rent increases, returning the question of affordability to the heart of rental policy debate for both the

[13] https://www.smith-commission.scot/about/

[14] Richard Cornish, senior Smith Commission Civil Servant, quoted in Glasgow, 29th October 2014

[15] Professors Michael Keating and Nicola McEwen reporting to the Commons Political and Constitutional Reform Committee, reported by the BBC, 16th October 2014 http://www.bbc.co.uk/news/uk-scotland-scotland-politics-29653880

private rented and social renting sectors. The scope for rent controls and formulae increases being set across the rental system is completely contrary to current atomised individual landlord practice and creates new risks for providers in terms of their business plans as well as opportunities to protect tenant interests.

The political landscape is also given further uncertainty through a Westminster General election on the immediate horizon. The Election will take place in May 2015, and adds another layer onto the complexity in terms of the political environment faced by social landlords in Scotland, particularly in relation to the welfare system and its interplay with the constitutional debate taking place in Scotland.

Welfare Reform

Welfare Reform has dominated political and strategic discussion in the Housing Sector in the United Kingdom since the key policy objectives were set out in the 2010 UK Government Spending Review as well as in the Department of Work and Pensions (DWP) Welfare Reform Act 2012. The key policy objectives are to:

- Cut public expenditure
- Make work pay
- Simplify the benefits system.

The key changes which have been/are intended to be made specifically to the Housing Benefit (HB) system, and other related benefits involve:

- Social renting under-occupation penalty (commonly referred to as the 'bedroom tax') at 14% of eligible rent for one spare room and 25% for more than one excess room (April 2013)
- Private Rented Sector (PRS) local housing allowance (LHA) caps by room size and set at the 30th rather than 50th percentile of local rents (introduced April 2011)
- PRS shared accommodation charge for single persons and couples extended from 25 to under 35s (from January 2012)
- Reforms to non-dependent deductions (NDDs) allowing previously frozen NDDs to catch up with inflation over the period 2002-11 during which time they were fixed (commencing April 2011)
- A flat rate NDD will apply under the introduction of the Universal Credit
- Household benefit cap (all tenants) of £500 per week for families and £350 for single person households (from October 2013). This is applied to the main working age benefits, including housing benefit (HB) but also Child Benefit and Child Tax Credit
- The introduction of Universal Credit (all tenures): a single working age benefit that will include an element for housing costs made directly to recipients - currently being piloted though full roll-out is delayed

- The uprating of benefits by CPI rather than RPI (introduced in April 2013). For 2014 and 2015, LHA and a range of other working age benefits are capped at a 1% cash increase. At the same time the UK Government (March 2014 Budget) has imposed an overall aggregate spending cap on large parts of the working age welfare bill as a whole – this includes most of the HB bill
- Amendments to benefits applied to supported and temporary accommodation e.g. those living in temporary accommodation are subject to the under-occupation penalty and the new LHA rate. On the other hand, supported exempt accommodation will sit outside Universal Credit, and will not be subject to the under-occupancy penalty nor will housing costs count towards the overall benefit cap[16]
- More stringent sanctions on benefits claimants, especially those on Jobseekers Allowance (and the housing cost element of Universal Credit, when it is introduced).

(Gibb et al, 2014, p1).

These reforms are already compelling housing organisations to examine the way the way in which they do business, which will be looked at it more detail in the latter half of this report.

The Scottish Government's official position is to mitigate far as possible the impacts of Welfare Reform and have acted to do so in a number of ways. The Scottish Government set up a Welfare Reform Committee in January 2012. This Committee has taken evidence on impact of the Over-Occupancy Charge or Bedroom tax, the transfer of claimants from Disability Living Allowance (DLA) to Personal Independence Payment (PIP), and sanctions against benefit claimants - and the link between Welfare Reform, sanctions, and food poverty. Some of this evidence has been followed up by written analysis[17].

Specific action has been taken by the Scottish Government to mitigate the effects of the Bedroom Tax. The Discretionary Housing Payments cap has been lifted in Scotland until April 2015 such that the Scottish Government have provided the funding in full to meet the shortfall[18]. It is not clear how long this can be sustained for. Mitigation has not been without adverse effects as the discretionary housing payments were designed to help with all transition problems households faced and not just the under-occupation charge (e.g. private tenants) – but all of this resource in Scotland has been directed towards the priority of the under-occupation issue.

The proposed introduction of the Universal Credit in particular represents a key change to the way that social landlords have typically conducted their business. The Universal

[16] The situation regarding exempt accommodation in Scotland is complicated, especially as some local authority supported accommodation is still not covered

[17] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/46339.aspx

[18] http://www.scotland.gov.uk/Topics/People/welfarereform/whatistheSGdoing/welfarereformsgmitigation

Credit's aim is to simplify and streamline the Benefits system, in doing so making an important contribution to key policy objectives were set out in the 2010 UK Government Spending Review as mentioned above. The Universal Credit intends to propose the following existing benefits; Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, Employment and Support Allowance and Income Support.

While the UC roll-out timescale has been delayed several times, as noted above, the current timescales are for a UK-wide introduction (for new claimants) starting in February 2015, with a subsequent migration to existing claimants to follow this[19]. A recent report, produced by the Department of Work and Pensions, painted a positive picture of the currently on-going pilots and of the wider roll out of the Universal Credit, stating; "Early evidence of the effects of the Universal Credit is so far encouraging, particularly for such a transformational programme at this early stage of its introduction" (Department of Work and Pensions, 2014, p47). The Welfare Reform agenda and its introduction have faced multiple criticisms, both because of the perception of the "punitive[20]" nature of the reforms and of inability of government to deliver the proposed reform. In reacting to the same paper, political opponents have referred to the time and money, which has "already been wasted by ministers on universal credit" and "the further delays to the government's flagship welfare policy".[21]

The key operational and financial challenge the introduction of Universal Credit poses for housing providers lies in the payment of housing benefit being paid directly to tenants as part of one monthly payment through the Universal Credit. This represents a departure from the current scenario where housing benefits are paid directly to social landlords and represents a challenge for landlord in terms of culture and operations, as they will be compelled to actively collect rent from their customers. This is a key theme in much of the discussion and findings detailed below in subsequent sections of this report. However the Smith Commission's proposal for changing the way UC will operate in Scotland has thrown this into question. A period of further uncertainty is inevitable until timing of constitutional reforms become clearer.

This challenge has been difficult for social landlords who have been involved in pilots of the Universal Credit. However, organisations have met the challenge head-on and have been able to manage the changes to a significant extent. Graeme Russell, Housing Services Director at Dunedin Canmore reported in June 2014[22] that after 18 months of the pilot the vast majority of tenants, some 95%, paid their rent. It was also reported that rent arrears accumulated initially but then subsided and that part payment of rent was more common than non-payment.

[19] https://www.gov.uk/universal-credit and https://www.moneyadviceservice.org.uk/en/articles/universal-credit-start-dates
[20] As described in a letter to the Daily Mirror by religious leaders http://www.mirror.co.uk/news/uk-news/27-bishops-slam-david-camerons-3164033 to the Prime Minister David Cameron, the same letter stated that the Prime Minister had an "acute moral imperative to act" to change the policy direction of the reforms.
[21] Chris Bryant, Shadow Welfare Reform Minister, quoted 22 October 2014
[22] Graeme Russell, Presentation to TPAS, 28 June 2014

Clearly Dunedin Canmore put additional resources into rent collection. They also reported, however, that the exercise had demonstrated the need for revisions to traditional working and reporting practices. These new practices involve getting to know customers better and assisting them to move towards a culture of being responsible for making rent payments.

More of the operational implications, such as those for new culture for staff, on this are expanded upon in section 6 below, but Russell usefully offers some advice for colleagues in social housing sector for dealing with the impacts of the Universal Credit's introduction. This advice includes the following:

- Do not make general assumptions about households and their preferences
- Accept and plan for the cumulative effects of Welfare Reform
- Provide personal and household specific advice on the impact and consequences of benefit changes
- Start preparing as early as possible and commit resources to support provisions, increased early intervention, advice and guidance
- Review rent collection methods and processes, adopting practices suited to preferences and needs of tenants
- Recognise the impact of Welfare Reform in future business planning assumptions (bad debts, transaction costs and management of rent collection)
- Be better at assessing the impact and value of specific interventions and adapt.

According to the most recently available data published by the Scottish Housing Regulator there has been slightly different patterns of rent arrears accumulating causally from Welfare Reform. RSLs have reported a decrease in arrears from the period 2011 to 2013, from 4.06% to 3.91%. Local Authority landlords have, however, reported an increase over the same timeframe, rising from 3.18% to 4.06%. The overwhelming majority of landlords attribute arrears over this period to some extent on the welfare changes. (Scottish Housing Regulator, 2014)

Summing Up

As Lovat and McLaughlin (2013) noted; "non-profit housing providers face some "wicked problems" such as; household growth, changing and ageing demographics, income inequality, unaffordability and therefore unmet housing need"[23]. Some of these problems are, as discussed above, highly relevant to the present and future Scottish social housing sector. These issues would have been likely to create challenges for housing providers in any case, but the challenges are magnified given the spectre of welfare reform and austerity. These new risks and uncertainties create challenges for social housing providers both in terms of how they will identify, prioritise and manage risk on the one hand, but also, strategically, how they approach the question of building resilience on the other hand.

[23] In Maclennan & Chisholm (eds), 2013, p110

4. OUR RESEARCH APPROACH

Focused Literature and Evidence Review – Identifying Key Themes

As referred to in the introduction, this project is intended in part to follow on from key themes identified in the *New Times, New Business* project, completed by the Centre for Housing Research at St Andrews University. There, the project's key argument was that non-profit housing providers have to organise and behave in ways that are more enterprising so they adapt to the new times. Forms of leadership, organisational culture and standards of governance also must be able to adapt and succeed in a radically changed world.

New Times, New Business forms part of something of a groundswell of opinion both from within and outside of the Scottish housing sector. This literature acknowledges that change is not only desirable, but is inevitable if the social housing providers are to survive, thrive and make a meaningful contribution to the supply targets identified by the Scottish Government as referenced above.

