



Strategic Review

**Defining the social value of
Sovereign's products**

January 2014

Defining the social value of Sovereign's products

Introduction

Early in 2014, we undertook a strategic review which set Sovereign's direction for the next three years. We carried out an extensive research programme to help inform our decisions and guide our new strategic direction.

This report describes detailed work undertaken to support a substantial research project into the cost and value (including social value) of Sovereign's housing products. For the purpose of this project, the term 'product' encompasses both the homes we provide and the associated services.

The aim of the project was to deliver a workable approach to measuring the social value of our key products, and to undertake an initial evaluation.

Key findings

- All Sovereign's products had a positive social value. Based on equal weight being given to the three different perspectives, Affordable Rent had the most positive impact, with general needs second. This position would reverse if greater weight was given to the impact on individual households or if we did not include the 'Impact on Sovereign' measurement.
- The positive impact of Sovereign's products on individual households varies. General needs and supported housing both have a very positive impact in terms of both wellbeing and household finances, and scored highest overall. However, Affordable Rent and shared ownership are both less positive from a financial perspective; and shared ownership scores lower in terms of wellbeing. Market rent has a weak positive score in terms of wellbeing, but is negative in relation to household finances.
- In terms of the impact on wider society, the picture is also mixed. All products have a positive impact on the economy, reflecting both the stimulus of development and the effect on the labour market (supporting low wage employment, or labour mobility), although this is less marked for supported housing. The effect on the exchequer is most positive for lower cost products, but less so for market rent and shared ownership. Affordable Rent, with its higher rents, and high proportion of housing benefit (HB) claimants was considered neutral on the exchequer, and had the lowest overall positive effect on society.

- Affordable and market rent had the most positive impact on Sovereign, although this was vulnerable to welfare reform and market shifts respectively. Shared ownership had a weak positive score. Only supported housing had a negative score, driven by ageing stock and the inherently high maintenance cost of specialist provision. General needs rented housing was neutral.

Background and approach

Early in 2014, Sovereign undertook a strategic review to set the organisation’s direction for the next three years. The balance between activities motivated by commercial considerations, and those aimed at achieving social outcomes will be a key consideration within this review.

The work described in this report formed one part of a wider project, aimed at understanding the cost and value of Sovereign’s ‘products’. Its partner projects were focused on:

- market prices in our operating areas.
- the affordability of our products.
- whether our products meet current residents’ needs and support their aspirations.
- the actual costs and income associated with each of our products.

This project aimed to evaluate social value, incorporating the following principles:

- Widen the definition of value into non- financial terms.
- Discuss and articulate the different aspects of value associated with different tenures.
- Attempt to sort and score these values, without, at this stage, deeming one element to be more important than the other.

The project looks at social value from three perspectives: the household, wider society and Sovereign as a business and each perspective is divided into two elements as described below.

Impact on household		Impact on Society		Impact on Sovereign	
Wellbeing	Finances	Economy	Exchequer	Assets	Income

This links to the approach Sovereign is taking to measuring in more detail the social value of its activities which will continue to be built upon in the coming years, through collaboration with the Housing Association Charitable Trust (HACT).

The reason for including the impact on Sovereign’s assets and income is the view that any financial value derived from products increases our potential to deliver more for existing and future residents.

The weighting of the scores has the potential to be a much wider debate and there is some forthcoming research from HACT which will be able to inform this discussion

In forming a steering group for this work, representatives were sought from across the business, to make sure that diverse views were represented. The role of the steering group was to provide challenge in relation to the proposed evaluation approach, and to discuss and debate the estimates of social value. The team included:

- Lisa Denison, Community Investment Director
- Tim Snook, Finance Business Partner
- David Ingram, Strategic Asset Management Director
- James Gibson, (Regional Development Director
- Adrian Brunskill, Regional Housing Manager
- Clare Powell, Director of Strategy
- Jo Martin, Contracts Manager

Lisa Denison has been the sponsor for Sovereign's approach to measuring social value. Chris Smith, Senior Strategic Policy Analyst, led on defining our approach in this area, and provided research and technical input.

Having agreed on the approach to recording and describing social value, the team held three workshop sessions: two to estimate social value of different products, based on the three perspectives described above; and one to validate the findings on the basis of research within the partner projects, and additional work undertaken specifically for this project.(see references on pages 18 and 19)

The following paragraphs explain Sovereign's approach to measuring social value; what we mean by 'products'; and the basis of the calculations in the following sections of this report.

Our approach to measuring social value

Since early 2014, we have been liaising with HACT on the development of their approach to social value in the housing sector.

We have used some of the HACT principles to inform a framework for evaluating the social values of our own work, and this is being piloted on two projects. Our aim throughout has been to develop an approach that can be applied with equal validity to an individual project and a whole organisation; that requires a robust evaluation, but doesn't encourage an accountancy-based approach. Our pilot approach involves three separate perspectives: individual households; society as a whole; and Sovereign. In this project we have adopted a similar framework, to maintain consistency.

What we mean by ‘products’

The four partner projects identified above have all been investigating the effectiveness of our products. Clearly, a shared definition of ‘products’ is an important preliminary ingredient in this work, to ensure that the findings can be brought together, and conclusions can be drawn.

In July the Executive Board considered a brief report, proposing an approach to defining our products for use throughout the strategic review. As a result, the following products have been used in all relevant research projects.

Product name	Product definition
General needs	This is specifically social rented general needs
Supported Housing	This will encompass what we class as supported housing and housing for older people.
Shared Ownership	Traditional shared ownership, including government schemes such as Help to Buy and NewBuy.
Market Rent	Full market rent, essentially private rent.
Affordable Rent and Intermediate market rent	Set at 80% of market rents. The key difference between Affordable Rent and intermediate market rent is that Affordable Rent is targeted at people on housing registers.
Outright sales	Open market sales. May be split into first time buyers and others.

How the Social value has been calculated

The following pages include a summary matrix, followed by details of the analysis comparing each product from the three different perspectives employed.

The perspectives each have two different aspects:

- The household perspective looks at both wellbeing (encompassing aspects such as security and the quality of the home) and finances.
- The 'society' perspective considers the economy (for example, the impact that our homes have in terms of economic growth), and the exchequer impact (such as taxes paid or savings in housing benefit).
- The Sovereign perspective captures both asset value and income streams.

For each aspect, the type of impact can be positive, neutral or negative. The scale of impact can be low medium or high. These scores are shown and explained in pages 6 to 17.

The overall score is calculated by multiplying the type of impact by the scale of impact. This will give a five point scale from +2 through to -2. These scores are provided in the summary matrix on page 5.

The available scores and combinations are illustrated in the table below.

Type of impact	Points	Scale of impact	Points	Combined impact
positive	1	Low	0	0
		Medium	1	1
		High	2	2
neutral	0	Low	0	0
		Medium	1	0
		High	2	0
negative	-1	Low	0	0
		Medium	1	-1
		High	2	-2

The detailed analysis contains statements that the steering group have agreed upon, some of which are the views of the group and are more anecdotal, others we can back up with external evidence, and these are referenced where appropriate.

Social value by Product – Summary Matrix

	Impact on the household		Impact on society		Impact on Sovereign	
	Wellbeing	Finances	Economy	Exchequer	Assets	Income
General Needs	2	2	2	2	0	0
Supported	2	2	1	2	-2	0
Affordable Rent	2	1	2	0	2	2
Shared Ownership	1	1	2	1	0	1
Market Rent	1	-2	2	1	2	2

IMPACT ON THE HOUSEHOLD - WELLBEING

General Needs

Positive: General needs housing offers a low cost housing solution to those that are in greater need or facing some disadvantage; households are more likely to be out of work, on low income, disabled or lone parents.

General needs offers long term security and stability of tenancy compared to renting privately, which allows a household to put down roots and become part of a community.¹

Those in our general needs properties are likely to receive a more tailored and caring service than they would get privately, including a well maintained home, designated support from housing staff and wider community services.

The standard of houses, especially more modern developments, is generally high which can have a positive impact on self-esteem and pride in the home, as well as health benefits.^{2,3}

Facilities for disabled residents are good and more likely to be adapted to requirements than privately.

Negative: There is a stigma about being housed in 'social' which can negatively affect self-esteem, or leave some households feeling marginalised in their communities.