Maclennan and Chisholm (2013) proposes that the conditions described in section three particularly in regard to the lack of government funding available for new social housing, are long term and likely to be non-reversible. They therefore compel social landlords in Scotland and beyond to behave differently. Maclennan argues that for the foreseeable period; "the future will continue to be characterised by austere funding arrangements in which public subsidy – capital and recurrent - will be significantly constrained for at least the medium term" (Maclennan and Chisholm, 2013, p144). Maclennan and Chisholm also suggests that the financial future for non-profit housing providers if they are to thrive is one in which they will act in a way that is more business-like, commercial and expressed in:

- Diversification of products, customers and services
- The development of flexible institutional forms to allow the provision of a variety of services and products
- Conscious value extraction from the accumulated asset base.

To facilitate this change, the authors also argues that concepts of housing need require redefinition – as does the 'mission' or core business of non-profit housing providers. (Maclennan and Chisholm, 2013, p148-49)

Aleskeson (2014) provides a useful summation of the issues in a UK-wide context, identifying the key issues as: growing polarisation of the labour market, the need to increase supply but also supply "better targeted at those in need and offer[s] greater flexibility of tenure than today's rigid three tenure model", the fundamentality of affordability (which is closely connected to supply) and greater flexibility of tenure and diversity in the PRS. Aleskeson also argues that government needs to play a more active role in shaping local housing markets to reflect the needs of the local population rather than relying on the market to deliver supply.

A sector review paper prepared by Audit Scotland (2013) identified key issues and challenges facing the Scottish housing system. Notably, the report found that the supply of housing is not meeting current levels of need and provided an estimate that it could be 20 years before there are enough new homes to meet the projected increase in households in any one year. The paper also noted that Scottish Government revenue budgets for housing fell by 24 percent in real terms in the two years that followed the global financial crash in 2008, and that the Scottish Government's response to this was to encourage increased borrowing and alternative models of finance. (Audit Scotland, 2013, p7)

Since the auditor's role is to report on the Scottish Government and numerous government agencies the report also made a number of recommendations, both to the Scottish Government on their housing strategy and to Local Authorities. These included that the Government should demonstrate how its long term vision for social housing underpins relevant national policies and clarify its expectations on the role alternative means of finance will play in the future financing of social housing. Local Authorities were advised to ensure that local housing strategies are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants. (Audit Scotland, 2013, p38)

Key recommendations for change also come from a recent policy commission from the Royal Institute of Chartered Surveyors (RICS). This paper states clearly that the housing system in Scotland must change, partly due to successive governments having continually placed the emphasis of its policies upon promoting homeownership and not having fully taken into account changes in the patterns of housing need. The paper's primary recommendations include the case to establish a "Scottish Housing Observatory" to promote smarter thinking and dialogue among different stakeholders and experts in the Scottish sector to mobilise knowledge for housing planning and infrastructure provision in Scotland. (RICS, 2014, p8-10). The RICS Commission also recommends a series of land supply and planning reforms including a national land delivery vehicle, 10 year land supply commitments and support for institutional investment into the private rented sector.

The need for a differentiated way of doing things also comes from the Local Authority housing sector. In looking to the answer the "perennial question of the pressing need to increase housing supply", an article by Jim Hayton, Policy Manager for ALACHO, suggested six key messages for Local authorities to consider. These are:

1. The realisation that funding for affordable housing is expensive and lenders may have expectations on rates of return that are inconsistent with affordable rents

2. There is evidence to suggest that people may be prepared to pay rents above current council and RSL levels for a good quality home in a preferred location at a mid-market rent
3. Councils need a more sophisticated approach to housing planning, which better understands the likes of local incomes and demand for rented housing
4. Councils must consider that they will increase rents in order to attain funding for new supply
5. That Councils work closely with the Scottish Government and other Local Authorities to simplify and find efficiencies in procurement processes
6. That councils and private sector partners need a closer working relationship to better understand each other's requirements.

(Hayton, 2014, p12-13)

As well as key changes at a strategic and systemic level, the need for something of a new mind-set can also be seen at an operational level. Recent research carried out on behalf of the Chartered Institute of Housing noted that the 'Frontline Futures' role of Housing Officer was one fairly detached from the traditional one of renting houses, managing properties and collecting rent. Instead, the future role of the Housing Officer is one that will be; relational, interactive, differentiated, creative, varied, impactful and proactive. The research also noted that;

"*some of the key qualities and competencies that housing frontline workers will need to possess are; inherent business skills...an approach which balances commercial and social considerations, which understands business for a social purpose*". (Richardson et al, 2014, p67)

The issues around housing supply are not confined to the housing sector. For instance, a recent UK-wide paper by the Confederation of British Industry (CBI) stressed that housing is "a critical business issue that requires a long term, ambitious and credible plan" (CBI, 2014, p4) and argued that "for decades the UK's housing market has not functioned as a healthy market should". (ibid, p8) The report has something of a London and private-sector focus, but nonetheless finds parallels in the writings of some of the other literature referenced and indeed in some of the key actor interviews detailed in the subsequent section, particularly in respect to the contribution housing makes to the wider economy. The CBI paper refers to the "combination of demographic change, restricted land use, tight finances, and capacity constraints...is creating a perfect storm". (ibid, p18)

How individual housing and budgetary decision-making is carried out by customers, organisational understanding of these decision processes and practical ways to support them are increasingly important features of learning organisations, including housing providers. A recent important contribution in the behavioural economics literature is potentially relevant in this regard (Mullainathan and Shafir, 2013). They argue that a critical problem with individual and organisational decision-making arises from a *scarcity* of mental resources. Multiple pressures on people force focus that leads to 'tunnelling' and the disregarding of other important issues, a difficulty in thinking long term and creates a 'present bias'. While the popular psychology literature has stressed the importance of this tax on cognitive capacity or bandwidth in terms of personal decision-making, time management and impulse control problems, the authors highlight the importance of these problems for specific groups of people most affected, particularly those in poverty, and the organisations that work with the poor.

Organisations also face scarcity issues. Mullainathan and Shafir argue that they need to reduce firefighting and be more strategic – to emphasize what is important rather than urgent and they need to identify and respond to how they make the most of their scarcest resources. This is important also for non-profit providers like social housing bodies. They work with vulnerable clients who are most likely to be struggling to cope with their daily bandwidth tax. They need advice, financial inclusion, support and other 'nudges' to help maintain their households. At the same time social providers are made up of people who should be supported, developed and systems put in place to help them deal with periodic lack of mental capacity. An element of scarcity analysis could be built into impact assessments for new organisational practices and regular management audits. An appreciation of these bandwidth issues could be an important element of delivering a more learning-based organisation.

This literature is important because it all in some way suggests that, for a number of reasons, many of which were laid out in Section 2 above, the housing 'game' has changed and therefore actors within it are changing also (and need to do so strategically within their own contexts). This is the crux of what the research project is intended to do – to examine in what ways actors are changing their strategies, focusing on managing risk and demonstrating resilience.

Research Approach

The key purpose of the Reform, Risk and Resilience is to take forward the above literature and emerging operating environment to show in practice how the Scottish social housing sector is responding to the challenges posed. The key parts of the research element of this report are threefold:

- Interaction with the views of, and direction from, the Steering Group
- key actor interviews, and;
- Case Studies

Steering Group and Meetings

The Steering Group was composed of a wide range of expert sector representatives with specific experience and expertise, encompassing a broad cross section of the bodies involved in the Scottish Housing Sector, including; RSLs, Local Authorities, Professional and Representative Organisations, the Scottish Government, the SHR and Audit Scotland.

The role of the Steering Group entailed attending an initial seminar meeting where the key research themes were agreed. An overwhelming majority of the Steering Group took part in interviews as part of the research. A second Steering Group meeting examined the initial research findings and offered comments on the project's initial findings. The Steering Group finally offered insight and feedback on a draft of the final report.

Interviews

Key stakeholder interviews took place with members of the Steering Group and with other actors within the Scottish Housing sector between late summer and autumn 2014. Interviewers made use of an interview schedule while also affording interviewees the opportunity to talk open and freely about their experiences and those of their organisations in meeting the challenges as described in previous sections.

The Interview Schedule was based on the following topic guide:

Q1. Are changing public policy, fiscal and welfare arrangements driving major behavioural changes in the Scottish housing sector overall?

Q2. What do you understand by the term 'organisational resilience' and how does this relate to your organisation?

Q3. Are there any key characteristics of resilience?

Q4: What do you see as the key risks affecting both your organisation and the Scottish social housing sector more generally?

Q5: Are relationships with existing stakeholders changing as a result of the new environment social landlords are operating within? Have your relationships with your stakeholders (in this sense referring to the likes of other landlords, contractors, government, regulator, funders etc. – i.e. not tenants/customers) changed significantly in the last three years?

Q6: Does your organisation have what could be described as 'new' stakeholders over the same time period? If so, can you describe them?

Q7: Will the role of RSLs and LA landlords change in the future as a result of welfare reform and other policy changes?

Q8: Are there specific opportunities for Scottish RSLs to operate in new ways and spaces to thrive and meet housing need in the new economic realities?

Case Studies

Different types of housing organisation were selected as case studies to examine how they manage risk and display resilience. The four case study organisations comprise:

- A mid-sized RSL in Scottish terms
- A smaller community based RSL
- A Local Authority Landlord
- A large group structure housing organisation

This diversity was reinforced by the geographical spread of the case study organisations across different parts of Scotland. Each case study involved two principal stages – examining risk register approaches and related strategy documents, and, secondly, interviewing key actors in the respective organisations regarding how they understand and respond to the new and emerging environment.

5. INTERVIEWS: DIVERSITY AND CONSENSUS

The project team carried out interviews involving 16 senior people who had different levels of strategic roles within the Scottish social housing sector. These are organised around five headings (behavioural change and operations; risk; resilience; relationships with stakeholders; and, future role and opportunities) under which we summarise key messages. The interviews were conducted before the Referendum and are reported without account being taken of the implications of the subsequent Smith Commission's proposals for welfare reform, for example, the intention not to end direct payment.

A. Behavioural Changes and Operations

A.1 Welfare Reform and the General Climate of Austerity

"The welfare reform agenda has had a massive impact in terms of operations, in terms of the poverty that customers are facing… meaning a different approach is required from frontline officers" (Local authority housing leader)

Welfare Reform and the climate of austerity have very much impacted social landlords, both in the RSL and Local Authority sectors. *"This is all a reflection of the purpose of Welfare Reform – like it or loathe it, Welfare Reform is about changing behaviour" (senior local authority figure) and "Landlords are really having to take a 'holistic' approach to the tenants that are living in our homes". (Representative organisation leader)*

While the negative aspects of the welfare reforms in terms of the poverty customers are facing was frequently voiced, there were also some positive aspects of the changes landlords felt compelled to make through the reforms. Notably these positive aspects were landlords having a much greater level of customer intelligence and knowing who was living in their properties, and a real cultural shift towards working with partner agencies and council departments (more below under 'Relationships and Stakeholders'). *"…landlords have gotten closer to tenants...That sense partly of actually just all the chapping of doors that's happened in the last 2-3 years to find out who is living in the properties which landlords have got to be honest and say they weren't on top of." (Senior RSL figure)* and *"Our housing officers are quasi social workers, environmental officers – they confront all levels of vulnerability". (Senior RSL figure)*

Frontline staff were getting much closer to customers and being much more focused on the people living in their properties. This contrasted with the traditional housing management approach, which was more property management focused. *"I think (in the public sector) there is still a paternalistic approach...definitely a 'we know better' mind-set if we are dealing with vulnerable customers...you can see officers as 'the rescuers', maybe that is why people come into the sector but it can go against what you are trying to do in terms of empowering communities and being a landlord – that is hard, because it strikes very hard at people's values". (RSL Director)*

These changes have been labour intensive and involved culture change among staff and generally involved the reorganisation and deployment of existing resources. There was also a recurring theme that a lot of these changes would have been likely to have come about in any case, but that the changed operational environment had hastened their introduction. *"Having worked in the housing sector for 30 years the expectations of tenants, challenges and pace of change are just so different". (Senior RSL figure)* and *"Hopefully, therefore, we get to a position where we are providing a better quality customer service" (senior RSL figure)*

A.2 Rent Arrears and the Collection of Rent

There was some evidence of rent arrears building up as a consequence of welfare reforms. Local Authority landlords especially reported this trend, which reflects the Scottish Housing Regulator statistics referenced above. *"Probably the most obvious one is through Welfare Reform, Universal Credit etc. – basically we are moving towards having to collect more or less all of our rent". (Senior local authority figure)*

The physical collection of rent as a result of the impeding Universal Credit was cited as a major challenge to social landlords' operations: *"55% nationally of rental income in the sector comes from direct benefit – 94% of benefit payments comes from direct payments. So there are lots more costs attached to rent collection systems". (Senior RSL figure)*

B. Risk

"Financial risks like Welfare reform, pensions and the lending market and also compliance risks Public bodies, auto enrolment in pensions, these are paramount". (Senior Figure from Regulator)

The key impression overall is that risk is at the forefront of people's minds across the housing sector. This is particularly so for RSLs. Organisations had generally put a lot of focus on increasing awareness of risk and risk management/mitigation to insure that managing risk is no longer the 'job' of one senior person within the organisation. As one RSL Director put it (speaking of senior staff) - "*If you can't describe the high level risks you shouldn't be in the job*". One interesting view was also that there is an inherent risk in being too risk averse – that being so aware of the risks that are confronted that it impacts on levels of ambition.

B.1 Welfare Reform, Direct Payments and Pressure on Income

"I don't think we can overstate welfare reform and the threat to our income". (Senior local authority figure)

Perhaps unsurprisingly given the changes in behaviour due to welfare reform, austerity and welfare changes were at the forefront of thinking on risk. All interviews directly cited welfare changes as a key risk. However, they also point to risks wider than welfare reform, with pressure upon organisations' income from a range of sources. *"The on-*

going welfare changes are obviously a key risk, or set of risks in terms of our sector's income and in terms of the income of our customers. Related to this is rising rent arrears, which is a key risk and something that perhaps we struggle most on". (RSL Director)

Connected to the above, there was a common perception that RSLs should consider risk also in a wider societal sense. The key risk here is that of the hardship that people are experiencing /will experience and that housing organisations and their partners will have to pick up the pieces with diminished resources. This in turn made the range of risks more complex than they were previously. *"The most obvious one is Welfare Reform...it potentially challenges the viability of our organisations". (RSL Director)* but this does go further*: "The key risks are to people's incomes. This isn't just about welfare reform but it's about pressure on tenants incomes from across the board, for instance energy and food prices and everything else. That's as big a risk for our organisations but it is also more like a social issue. It puts all our services in a difficult position". (Representative organisation leader)*

B.2 Pensions

"There are also strategic challenges; the pension crisis is a key risk and challenge". (Representative organisation leader)

This was particularly put forward as a key challenge for smaller RSLs in regard to financing pensions and the burden that they would place upon them moving forward. On more than one occasion it was proposed that many in the sector have not yet faced up to the pensions issue. Pensions are perhaps seen as 'the elephant in the room' for some organisations. *"We are going to reach a critical stage in terms of pensions. In saying that, I get no sense of inertia in terms of organisations pushing the issue to the background, but at the same time it is a major issue and risk for the sector". (Senior RSL figure)*[24]

B.3 Staffing, Governance, and Organisational and Succession Planning

The view was expressed that many RSLs in particular are coming to the end of a governance cycle. There was risk consequent on the retirement of long serving senior staff whose experience would be hard to replace and also in the lack of a new generation of committed voluntary Board members who would be able to deal with the complexity of challenges that organisations face. *"There is also an issue around governance risk. New blood is certainly needed in this area with the skills and commitment to make a real contribution. In some cases I think the Scottish Housing Charter might make a difference". (Senior RSL figure)*

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[24] http://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Regulatory%20Advice%20Note%208%20November.pdf and http://www.scottishhousingregulator.gov.uk/news/housing-regulator-calls-%E2%80%9Ccandour-and-realism%E2%80%9D-dealing-pensions-issue

"RSLs are better at risk, and risk has a much higher profile". (Senior Figure from Regulator)

Having the right staff and skills sets in place, as well as the ability to retain them as organisations faced financial constraints were also key risk issues cited by interviewees. Having the right governance, structures, staff and culture in place were seen as particularly important in the interviews. *"Major risks...concern being able to match our delivery mechanisms against our level of ambition. When I think of organisations like Cosmopolitan down south, you think they didn't lack ambition but they lacked the ability to assess the risk and deliver against that ambition. So knowing that is a really different game than it was ten years ago, even five years ago. That is the biggest risk and it also comes down to having the right governance and having the right skills and sophistication to be able to deal with that". (RSL figure Director)* Another interviewee said: *"In terms of culture, we're better than we used to be, we did have the tendency to plan for cataclysmic risks that never really happen but not plan for medium risks...we need to ensure that we have the right governance in place". (RSL Director)*

C. Resilience

As noted above, in the conceptual section about resilience and risk, the two are very much inter-related, even circular. The interviews very much bore out the hypothesis that: you cannot react to (and prepare for) a differentiated operating environment if you don't have (and are able to demonstrate) good governance. This good governance in turn can allow you to manage risk and, therefore, be a resilient organisation.

C.1 Flexibility

"Resilience is simply ability and flexibility to deal with whatever comes an organisation's way. The resilience is about being capable of dealing with change over the longer term… It's about being flexible but at the same time keeping one's own identity, and remembering the reasons why the organisations came together in the first place". (Representative organisation leader)

Almost everyone interviewed specifically referred to flexibility in terms of the characteristics that a resilient organisation displays. *"It is about being flexible about things that come your way… To have a good long term focus where you know when and where things are happening and where you can make changes along the way". (Senior local authority figure).* Another said: *"For councils, their 30 year business plans are central to their resilience. They have to be flexible enough to weather any storm- like the one we are in now". (Representative organisation leader)*

Flexibility in this respect means that organisations are structured in such a way that they can adapt and have the necessary financial arrangements in place where they are able to meet the many challenges that the housing sector faces. *"We still need our workforce planning to be more adaptable – it is very conscious of job profiles and the like. Certainly that has changed a lot but it is something that we have to change more so that we can deploy resources where they are needed more easily...we have had some success in encouraging people not to say 'that's not my job'". (RSL Director)*

C.2 Strategic Purpose

"Resilience for me comes from knowing what you are for. I would always come back to strategic purpose, and if your capacity, skills, IT, and whatever – you can deliver on that purpose… I think resilience is very much based on your track record, so it is about knowing what you are already doing well, what you are good at, and what external evidence you have to demonstrate this." (RSL Director)

The view put forward the idea that the key to being a resilient, self-aware, organisation is constantly reviewing and challenging your strategic purpose and mission, and this should be constantly reviewed to ensure that it is appropriate for the operational environment and the customer base. *"… (Resilience) is confidence that an organisation can plan effectively for its own future. To do that you have to have a clear idea of where you are going and what your objectives are" (RSL Director)*

There was also a sense of the important gaps or deficits that emerge when such strategic purpose is lacking: *"It is about renewing your strategic purpose… I can see looking back at this organisation there certainly was a struggle when that happened and it came to a bit of a crisis because people were unclear about what we could really deliver". (RSL Director).* A similar view stated: *"I don't always get a sense that the sector is feeling resilient in themselves to face the new set of challenges. Sometimes I get the feeling that because we have been around for a long time there is a feeling that we are owed a living". (RSL Director)*

C.3 Distinct Views of Resilience

"There are different scales of resilience - there is the individual scale, the association scale, the sector scale" (Representative organisation leader)

Interviews revealed that the concept of resilience is something that varied significantly according to context. This is perhaps testament to the multi-layered nature of the concept of resilience as discussed above. *"There is individual resilience and organisational resilience". (Senior local authority figure)* They went on to say: *"(in reference to resilience)...one is about risk management and one is about adaptability...one is about process, procedure and understanding and the other is about being an adaptable organisation, a learning organisation". (Senior local authority figure)*