Existing general needs properties are more likely to be found in more deprived areas⁴ that may have higher social problems, such as anti-social behaviour, although social landlords are more likely to address these issues.⁵

Type of impact	POSITIVE	<i>Households benefit from good quality homes and a tailored and caring service</i>	Scale of impact	HIGH	<i>The majority of homes are to a good standard and services are consistent</i>
----------------	----------	---	-----------------	------	---

Supported

The descriptions for General Needs apply in the main to supported housing, but there are some specific wellbeing benefits to highlight. Specialist schemes house similar people together which gives a community feel but with the comfort of someone in shouting distance. For many there is no other option: living with family may not be possible or potentially detrimental to wellbeing and private options may not be affordable, so supported housing provides a welcome solution to many people with specialist needs.

Satisfaction with Sovereign's schemes is high.⁶

Type of impact	POSITIVE	<i>Provides a safe, secure, community environment for those with specialist needs</i>	Scale of impact	HIGH	<i>Satisfaction is high across different schemes</i>
----------------	----------	---	-----------------	------	--

Affordable Rent

Those households living in Affordable Rent properties will see most of the same wellbeing benefits as those in general needs but may not be as happy knowing they are paying a higher price for these services.

Type of impact	POSITIVE	<i>Households benefit from good quality homes and a tailored and caring service</i>	Scale of impact	HIGH	<i>The majority of homes are to a good standard and services are consistent</i>
----------------	----------	---	-----------------	------	---

IMPACT ON THE HOUSEHOLD - WELLBEING

Shared Ownership

Positive: Given a free choice, 86% of people would buy their own home rather than rent.⁷ Shared ownership meets a specific need for those who aspire to home ownership but cannot afford to buy on the open market. It gives a household the security of having their own home and stability to plan for the future.

There is greater control about where they live and the sort of property they live in than under general needs, for example there is no risk of the bedroom tax so there is more flexibility for longer term future needs.

Having more choice on location may mean that they have less risk of neighbourhood issues, but if neighbourhood issues do arise then their landlord will take more of an interest than if they owned outright.

The household will benefit from being included in neighbourhood initiatives driven by their landlord.

Shared ownership can provide a solution to some with limited options: it is popular with certain demographics as it helps them through specific life situations, i.e. lower income, family break up.

For those who own the share with bigger social landlords are likely to have less difficulty around the lease.

Negative: Shared ownership is usually a product for those who aspire to outright ownership, so for many it is a compromise that they may not be entirely happy with. This is reflected in satisfaction scores which tend to be lower with shared ownership⁸, although there are other factors that could affect this.

Some underestimate the complexity of the lease with the result that they are unhappy when something happens that requires them to understand it.

Some feel trapped in shared ownership, which may not offer the flexibility they expect: it can be more complicated to move and can be a fairly closed market if they want to move and own a certain percentage, there may not be the properties available if the owner wishes to move to a bigger property, there isn't as much freedom in terms of improvement, if there are affordability issues there isn't the increasingly popular option of let to buy (compared with outright ownership).

There can be a stigma attached to shared ownership if classed as affordable housing, but this depends to an extent on the quality of product.

Type of impact	POSITIVE	<i>For some it offers a way into home ownership and more freedom than social renting</i>	Scale of impact	MEDIUM	<i>Although the overall impact is positive, for some there are significant frustrations</i>
----------------	----------	--	-----------------	--------	---

Market Rent

Positive: Sovereign's market rented offering is generally a good quality product and compared to more mainstream market rent, it could be described as a more 'ethical' version in terms of the service the landlord offers vs that of a typical private landlord.

It may not be the ideal housing solution for some, but for those with no alternative, the product fills a gap in market for competitively priced good quality market rent. This gap is widening with 'excluded middles' priced out of ownership and not prioritised for social rented.

For some, it is a flexible stop gap housing solution; for example students or younger households requiring flexibility and not willing to take on the greater risk that comes with home ownership.

For some people, the fact that they can exercise a choice enhances wellbeing.

Negative: Tenancies offered by Sovereign are short fixed term, although they may lengthen in the future. Therefore there is less security for the household, although, providing the household pays their rent, it would be unusual for the tenancy to be ended.

Given the growth of the private rented sector, and the increasing reliance of those in it on housing benefit, there is a kind of tenure discrimination in that they are experiencing similar poverty to those in the social rented sector but are being excluded from certain support services.