Viewpoints varied from an understanding that financial resilience is central, to perceptions of there being different scales of resilience (again, as noted above) which related to the individual, customer, leader or frontline member of staff. Others associated organisational resilience in terms of the continued existence of housing organisations and services particularly, to the resilience of the housing sector as a whole. *"The best associations are supporting their resilience by supporting people…if the arrears figures are anything to go by, then financially, they are resilient". (Representative organisation leader).* Another interviewee said resilience was *"about having the ability to manage relationships and being self-aware". (Senior Figure from Regulator)*

C.4 Skills and Learning

As touched on in the section on risk, it is also fundamentally important for resilient organisations to have the right skills sets in place. To be resilient organisations to be what more than one interviewee referred to as "learning organisations". This is a key characteristic of resilience*. "It's about having the right skills in place – as a membership association that is what we tend to focus on – assisting our members with these. I see it resilience as being about skills, knowledge and resources". (Representative organisation leader).* A second view expressed was*: "It is also the ability to get the organisation not to have to keep doing ad hoc things – i.e. we collect learning". (RSL Director)*

C.5 Effective Governance

"If you have good governance, then you are going to have a good strategic aim or vision for the organisation, and then you can build really good operational action plans in place, as well as reporting and checking mechanisms". (RSL Director)

Effective and appropriate Governance was absolutely vital to an organisation's resilience, particularly with the added complexity of challenges and risk that housing organisations face. In straightforward terms, it was seen that if an organisation's governance is inadequate, then it is likely that the organisation's strategic direction will be unclear and so will their operational processes and practices. *"Organisational resilience is going to rely on sound governance, good and realistic planning". (RSL Director)*

D. Relationships and Stakeholders

"Partnerships and relationships are absolutely critical to the future". (RSL Director)

D.1 Cultural Shift towards Working in Partnership

As noted in the behavioural section above, there was a shared sense that a real and sustained move towards working with stakeholders/partners has taken place. This was expressed both in cultural terms, i.e. a willingness of housing organisations and providers of other services to work together, and also in tangible terms, i.e. in the establishment of new partnerships and ways of working with other agencies and other organisations. This was the case even though there was some reference to the, at times difficult, nature and non-trivial transactions costs of negotiating and managing such partnerships.

One RSL Director commented: *"Personally I think we are about collaboration and competition. I never have a difficulty with this as they are two parts of what we have to do. I think the collaboration is much more about influencing the public policy environment agenda. The example staring me in the face is the health and care sector about what the contribution of housing can be, collaboration on that is, I think, really important. I think lots of collaboration probably then move into discussions about potential formal partnerships".*

However, in relations to cost, it was also the case that: *"Partnerships are hugely problematic – they are positive in the sense of what you are trying to get to the end. But in some ways you hate partnerships!...we have been reasonably ok in terms of sharing budgets but we still want to have some control in terms of how the outcomes go- and especially the timescales. This can be difficult...there are huge issues in partnerships – but huge benefits – that's why we go through the pain". (RSL Director)*

There was an extensive range of partners discussed by interviewees. There was also a stress on inter-organisational relationships, particularly in regards to the role housing can play working with health and social care functions. Other new partnerships cited were with police and fire services, advice agencies, the private rented sector (particularly in terms of housing options), and departments across local authorities such as education. There was also some attention given to new relationships with other actors outside the social housing non-profit sphere**.**

One interviewee said: *"Probably for the first time, we can actually see some movement from health and social care in terms of involving housing in a more strategic way. A couple of years ago there was a bit of a rush to get a strategy together – and housing was basically ignored. But now views have changed a wee bit about involving housing". (RSL Director)*

A representative organisation leader argued: *"Increased work has been going on around inclusion and employability, there is a whole raft of stuff, it is really varied, engagement with credit unions, promoting internet access, employability initiatives, food banks".*

This work was also seen as being important in raising the profile of housing in terms of the contribution to positive outcomes for people, both at the community level and in terms of national outcomes. An interviewee from the council sector commented: *"We've been heavily involved with Education and Children's Services. From a housing point of view I have been involved in the early years collaborative. We have been undertaking research on 'Paths to Success' it has been really positive, being involved in some of the early years work – this collaboration is very much about securing positive outcomes for our children and to contribute to all the big health outcomes as well".*

D.2 Funders Relationship Shift

There was the impression, particularly among RSL interviewees, that relationships with funders were in the process of fundamental change. There was the impression that the favourable terms social landlords traditionally had with their funders had gone and were gone forever. *"Clearly the relationship with funders has changed; we've not had major issues on that. But, what we know is that some funders have pulled out of the market, some of them have wanted to re-price for all sorts of things, and equally we have seen and have used some new entrants into the market". (RSL Director)*

The main theme in this discussion was about the added complexity of funding arrangements and relationships with funders, a pattern that is likely to further evolve in the future. The Scottish Housing Regulator stressed how important it is that funders have confidence in both the sector and in the regulator. This complexity brings risk and therefore governance and skills challenges for housing organisations. *"... if you're* *thinking things like bonds, the different parts of the investment market, then yeah clearly there's been a change in that but how exactly it will play out in relation to smaller organisations is still a huge discussion that I think is going to go on for the next couple of years anyway. But yeah, I suppose that is quite a change". (RSL Director)*

D.3 Relationship with the Department of Work and Pensions

Almost all stakeholders mentioned a relationship with the Department of Work and Pensions as a key one given the welfare reform agenda, and the associated necessity to amend business and operational models. There were somewhat mixed messages given by social landlords and membership organisations in relation to this relationship. *"I've been accused of 'sleeping with the enemy' but we haven't got a choice…Any organisation thinking that they can resist this (the welfare changes) is doing themselves a disservice". (RSL Director)*

All felt that the relationship had become a fundamental one but there was also uneasiness in landlords being seen as being the arbiter in the introduction of the reforms. *"...an emerging relationship is one around welfare reform, is around DWP, job centres and possibly around some of the other financial organisations to that extent... it's more about trying to build up products that would be of use to your customers". (RSL Director*). A representative of the council sector said: *"…we have a much better relationship with central government than previously, over the last ten years...and our relationship with DWP is as good as it's ever been". (Senior local authority figure)*

D.4 Mixed Messages on Regulation

The Regulator stressed that while it had been established in order to protect the interests of tenants rather than landlords it always sought the most constructive relationship possible with regulated bodies.

When asked about the relationships with the Regulator landlord's contributions were mixed. One RSL Director summed it up: *"Obviously there is the statutory change to the regulator being an independent regulator, whose broad purpose, although it is quite similar has become much more focused on the tenants, and trying to balance that with the economic aspect of it. In terms of actual engagement with the Regulator, it hasn't changed enormously for us".*

The key impression was that the organisations' relationship with the Regulator depended upon the individual relationships with the relevant Regulator staff members. On a day-to-day basis it appears that the frequency of interaction with the regulator hasn't changed that much despite the establishment of the new regulator and the introduction of the Social Housing Charter.

An RSL Director said: *"Generally, our relationship with the regulator is a pretty healthy one. A lot of this is to do with the quality of the people who are our main contacts at the regulator. In my conversations with other senior staff from other associations, the most common story is one of a fairly unsatisfactory relationship. I think we have a pretty good relationship. We are able to have sensible, mature adult conversations about complicated issues and that to my mind is how regulation ought to work". (RSL Director)*

E. Future Role and Opportunities

Social housing providers, by definition, have to keep an eye on the future, because at the very least, they are in a long-term non-profit business with continuing and evolving relationships. The interviews identified several different aspects of possible future roles and opportunities that could be grasped.

"I think we can see that the sector is on a journey, and always has been. I think the recent CIH work on the role of the officer showed that we are evolving, that the role of our frontline staff is evolving... Our role now is perhaps more as community leaders and anchor organisations". (Representative organisation leader)

E.1 A More 'Holistic' Role?

A common feature of discussions about the conversation was that landlords were and would continue to get more customer intelligence about the people that live in social houses. One RSL Director said: *"Yes, it (the role is moving on from the mere landlord-tenant relationship…We have an arrow here – property-people-property. I think this is the cultural change in the organisation. Ok we have the property, but that isn't the driver anymore, it is the people inside the property. And making sure that their lives are better, whatever that means for them".*

Mitigation of welfare reform had been, unsurprisingly, an important part of what landlords had being doing over the last few years and a common theme was that social landlords and their subsidiaries should provide a range of services that can make a real difference rather than the property management approach. A representative organisation leader argued: *"Welfare Reform is also a key driver of the changing role – it has quietened down in terms of Universal Credit recently – but the prospect of direct payments has the potential to change our role as well as the way we do business. I think we might describe this role as being characterised by taking a proactive approach to financial inclusion. A lot of other things spin off from that".*

Harking back to the earlier discussion of Dutch archetypes, there were some who viewed the role of the social landlord in fairly narrow terms, in terms of the landlord function of collecting rent and letting houses. As one interviewee put it: "*We blur the role of the landlord at our peril*", which showed some scepticism about the wider range of services potentially provided by social landlords. Another said: *"One of the most important things that we have to hold onto is that we are landlords, we are not social workers...at the core of our business is a very simple transaction". (Senior local authority figure).* A contrary view was also expressed: *"I think there will be a divergence between landlords who simply look just to fulfil a landlord role and others who see themselves as having a much broader community role. There is not anything wrong with simply being a landlord but I hope that we certainly fall into the second category and fulfil a community role and provide a range of services that can make a real difference to our customers' lives". (RSL Director)*

The key divide between responding to new and emerging risks by either returning to core functions or diversifying has many strands. One RSL Director said: *"If you look down south, they are much more used to diversification – you can see nursery schools,* *health centres, all those sorts of things. I'm not sure, I'm still struggling to see what they would bring to the business given the risks of this diversification...I think we would be more inclined to work with partners rather than delivering these things ourselves – diversity through partnership...Our Growth Strategy is to concentrate on what we are good at and then let's try and partner to deliver what we're not so good at, where we don't have that experience".*

In the absence or contraction, due to economic circumstances of a development role, another common theme expressed was to put forward the role of being a 'community anchor' as being increasingly important, particularly for some RSLs. This was not universally shared, however, with some stressing that landlords should contribute to the improvement of communities and the people that live within them very much as an active partner, rather than a leader.

There was also a sense of learning and evolution expressed by interviewees: *"I would see it as an evolutionary process. If you were to compare the organisation now to how it was when it was set up…it would be very difficult to reconcile both states with being essentially the same organisation...The fundamental thing is that social or affordable housing has been there since day one and will continue to be there". (RSL Director).* Also: "*I think that changing management styles and technological changes are key drivers in the evolving role of housing organisations. We have to continually ask ourselves how we maintain the value of our currency as a sector". (Representative organisation leader)*

In terms of opportunities and growth, several interviewees cited the Care and Support sector as a key area of opportunity for potential growth. The widening of the offer of housing tenure was also an area which was cited as important in growth of organisations and meeting housing need, with social landlords citing the popularity and demand for alternative tenure products as key areas of current and future growth.

Two quotes give a sense of the range of views and possible options for business growth expressed. A sector-wide representative stated *"I think there are opportunities in the likes of mid-market rent and low cost ownership provision. There are also potential opportunities around factoring, regeneration and employability – and in the wider sector we probably have the skills to provide wider public services. In saying that, there is some resistance in the RSL to doing those types of things".* An RSL Director argued that for them: *"Private Sector as a housing option – this is something that will probably grow...we haven't had many problems filling mid-market rent. I'd say half of that is now filled by those who are not in housing need...there is a huge untapped market". (RSL Director)*

Summing Up

These wide ranging interviews and perspectives will be returned to in our conclusions. However, perhaps the most striking feature is their diversity in the face of common risks and threats. It seems undoubted that the different context, situation and path dependency of a range of organisations, trade bodies and sector-wide representatives generate different priorities, responses and strategies. One size does not fit all. This also means that potential partnerships between organisations holding these legitimately different perspectives may seek different things from, and approach differently the prospect of future collaboration.

6. CASE STUDIES: WE ARE *ALL RISK MANAGERS*

Four case studies of different types of housing organisations were chosen to illustrate in detail how they are dealing strategically and operationally with the challenges posed by the changing operating environment discussed in earlier sections.

Case study research involved interviews with senior and staff who specialise in managing risk. The interviewees were asked about their conceptual understanding of risk and resilience and how they relate this understanding to their respective organisations. The case study analysis also involved the examination of key corporate documents, particularly risk policies and risk registers, which participating organisations were kind enough to share with the research team.

Different types of organisation were chosen in an attempt to capture the diversity of social housing providers in Scotland. The four case studies operate in various geographical parts of the country and can be described as facing the current and future challenges in ways that are very specific to their organisation's circumstances. The case studies concern:

- A Highlands-based RSL with a commercial subsidiary
- A Community-based RSL based on a peripheral housing estate in Glasgow
- A Local Authority Landlord
- Scotland's largest group structure housing organisation.

Albyn Housing Society

Name	**Albyn Housing Society**
Mission Statement	"Albyn Housing Society serves an ever-growing number of communities in the Highlands, providing good quality, affordable housing for thousands of people across the region"
Type/Basic Structure of Organisation	Registered Social Landlord with a subsidiary which carries out all of its non-charitable activities, Albyn Enterprises Ltd. Also has established a joint venture vehicle in partnership with the Calman Trust, Calbyn, which looks to develop and manage a 124 bedroom social enterprise hotel in Inverness.
Number of Units	2800 properties in 60 locations across the Highlands
Number of Staff	Around 70 employees

Information on Risk Management

Albyn Housing Society has a Risk Management Strategy, which is reviewed on a three year cycle. Alongside the Strategy sits a risk register, which identifies 25 key risks or areas of risk for the organisation. The register is reviewed at least annually. Risks are monitored on a quarterly basis and reported to Albyn's Audit Committee.

Risk is given notably high prominence in the Albyn Annual Report for 2013/14 – it appears in the second paragraph. Interviews with senior staff placed having appropriate corporate governance at the heart of Albyn's approach to dealing with and managing risk.

Risk Strategy

Albyn's Risk Management Policy defines risk as: *"Any event which impacts on Albyn's ability to meet its strategic objectives".* The policy also puts risk in four categories; Financial, Reputational, Compliance and Operational.

The Policy also explains that Albyn's Board will *"approve the Risk assessment framework as part of the annual Business Plan process to ensure that any new or enhanced risks are identified when necessary. This is part of a risk conscious control culture, whereby any new or enhanced activity must consider the risks for Albyn".*

In terms of risk management, Albyn operates five strategies by deciding to do one of the following:

- Eliminate the risk
- Reduce the risk
- Insure the risk
- Control the risk
- Accept the risk.

Related to these strategies is the need to consider risk in terms of:

- Business planning including budgetary processes
- Ensuring that there are clear structures and procedures
- Analysing key risks and accordingly determining staff priorities
- Providing the Board with key information to make informed decisions.

Risk Register

The Albyn Housing Society risk register identifies 25 key risks for the organisation, which it measures against its potential impact on five Strategic Objectives categories

1. Achieving successful tenancies through quality customer/landlord relationships
2. Building and maintaining a sustainable, quality housing stock
3. Supporting neighbourhoods and communities to thrive
4. Providing access to housing and support in the Highlands
5. Delivering good value for money in rents and other charges.

Some risks, including the top four risks identified in the Register potentially impact on all five categories, while others impact only on a single category.

Perhaps unsurprisingly given the importance paced on it in the interviews, “Corporate Governance” is named in the Risk Register as the most pertinent risk facing Albyn. Other major risks which affect all categories are; Performance Management, Social Enterprises Culture and Change Management. Named lower level risks are the likes of Terms and Conditions of Employment and Factoring Activity. Echoing some of the interviews with other organisations, Albyn also sees the risk of not taking risks, or “No Change in Activities or no Growth” as being a risk to the organisation.

The Risk Register also incorporates the risks under the Scottish Housing Regulator’s Risk Categories into the risk matrix. These are:

1. Poor outcomes for tenants and other Service Users
2. Poor stock quality and investment failures
3. Poor financial performance and management
4. Poor governance.

Key Comments and Information on Risk and Risk Management

Reflecting on their approach to risk management, senior executive staff stated: *“…Because we have gone through the process we have done in the last 3-4 years (the process of transforming governance), identifying what’s required, recruiting and such like the risks and the likelihoods have gone down”.*

They argued that: *“The reason why risk was probably mentioned so high up (in the Annual Report), (a), we even had internal audit look at it this year, and (b) was because of the number of new Board members, six, or effectively twelve. The new members needed training on risk, as did the historic Board members. It was identified as a need, and it was done. “*

Interestingly, they also argued that: *“the training explained that we are all risk managers anyway. It was no longer seen as a ‘Finance Director’ thing. It hasn’t got to the rest of the staff yet, but that is the next stage. When we’re having strategy days we will try to show them what risks are”.*

Approach to Resilience

As can be seen from the interview quote below, Albyn emphasises resilience in terms of having the right governance in place in terms of structures and the competencies of Board Members.

“*…it’s primarily about effective governance. If we don’t have effective governance, good quality governance, then we will be anything but resilient. This also will increase a couple of risks. In short, having effective and good quality governance is absolutely critical to an organisation’s resilience. If you have good governance, then you are going to have a good* *strategic aim or vision for the organisation...If you have weak governance the Board will make ludicrous decisions, which will harm the business, or management will make ludicrous decisions which will harm the business… Weak governance can result in bad decisions which could ultimately lead to the collapse of the business*".

For Albyn, Openness and transparency are also important values, for Albyn, of a resilient organisation: "*Openness and transparency; to be able to discuss issues, i.e. if someone has made a mistake, then don't blame them, to have that culture –so that people can feel accountable but not threatened and get to the resolution if it's a problem or an issue*".

Albyn also saw being an innovative organisation as being a key characteristic of resilience. Albyn is keen to work in new sectors and with partners who housing association might not have considered working with in the past for instance, Albyn is working at developing a four star hotel through the above mentioned partnership with the Calman Trust which would both generate income and potentially provide training and employment opportunities for tenants and local residents. This is planned to be:

"*…on a scale that there will be a good volume and range of opportunities for different employment types in the hotel function… the four star hotel is interesting because it is about quality of product and quality of service. It is about not going in at the budget end because the budget end wouldn't have the training opportunities*".

This type of activity is done under the banner of Albyn's commercial subsidiary, Albyn Enterprises and is a key area of growth: "*We've got other things happening, such as a digital health software product. We're working on this with a private sector partner, which is kind of the thing that RSLs don't do, or wouldn't have done in the past. We are also in the early days of discussions with communities and others in wind farms or some other type of renewable. So, there are areas of business activity, connections into communities and partnerships with types of businesses which either we did less work with or wouldn't have had any contact with at all*".

Summing Up

For Albyn, risk management and being resilient is primarily about having the appropriate governance in place. This has been shown in the transformation of the organisations Board. Four long standing Board members stepped down and were replaced with people with specific skills aimed at enhancing overall board capacity.

From the discussions with Directors and the prominence given to risk in the Albyn Annual Report, risk is at the forefront of senior people's minds and the challenge they face is to get staff at lower levels of the organisation to consider risk when going about their everyday tasks.

The existence of a commercial arm Albyn Enterprises is key to managing risk, and allows Albyn to engage in the non-traditional activities that it sees as being important to its long term resilience. "*…one of the prime purposes of it (Albyn Enterprises), to protect the tenants' money. And, to allow a more commercial view to be taken on things…we make very much commercial decisions about getting money in, and if not sanctions are taken, which is unlike our RSL tenants when something like that is a much more drawn out process. It is very much a risk allocation vehicle, to allow Enterprises to run with it is smaller and better able to handle the risk*".