Type of impact	POSITIVE	<i>Households benefit from good quality flexible solutions</i>	Scale of impact	MEDIUM	<i>It is an ideal flexible solution for some, for others it is the only option</i>
----------------	----------	--	-----------------	--------	--

IMPACT ON THE HOUSEHOLD - FINANCES

General Needs

Positive: Social rents are significantly cheaper than private rents on average. This will mainly be an advantage to those not claiming HB⁹, although those receiving HB will benefit from a smaller 'poverty trap', which is the amount you need to earn to escape welfare dependency.

Falling behind on rent payments does not come with immediate charges or threats of eviction that might need to be resolved using costly short term fixes, such as high interest loans.

Tenants enjoy stable rents with predictable increases. There are no surprise hikes if the neighbourhood improves, if the housing market changes or if interest rates increase sharply.

The household will have a long term, settled permanent address which provides opportunities around long term financial security, the ability to plan budgets and access to goods and services otherwise unavailable.

There are no outlays on repairs and therefore no risk of significant unexpected expenses around the home.

Tenancies come with a service not provided privately, including in many cases financial support.

Those living in housing association properties are less likely to be fuel poor than those living in private rented accommodation.¹⁰

Negative: Households in social housing are less likely to be in employment, even comparing the rates of those with similar disadvantages.¹¹ It is unclear how much this is caused by factors related to tenure, such as concentration in more deprived areas or less mobility in the labour market, or is more linked to the screening process into general needs which prioritises those who may be less likely to find work.

The positive impact will be diluted for some due to welfare benefit cuts.

Type of impact	POSITIVE	<i>Low, stable rents with security of tenure provide a sound financial base for households</i>	Scale of impact	HIGH	<i>The financial benefits are widespread and support is available for those who get into difficulty</i>
----------------	----------	--	-----------------	------	---

Supported

The descriptions for General Needs apply but are arguably more significant to those in supported housing. Firstly the majority are not likely to be able to work and therefore be on the basic benefit allowances. Secondly the gap between what we offer and the same service privately provided is likely to be more significant than the difference between a social and private rent.¹²

Type of impact	POSITIVE	<i>Low, stable rents with security of tenure</i>	Scale of impact	HIGH	<i>The financial benefits are widespread</i>
----------------	----------	--	-----------------	------	--

Affordable Rent

Those households living in Affordable Rent properties will see the majority of the benefits listed above but will have higher rents. This may not matter to some in terms of cash flow if they are claiming housing benefit, but it will mean they are further away from escaping benefit dependency, which can be a work disincentive.

For those not claiming housing benefit there is almost a £50 a week difference in general needs and Affordable Rents on average where we operate.

The negative issues for those affected by welfare benefit cuts will be magnified on Affordable Rents due to the higher housing benefit claim.

Type of impact	POSITIVE	<i>Rents are below market levels and households enjoy all the other financial benefits of renting socially</i>	Scale of impact	MEDIUM	<i>For those not eligible for housing benefit, rent levels can place a strain on finances</i>
----------------	----------	--	-----------------	--------	---

IMPACT ON THE HOUSEHOLD - FINANCES

Shared Ownership

Positive: Shared ownership is a more affordable option for those that aspire to get into home ownership but cannot afford to.¹³ It is also a cheaper on-going alternative than market rent providing the household can afford the initial deposit.¹⁴

As well as being more affordable, shared ownership carries less financial risk: shared owners are less exposed to market declines than outright owners. Sovereign also has a tight screening process so the buyer can be confident they can afford the payments if they meet the criteria.

Shared owners generally benefit with more favourable relationships with their leaseholders: private leaseholders are often engaged in a running battle over management costs, whereas Sovereign, like most social landlords are looking to cover costs rather than maximise profits.

Some shared owners can benefit from social landlords undervaluing market rates, or living in local authority areas where either rents are prescribed at 1% and/or service charges are capped.

Negative: There is more of a specialist mortgage market for shared ownership with higher perceived risk, so the rates tend to be less competitive.

Adding value to the property can be difficult, the capital invested into improvements will not all be added to the owners' share of the equity. For example, a shared owner with 40% of the equity may only get £4k of the increase in price caused by a £10k extension.

The shared owner maintains 100% of the property even though they only own a proportion.

Some shared owners underestimate the risk of ownership; in any default, their equity can be eroded by arrears and any fees that may have been rolled into the capital.

Type of impact	POSITIVE	<i>Cheaper than private rent with the potential for equity growth</i>	Scale of impact	MEDIUM	<i>Only having a share in the property places restrictions on the potential benefits</i>
----------------	----------	---	-----------------	--------	--

Market Rent

Positive: Market rent products do not require the significant up-front outlay needed for ownership.

There are no maintenance liabilities and therefore no risk of significant unexpected expenses around the home.

Market rent options are flexible which suits the need of certain demographics, for example those who need to be mobile in the labour market. Also there is a wide variation in market rent prices, so there are cheap rents available in less desirable areas or for lower quality products, which can suit particular needs, such as students, although it is unlikely Sovereign would operate in these markets.

Negative: More expensive weekly costs, in the majority of our local authority areas, median weekly market rent costs are higher than all other tenure types.¹⁵

The upfront costs of a deposit and rent in advance can restrict access for some households, and is significantly higher than social rented.

Households in market rent products face less certainty on rent increases, which are driven by market forces.

Falling behind on rent payments could come with immediate charges or threats of eviction that might need to be resolved using costly short term fixes, such as high interest loans.

Type of impact	NEGATIVE	<i>Significantly higher cost than social rents, and often higher than ownership without the equity benefits</i>	Scale of impact	HIGH	<i>Sovereign's market rent offering is unlikely to offer low-end, cheaper alternatives</i>
----------------	----------	---	-----------------	------	--

IMPACT ON SOCIETY – THE ECONOMY

General Needs

Positive: Every £1 spent on affordable housing is worth £2.41 in the wider economy. It also helps boost employment – every affordable home built creates 2.3 jobs.¹⁶

There is a demand for general needs homes in any economic climate, even more so in difficult economic times. Housing Associations continue to develop homes to meet this need and therefore stimulate growth and provide job opportunities for tradesman and those in construction.¹⁷

General needs housing plays an important role in the economy by providing homes for those in the lower paid work that is vital for most local economic markets. Businesses wouldn't develop in an area lacking the appropriate workforce.

By providing subsidised rents, tenants have more disposable income. Those on lower incomes are more likely to spend additional income rather than save, which stimulates the economy.

Sovereign spend more on their assets than private landlords, for example using planned maintenance programs rather than just waiting for things to break before fixing them.

Sovereign enter into long term contracts with suppliers, which provides security for these businesses.

Sovereign also invest in their communities, such as providing support to get people into work, including those furthest from the labour market.

Negative: People in social housing tend to be less mobile in the labour market.

Government is currently subsidising social housing development through revenue streams so social rents can stifle development in that respect.

The benefits detailed above are likely to shrink with the diminishing opportunities to procure general needs given the move to the Affordable Rent model and the risks associated with welfare reform.

Type of impact	POSITIVE	<i>Creation of affordable homes is a benefit to the economy and society</i>	Scale of impact	HIGH	<i>There are benefits through the procurement of the home and the impact it has on the household</i>
----------------	----------	---	-----------------	------	--

Supported

Again the advantages of general needs is reflected in supported housing, but the scale of the economic benefit is less as the people living in supported housing are less likely to be economically active.

Type of impact	POSITIVE	<i>Developing sheltered schemes provides economic stimulus</i>	Scale of impact	MEDIUM	<i>Occupiers are less likely to reinvest the rent savings into wider economy</i>
----------------	----------	--	-----------------	--------	--

Affordable Rent

Affordable Rents provide broadly the same benefits to the economy as general needs; the benefits of increased revenue to reinvest in development is balanced by the reduced disposable income of the tenants.

Type of impact	POSITIVE	<i>Creation of affordable homes is a benefit to the economy and society</i>	Scale of impact	HIGH	<i>There are benefits through the procurement of the home and the impact it has on the household</i>
----------------	----------	---	-----------------	------	--

IMPACT ON SOCIETY – THE ECONOMY

Shared Ownership

Positive: Developers tend to be more encouraged to build shared ownership than affordable rental units as they add more value to the development. Using the cashflow from shared ownership can stimulate other development.