Cassiltoun Group

Name	**Cassiltoun Housing Association**
Mission Statement	"We aim to enhance the quality of life of our community and to regenerate our community through housing-led and resident-controlled initiatives."
Type of Organisation	Main role is as a Community based Registered Social Landlord and is involved in a range of non-housing activities. Owns Cassiltoun Trust, a subsidiary initially set up to renovate the 19th century stables and a Social Enterprise pre-5 nursery, Cassiltoun Stables Nursery.
Number of Units	Own/Manage 1171 units
Number of Staff	20 permanent staff employed by the Association and the Stables Nursery employs 15 nursery staff

Information on Risk Management

Cassiltoun Housing Association has a Risk Management Policy which forms part the Association's internal control and corporate governance arrangements. As described in Cassiltoun Housing Associations' 3 Year Internal Management and 30 Year Business Plan; "*The Association has prioritised business planning in recent years with the objective of minimising risk to the Association*". This is evidenced by a range of planning tools including SMART plans, operational plans and finance plans that include target setting and timetables for continuous review.

Risk Strategy

Following on from this risk focus, Cassiltoun's strategic approach is based on the following principles:

- We are not an organisation who takes unnecessary risks
- We have demonstrated a high level of self-awareness in recent years and we have prepared as best as we can to spot emerging risks and set about dealing with them through our planning framework, prudence and governance controls
- The Association has a successful 30 year track record and each year we build on previous performance led by an experienced Senior Management Team and Board.

Cassiltoun's Risk Management Policy identifies a number of "*Key Activities within Risk Management Process*", which constitute its approach to responding to and managing risk. These are:

- Policies and Procedures (series of policies that underpins the internal control process)
- Monthly Reporting and Review by SMT and the Board of Management.
- Business Planning and Budgeting (this includes a number of financial risks not currently included in the Risk Register, but which could be if circumstances warranted their inclusion)
- Risk Register (see below)
- Through SMART plans managers and senior officers have their own monitoring frameworks regarding their specific areas of delivery
- The Audit Committee have a responsibility to oversee Internal and External Audit Programmes and receive independent advice and assurance on a regular basis.
- The Association has in place a Business Continuity & Disaster Recovery Policy and Procedure
- Third Party Reports (periodic use of expert external consultants regarding risks in specialised areas such as Development, Health and Safety, Pensions, HR and Staffing structures.)
- Scottish Housing Regulator (in regard to SHR's Regulatory Advice Note highlighting emerging risks for housing associations)
- Key Emerging Risks (including; growing pension obligations, welfare reform, supply chain management, increasing scarcity of public funding and increased demand from those demanding housing and care, potential for reductions in local authority funding, increased complexity for risk management, proposed or planned changes to housing policy, lending environment) .

Risk Register

Cassiltoun's Risk Register identifies 13 strategic risks to the Group. These risks are categorised as six different types, namely:

- Financial
- External
- Political
- Operational
- Reputational
- Personnel.

Pension liabilities were identified as a significant risk named by the organisation in the risk register but in the interview it was noted that; *"Pensions remain a high risk but in*

2013/2014 we took action to help mitigate this risk". If in the future the pension deficit increases the Association is aware that further pension mitigation will be required.

Whilst Cassiltoun has a robust planning framework in place to help mitigate the impact of Welfare Reform and is confident of its ability to do so, nevertheless the risk remains, in 2014/2015, the highest risk facing the organisation.

Key Comments and Information on Risk and Risk Management

An interview with Cassiltoun's Regeneration Manager who is part of the Senior Management Team noted that the organisation is; "*conscious of risk because we are aware of business planning sensitivities which we test and monitor regularly*".

In common with the other organisations interviewed as part of the research, Welfare Reform was identified as a significant risk to the organisation. In contrast to other organisations the risk of Welfare Reform has been greatly mitigated as a result of early planning from 2011 as the detail of Welfare Reforms emerged. The interview also revealed that the organisation had been planning for Welfare Changes and rolling out training for the staff and Board and information for tenants since the draft Welfare Reform Bill was first published and this preparation was cited as a key mitigation of risks posed by the reforms.

The Association prioritised the emerging risks associated with the Welfare Reform changes by increasing staffing resources to assist tenants and to cope with the associated work-load. As the same interviewee put it; "*We believe our approach has helped to maintain good performance and mitigate this risk*". Realistic and challenging new targets have been set for the financial year 2014/15 as the Association intends to ensure that welfare reform impact is minimised and tenants are supported through the changes.

Cassiltoun also reported that the current economic down turn has continued to focus the Board's attention on achieving better value for money and achieving greater efficiencies. To ensure that key targets are met, there is continuous monitoring. Should the Association encounter unplanned trends or changes that may adversely affect the organisation, monitoring will enable allow timely corrective action to be taken.

Cassiltoun's approach to Welfare Reform is summarised by the following: *"Is Welfare Reform a risk to our whole business, in terms of the organisation not being financially viable? The answer is 'No'"*, and "*We've seen a lot of changes in the housing sector over the past 30 years including benefit changes and whilst the current changes are the most severe we believe our preparation, staff resources and business planning will help reduce the risks we face from Welfare Reform. Not only have we identified Welfare Reform as our number one risk we have also included Welfare Reform as a key operational objective*".

In practical terms, Cassiltoun has worked in partnership with Craigdale Housing Association to form a new welfare team consisting of a Welfare Rights Officer, Money Advice Officer and Advice Assistant to assist tenants regarding welfare reform and the wider financial issues they face.

Approach to Resilience

Like the above case study of Albyn, governance was also placed at the heart of how Cassiltoun shows itself to be a resilient organisation. For Cassiltoun's governance, the focus is on tenant involvement in the management of the organisation and on positive outcomes for the community.

Rather than seeking to recruit professional expertise to their Board members with specific skills and competencies, Cassiltoun's model rules prioritise Board membership from the local community. There is an induction, training and development plan for new and existing Board members which equip them with the skills to effectively carry out their role. In 2014 an independent governance review created an action plan to further improve training and skills and to also further consider specialist or professional recruitment of Board members in the future.

Cassiltoun also see resilience coming from sound business planning in particular, from their 30 year Business Plan which is reviewed annually. However resilience for Cassiltoun is about being on the front foot and being close to customers. Cassiltoun concluded that this isn't a new thing, however, as this is what the organisation has always been focused on.

Summing Up

Cassiltoun's tone in regard to the risk posed by Welfare Reform was quite different in tone to that of almost all the other organisations who were interviewed for this research. While risk played an important part in Cassiltoun's overall approach to how the organisation organised and governed, as the interviewee noted; *"As an organisation we are confident and realistic about our preparations and the challenges we face about Welfare Reform."*

This view is largely because of their preparatory work. Put simply, whereas other organisations felt that they had to get to know their tenants better due to the reform, Cassiltoun feel that they already have good customer intelligence about who lives in their properties Also and perhaps more importantly due to all the work that Cassiltoun deliver in the community they believe that they have a good relationship with their tenants which will help the organisation and their tenants to cope with any future Welfare changes including Universal Credit.

Perth and Kinross Council

Name	**Perth and Kinross Council**
Mission Statement	A Local Authority Housing Provider for the Perth and Kinross area.
Type of Organisation	Local Authority Landlord
Number of Units	7000 units
Number of Staff	

Information on Risk Management

Resulting from the different way that RSLs and Local Authorities are financed and structured, there tends to be a slightly different risk and resilience focus among Local Authorities generally, and Perth and Kinross specifically. As noted by a senior local authority housing figure elsewhere in the research; "…*because of the funding mechanisms, maybe for RSLs the risk of going bust is even more real for them I would say*". In saying this, Perth and Kinross' corporate documents and an interview with senior staff revealed interesting views regarding risk and resilience.

Risk Strategy

Discussions with senior housing officers from Perth and Kinross Council showed that the main risks for their own organisation as seen by the council were twofold. Firstly, they identified rising rent arrears resulting in the main from Welfare Reform as a significant risk to the performance of their organisation and the viability of business plans. Secondly, there was the perception of the risk of the consequences of welfare reform and other challenges on the health and wellbeing of customers; "...*in terms of the poverty that customers are facing*".

Risk Register

Perth and Kinross Council's Local Housing Strategy (LHS) contains a Risk Register. Unlike the more organisational focus of the RSL risk registers noted above, the register looks at systemic risks in the Perth and Kinross area. This reflects the Council's dual role as the Strategic Housing Authority for the Council area and as a large provider of social housing.

The "Housing and Community Care Services Risk Register" provides a framework for managing risk and refers also to mitigation action. The following main risks, or perhaps more accurately categories of risk, are cited below;

- Insufficient number of properties accessible to those who need them in Perth and Kinross
- Delivery of Housing Investment Programme
- Supporting people with community care needs in their own homes
- Ability to meet the homelessness targets set by the Scottish Government

- Ability to deliver the Scottish Housing Quality Standard Delivery Plan
- Partnership working with partners.

The Register is overseen by the LHS Steering Group, which monitors it on an on-going basis and meets on a biannual basis, chaired by Perth and Kinross Council's Housing and Community Care Services. This Register does not completely correspond with the information on risk garnered from the interviews with key staff, which can perhaps be attributed to the 2011 publication of the LHS.

Key Comments and Information on Risk and Risk Management

The key risks facing the Scottish housing sector according to discussions with senior Perth and Kinross staff are, as mentioned above, welfare reform, but also risks around affordability and access to housing. This risk was perceived in broad terms, citing the contraction of the mortgage market and the resultant pressure on both the social and private rental sectors.

The interviews revolved to a large extent around welfare reform and the threat to income that it presented to the local authority, and the resultant potential inability to provide a service. As one senior staff member put it:

"*Income is fundamental. I think this is connected to our own staffing position in being able to cover work, because there is an increased workload, and we are all working more widely, and there is probably fewer staff to do this. Like everyone else we have had budget cuts, so that is a risk…It's keeping up with this. We have all had reductions to staffing and increasing pressure. It's then how you actually continue to deliver the services while managing all the other stuff*'.

Approach to Resilience

Interviews with senior staff revealed the commonly held view, that being flexible was a key characteristic of resilience. As one member of senior staff put it:

"*I think stripping it back to basics, it is about being flexible about the things that come your way. That isn't exactly business speak, but that would be my understanding. To have a good long-term focus where you know when and where things are happening, where you can make changes along the way*".

Partnership working was a key theme of the interviews and a frequently cited way of giving the organisation more resilience through being able to demonstrate housing's contribution to national outcomes. This partnership working included working closely with housing associations and having close dealings with the local private rented sector. The partnership was also seen in collaboration with other council departments, and with other specialist agencies from other sectors. This was perceived to be vital in building both organisational resilience and that of customers and communities.

"*We've been heavily involved with Education and Children's Services. From a housing point of view I have been involved in the early years collaborative. ….this collaboration is very much about securing positive outcomes for our children and to contribute to all the big health outcomes as well... what can we do as a housing service – what is our contribution to this agenda? This has been minimising moves and temporary accommodation. We have put a huge focus on homeless families, ensuring that we get families accommodated in the right area, located in the locality of the schools and whatnot. So I think housing is not just focusing on the housing outcomes – it isn't just tenancy sustainment and all our housing outcomes. It's the wider contribution n to national outcomes – in the last few years this is something that has really moved on*".

Summing Up

As discussed above, discussions with senior staff and analysis of Perth and Kinross had a slightly different focus to the RSL cases in relation to risk and resilience. Risk was perceived more in terms of the customers in poverty, staffing and the ability to retain a service, rather than the organisational focus of risk, which tended to be found among the RSLs. There were, however, common threads, particularly in relation to having a clearer customer focus on tenants and a commitment to partnership working with the aim of securing positive outcomes for tenants beyond the provision of housing and successfully sustaining tenancies.

Wheatley Group

Name	**Wheatley Group**
Mission Statement	"Making homes and lives better"
Type of Organisation	A Group Organisation – which currently comprises four social landlords; Glasgow Housing Association (GHA), Cube Housing Association, Loretto Housing Association and West Lothian Housing Partnership (WLFP) a care organisation and two commercial subsidiaries; factoring business Yourplace, and Private Rented Sector company Lowther Homes.
Number of Units	Over 45,000 units in RSL subsidiaries, with 1,000 in the care subsidiaries, 25,000 factored customers and 500 mid-market or market rented customers
Number of Staff	2,100

Information on Risk Management

It can be argued that the existence of the Wheatley Group is in itself a response to the challenges posed by the differentiated operating environment. Wheatley's website states that: "*…by joining forces, our partner organisations are delivering much more for their customers than they could on their own. And, by using their combined size and scale, they are contributing to improving housing, care and regeneration at a national level*".

The reference to size and scale is fundamental to Wheatley's strategy to managing risk and being resilient.

Wheatley brought its internal audit in-house and appointed a Chief Internal Auditor and also dedicated risk management staff capacity in 2011. Previously risk management was outsourced and perhaps did not have high visibility at Board level. As a member of the Audit Team put it; "*Everything that our department does is risk based*".

Risk Strategy

According to Wheatley's corporate documents concerning risk: "*Risk Management is a key element of the Group's overarching Governance arrangements as it demonstrates that we have considered what might go wrong with our plans, that we have analysed the consequences of things going wrong, and that we have thought through the actions and controls we need to prevent or limit these consequences*".

"Risk Management covers the whole spectrum of risks and not just those associated with finance, health and safety, business continuity and insurance. It also includes risks associated with service provision, effectiveness and continuity, public image (reputation), compliance with legislation and regulation and environment". Wheatley Group has a Risk Management Policy and detailed associated guidance.

Wheatley's Risk Management Guidance refers to; [by] "…*being risk aware and understanding its risk appetite the Group is in a better position to avoid threats and take advantage of opportunities*". This chimes with earlier research findings, which concluded that one major risk to the housing sector in certain circumstances was to be excessively risk averse and not sufficiently ambitious (within proportion).

Risk Register

The Wheatley Group has a hierarchy of Risk Registers to ensure that risks are recorded at all appropriate levels of the organisation. At the top level will be the Wheatley Group Strategic Risk Register, which is supported by Subsidiary Corporate Risk Registers and Operational Risk Registers, which are captured at team level across the Group.

The Strategic Risk Register is a Standing Item for the Group Audit Committee, which meets quarterly, and is reported bi-annually to the overall Group Board. The Subsidiary Corporate Risk Registers and Operational Risk Registers also report to the Subsidiary Board on a bi-annual basis and to the relevant Departmental Management Team meeting respectively.

The Corporate Strategic Risk Register identifies the following as the key risks facing the Wheatley Group:

1) IT risks – the inherent risk in transforming IT systems.

2) Lack of robust business planning across the group. The risk that all units have their own plans, so there is a risk of different departments travelling in contrary directions.
3) The Governance Structure is not clear, which is due to having subsidiaries and the complexity of being a Group, particularly as the Group grows.
4) Welfare Reform – this is high up the agenda within the organisation – there is a lot of mitigation underway.
5) Business Plan assumptions .
6) Uncertainty - there are a lot of things out there that we just don't know – and there is also local politics with councils.
7) Key risk of hiring and retaining effective staff.
8) Not complying with legal and regulatory obligations.
9) Commercial ventures do not deliver after considerable investment.
10) Partnerships do not achieve what was expected.
11) The need to financially balance books.
12) Pension deficits – especially in the group context.

These risks are assessed using a risk matrix that assesses and grades them against their likelihood and impact. More operational risks, relating to the likes of, for example; policy and procedures, anti-social behaviour (as a reputational risk), performance, partnerships and complaints dominate subsidiary level risk registers. These are nonetheless assessed using the same matrix as corporate risks.

All risks are incorporated into the Group's performance management system, which records all Risk Registers within it. Risks are monitored by departmental managers and by the assurance team. Detailed guidance is also provided, which explains roles and responsibilities in relation to risk.

Key Comments and Information on Risk and Risk Management

Developing an organisation risk 'culture' has been a key task for the Group, according to information garnered at the interview. "*What we have tried to do is to get on their (staff specific) level and say that (managing risk) is what we do every day…that is why we have provided guidance. Guidance is key because for most people it's already in their head anyway; it's easing it out of people*".

Developing the culture, however, is an on-going challenge and communication is fundamental to the culture's cultivation. This can be seen in comments by members of the Audit Team: "*We have strong Board buy in, we have ex-lawyers and accountants, they understand this…there still needs to be more ownership further down the organisation*".

They went on to say: "*We have done a lot of work to make the risk registers meaningful so that it isn't a tick box exercise and they actually see the value in what they are doing*". In fact: "*A lot of risk management is how you communicate it – to get the right people to deliver the message. Sometimes it's better to get someone who has historically been on frontline housing management to deliver the message so that it's not as if people are coming down from ivory towers.*"

Approach to Resilience

Organisational attitudes and the attitudes of staff were perceived to be important to the Group's resilience. As a Wheatley Director put it: "*It's about being a problem solving organisation, having a whole kind of 'can do' attitude where anything is possible – it very much starts with frontline officers, where they can change services at the point of demand. That is the most important because that is where we maintain our reputation and customer satisfaction…It is also the ability to get the organisation not to have to keep doing ad hoc things – i.e. we collect learning*".

The Director continued: "*We still need our workforce planning to be more adaptable – it is very conscious of job profiles and the like. Certainly that has changed a lot but it is something that we have to change more so that we can deploy resources where they are needed more easily...we have had some success in encouraging people not to say 'that's not my job'*".

Fundamentally, establishment of the Group and the size, scale and capability was also seen as important in terms of resilience in being capable of sourcing alternative source of funding: "*There's quite a bit about our funding structures, how you negotiate funding agreements. We've set this up so that each of the subsidiaries can draw down as required, so each of the subsidiaries supports each other so everybody is in it together, but at the same time each subsidiary is responsible for not letting the other subsidiaries down in financial terms. This funding structure certainly gives us more resilience – there is the ability to support each other – there is also accountability built in*".

This was illustrated when the Group raising £250 million after issuing a public-listed bond in November 2014. This is the first time a Scottish housing association has raised finance through the issue of a public bond on the capital markets. Wheatley was rated AA- by Standard & Poor's ratings agency earlier in the year. The money raised will part fund an extensive development programme of new affordable homes across Central Scotland.

Summing Up

The appointment of a Chief Internal Auditor and staff demonstrates that the management of risk has been given high priority in recent years by the Wheatley Group. This focus perhaps reflects the Wheatley Group's size and scale, which makes it a unique case in Scottish housing terms, and of systemic importance to the Scottish Housing Sector as a whole. This in turn means the Group structure gives added complexity to the governance of the organisation and to the risks that it faces, both of which increase external scrutiny.

The promotion of a positive and learning culture is looked upon as fundamental to both managing risk and displaying resilience. There is an on-going challenge to ensure all

Board Members and every member of staff understands that they have both a responsibility and a contribution to make in relation to risk management.

Case Studies Overall

The case studies mirrored key themes in the wider report, in that risk and risk management are very much at the forefront of the strategic thinking of housing organisations. It was also clear that that assessing and managing risk is seen as a key way in which organisations display resilience. The case studies can also be positioned in terms of the matrix in figure 2 earlier reflecting diverse attitudes to both axes of social-commercial orientation and whether they would diversify or stick to more core activities. Furthermore, as expected, the case studies do not fit neatly into the archetype cells – nonetheless, they view flexibility and change along these dimensions as part and parcel of resilient responses to their environment.

However, organisations were clearly adopting their own specific strategic and operational approaches to meeting challenges, appropriate to their specific circumstances. All interviewees to some extent related resilience to having the right governance in place but approached this in specific ways. For instance, one organisation stressed the need to bring in new skills through the recruitment of board members with particular backgrounds, whereas another saw it as more appropriate to up-skill board members recruited from their customer base.

Welfare reform was viewed a significant risk to the performance of organisations and the viability of business plans. There was, however, something of a difference of opinion on the extent of this risk, with some cases study types being more relaxed than others about the extent to which welfare changes would affect their businesses and customers.

Key elements of perceptions and discussions on resilience for all interviewees revolved around; sound business planning, effective governance, partnership working, and being characterised as a learning organisation. These themes mirrored what was found to varying extents across other elements of research for this study.

The other key impression from the interviews was the circular nature of reform, risk and resilience. In other words, the interviews in different ways said that being risk aware was one of the principal ways in which a housing organisations display resilience and therefore allows them to manage reforms and other challenges to their sustainability.

7. CONCLUSIONS

Overview

The report is about how organisations identify, categorise and try to mitigate risk. We draw an analytical distinction on the one hand between risk and danger and on the other between risk and uncertainty, exploring how housing associations and their managers define and deal with risk. The notion of resilience is explored as a way of separating out particular responses to risk that focus on building the capacity of the organisation or its tenants. We define reform as approaches to service provision and management that are consistent with the principles set out by the Christie Commission.

We argue in the report that social housing faces three sets of drivers: external risks; internal risks; and the policies and actions of the multiple stakeholders that shape and influence the organisation that associations have to negotiate. Resilient responses might include purposeful strategy, developing a learning culture within the organisation, effective risk management, greater flexibility and good governance. Adapting to risk and promoting resilience are reforms taking place at organisation level and arguably also at sector level.

The key conclusions from the research are highlighted below. They move from the implications of risk and resilience, to wider consequences of welfare reform and the Smith Commission proposals, to the complexity of managing multiple stakeholders, pursuing good governance and seeking out partners and collaborations. Ultimately, the fragility and uncertainty that reaches across what is a diverse set of arrangements in the Scottish sector leads us to ask the basic question: what is social housing now for? We suggest that it has never been more important to have a broad debate about the function and role of non-market housing and that this requires urgent leadership to clarify and define a purpose or set of purposes that should be at the heart of housing strategy nationally and locally.

Risks and building Resilience

From the 1990s until the financial crash, the business model of the social housing sector had been relatively stable. The change in the financial environment after 2008 and the perceived threat posed by welfare reform has led to much greater awareness of risk and a greater focus on risk management in the sector – captured in the quote from one of our interviewees that 'we are all risk managers now'. Our research shows that risk registers and risk management are ubiquitous in the sector - a necessary tool for monitoring preparedness. It also shows that many, although not all, associations are giving serious thought to promoting resilience either at an organisational level and/or amongst their tenants. However there is a lack of clarity and coherence in thinking about resilience. The rigour of Mary Taylor's thinking about different dimensions of reliance has not yet fed into practice and most organisations' attempts to build resilience are not joined up but there is a shift towards building resilience as a focus of activity which is evolving in response to this new landscape. In this context there is a need for cross-organisational learning and for evidence about what works in promoting resilience amongst both tenants and associations.

A key finding of the research is a shift in thinking from a narrow focus on development and on property and estate management. Resilience is being seen to be not just about future-proofing the organisation but building of resilience capacity among staff members, tenants and local communities. Housing providers are leaders in many of the communities they operate in. Many of them are increasingly putting resources into helping vulnerable or potentially vulnerable families and households into sustainable tenancies and introducing them to networks that can encourage them to negotiate services and opportunities and otherwise build capacity.

Welfare Reform

Welfare reform, and in particular the income risks to associations associated with the introduction of Universal Credit, has been a strong stimulus in developing associations thinking about risk and resilience. The Smith Commission proposal to devolve disability benefits, retain direct payments and 'soften' the administrative payment rules for UC may alleviate some of the concerns but the uncertainty associated with the legislative process, the unknowns about timescales and the likelihood that there will be a period when the UK Universal Credit in its original form will operate in Scotland - are all risks that associations have to prepare for. For housing associations, the costs associated with managing welfare reform locally cannot at present be quantified.

Other aspects of welfare reform that are currently affecting some social tenants in Scotland, such as conditionality and sanctioning, will also be retained within the Smith Commission proposals. To deal with the consequences of these and other changes, social housing providers will have to continue to emphasise customer intelligence, enhancing frontline services such as welfare advice and financial inclusion, and working out the best ways to provide these critical services (e.g. direct or in partnership with others).

Because any rent increases will impact on HB payments that, at the margin, may directly eat into the Scottish budget, it is likely that the Scottish Government will take more interest in maximum rent increases and rent setting in the social and affordable sectors. Some of our interviewees felt that this could also create pressures to harmonise rent increases nationally, although there was doubt about whether there would be moves towards more common rent structures. While housing associations have for many years operated within different affordability-based and transfer contractual rent increase maxima, the council sector has retained rent increase discretion. Both parts of the sector would have to re-consider business plans and investment programmes in the light of any such moves towards national structures that constrained assumptions about income growth in future years.

Multiple Stakeholders

A recurring theme of our research has been the tension between strategies that attempt to mitigate risks by either diversifying into new housing and non-housing businesses (according to whether, for instance, charitable rules allow this) or divesting responsibilities in order to focus on the core business of being a landlord. Social housing providers are fundamentally shaped by the goals and assumptions of their multiple stakeholders. While one set may support and seek to facilitate diversification on quite rational grounds, other stakeholders may equally rationally place barriers in the way e.g. the regulator may take the view that certain proposed activities are not in the interests of existing tenants or at least pose risks for them.

This is an inevitable tension that will not go away (quite the opposite). Social landlords, as we have argued, are also fundamentally the product of their history, niche, purpose and earlier decisions about their stock, investment, priorities and the like. This *path dependency* is why we have a varied, diverse and vigorous sector (though not necessarily as efficient if we were starting with a blank page – which we are not). It also suggests, in combination with the requirements of the sector's multiple stakeholders, that there is no simple single answer as how best different kinds of landlords should nurture resilience. For some landlords, achieving that resilience will require diversification; for others the opposite. It is striking that the response in the Netherlands, where diversification and growth were once so important to the large entrepreneurial housing associations of the Dutch social sector, has been to respond to external and stakeholder risks or challenges by returning decisively to core social housing business.

Partnering and Collaborating

At the same time, housing providers have growing opportunities (and necessity) to work with new partners and deepen existing relations with others. There are limits in terms of governance flexibility but it does appear that there are many different models of partnership working and joint ventures which can pool and share risk. In our interviews, housing providers saw themselves operating in a space that encouraged both competition and collaboration. Traditionally, co-operation between housing associations was limited by territorial boundaries and focused on membership of representative bodies where shared interests could be articulated. Increasingly now there are examples of inter-sectoral collaboration between housing associations and other types of organisation, about influencing policy collectively and shaping better initiatives like health and care integration. This is a welcome step along the Christie Principles agenda, with respect to partnership and integration.

Good Governance

A key response to risk has been changes to the governance of social housing organisations. This is also strongly consistent with Christie. It is one thing to work with sensible and comprehensive risk registers, it is another to bring the appropriate skills sets around the table to make the most of risk- and other management tools to fit with strategic and operational plans, while at the same time offering accountability to tenants and residents. Boards holding officers properly to account in a context where diversification is being considered is essential. What is required is a different balance of skills, experience and knowledge among tenant and non-tenant board members. A critical element to this is the embedding of learning to promote the evolving nature of housing providers. This requires necessary investment in training for staff and boards. But this could go much further if serious attempts were made to encourage providers to become learning organisations – e.g. by supporting secondments, adopting evidence based approaches to policy choice and the transfer of good practice, as well as widening competencies across the organisation (so that over time all staff have a sense of risk management; core accounting and finance skills; development appraisal; community development; and partnership working, among others.).

What is Social Housing For?

The fundamental question raised repeatedly by our interviewees is what is the purpose of social housing in Scotland in the early 21st century? Social landlords are diversifying to meet new needs but also to generate new income streams to help support their core social housing activities. Other landlords, as we have seen, have narrowed their mission to focus on their core role as housing providers. The views of other stakeholders about controversial questions such as whether or not the sector needs to consolidate, or whether the unspent reserves and the asset base should be actively used to help fund more non-market housing supply through greater gearing, will shape and influence the choices associations make in the future.

By trying to understand risk and uncertainty, how they are defined in the Scottish social housing sector and how organisations in different ways are trying to build resilience, we hope we have shed some light on the tensions and dilemmas that exist. There are reforms that could help housing providers meet their objectives and remain viable for their tenants. However, one reading of the external risks confronting social housing is that inequality, in-work poverty, demographic ageing, welfare reform and affordability pressures – are long-term drivers of unmet housing need. There does need to be a non-market response, which ultimately requires subsidy either in terms of capital, revenue or income related support. Gibb, et al (2013) concluded a review of international evidence by arguing that there is no alternative to subsidy to bridge the gap required to fund non-market housing. The issue is whether, in drawing on scarce public resources, that subsidy is shallow and rents higher, or more conventionally deeper and social in form.

Perhaps social housing, with its multiple stakeholders, different provision models and geographies, is simply destined to be an uneven mixture of various provider types performing different roles. But this is un-strategic and opportunity-driven. Where is the strategy for the long term shape of non-market housing and who should be leading it? Individual providers may be able to develop coherent risk and resilience approaches that are perfectly sustainable in their own terms – but what does it add up to for the sector as a whole and how is it supposed to build wider resilience against system-wide risks?

Social housing plays a key role in local communities. While at a national level, the sector has its own set of performance indicators through *Scotland Performs* (for housing and regeneration), the local articulation of the national performance framework and the Scottish wide adherence to the Christie principles, occurs at community planning partnership level. How can social housing providers, voluntary and local government alike, play a full and consistent role as a leading partner in CPPs across Scotland? In an outward-facing sense, this potentially integrative role is essential to resilience – so how can it best be achieved? Until recently, housing associations have seen their role primarily as housing providers. If they expand the range of their activities in order to promote resilience, what are the implications for the role they should play in wider partnership working with a community focus?

We call, therefore, for a national debate. This should be led by Government but seeking sector consensus, and should reflect the new risks and sector responses to them. The outcome of this process can then define and prioritise the role(s) of social housing and then apply it to strategic and operational practice nationally and locally.

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Appendix 1: Reform, Risk and Resilience Steering Group Membership

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Hazel Young	Wheatley Group
Jim Hayton	ALACHO
David Bookbinder	Glasgow West Scotland Forum
Tony Cain	Stirling Council
Graeme Russell	Dunedin Canmore
Fanchea Kelly	Margaret Blackwood Group
Ian Brennan	Scottish Housing Regulator
David Ogilvie	Chartered Institute of Housing (Scotland)
Julie Guy	Scottish Government
Kate Sibbald	Audit Scotland