Shared ownership also can act as an alternative tenure used for less typical properties/locations that may not fit social rent models, and again this cashflow can unlock difficult sites.

Shared owners' income freed up by the lower housing costs is more likely to be used on consumer goods than savings or staircasing in their home.

Shared owners are likely to care more for their home and community and spend more on their furnishings and supporting the local economy.

Shared ownership can also dampen the extremes of economic change and act as a stabiliser in the community as shared owners are likely to be less affected by market conditions.

Type of impact	POSITIVE	<i>Shared ownership brings a wide range of economic benefits</i>	Scale of impact	HIGH	<i>Economic benefits high considering relatively small size compared to other tenures</i>
----------------	----------	--	-----------------	------	---

Market Rent

Positive: A market rent property developed for a social landlord has the potential to unlock sites that other tenures can't.

The flexibility of market rent as a tenure has benefits to the economy. It meets the needs of different demographic groups, providing labour market mobility.

It provides more housing choice which takes the heat out of the housing market by taking the slack between social rented and ownership. The majority of the growth in dwellings since 2001 has been through private renting growth.¹⁸

There are different funding streams available to support market rent that are not available to other tenures and it creates opportunity for non-UK investment in the UK property market

Negative: Market rent is expensive and the impact it has on peoples' incomes reduces spending power.

Type of impact	POSITIVE	<i>A flexible housing solution that takes the strain of economic cycles and provides labour market mobility</i>	Scale of impact	HIGH	<i>Private rented solutions are widely available given availability of housing benefit</i>
----------------	----------	---	-----------------	------	--

IMPACT ON SOCIETY – THE EXCHEQUER

General Needs

Positive: There are clear savings on the housing benefit bill given social rents are cheaper than private rents. Over the last 10/15 years grants for building new homes has significantly reduced. The capital cost to Government has reduced and the revenue cost to Government has not increased proportionately. Housing Associations are increasingly using value of their assets to generate finance for development, at a saving to the Treasury.

Sovereign invests in their communities, providing support to get people into work, especially those furthest from the labour market. This can increase tax payment and reduce welfare benefits.

The stability and investment in communities that housing associations provide has positive impact on things like crime, education, health which would otherwise require public spending.

Sovereign has become increasingly efficient, freeing up money for increased development and community investment.¹⁹

Negative: General needs housing is rationed but the process is imperfect so there will inevitably be those entering into general needs who could be described as less in need, or less deserving, who benefit from subsidised rents. Similarly there will be those on lifetime tenancies who have improved their situation and achieved higher incomes, who could afford to pay more rent on the open market.

The issue that those in social housing are less likely to be in work than similar households in other tenures affects the Exchequer in terms of benefits paid out and taxes lost, although it is difficult to identify how much of this is driven by tenure or other circumstances. Certainly labour mobility in the social rented sector is a recognised concern.

Type of impact	POSITIVE	<i>Relatively cheap infrastructure growth and investment in community services reduce public expenditure</i>	Scale of impact	HIGH	<i>Relatively high return considering negligible Government outlay</i>
-----------------------	-----------------	--	------------------------	-------------	--

Supported

The description for general needs applies to supported housing. In addition, housing associations provide supported accommodation cheaply. If this service stopped or reduced it would be a significant expense to the Exchequer if the benefit bill had to cover private provision.

Type of impact	POSITIVE	<i>Cheap provision of accommodation for those in most need</i>	Scale of impact	HIGH	<i>The cost to the Exchequer if this service was not provided would be significant</i>
-----------------------	-----------------	--	------------------------	-------------	--

Affordable Rent

The general needs description applies although (subject to future decisions about welfare benefits) the revenue cost to Government will be greater, especially as there is no clear evidence that those social tenants on Affordable Rent are in a better position to pay the higher rent, which means the housing benefit bill takes the strain.²⁰

Type of impact	NEUTRAL	<i>Relatively cheap infrastructure growth balanced by increase in housing benefit bill</i>	Scale of impact	HIGH	<i>No evidence affordable rent tenants are in a better position to afford increased rents than general needs</i>
-----------------------	----------------	--	------------------------	-------------	--

IMPACT ON SOCIETY – THE EXCHEQUER

Shared Ownership

Positive: Recycled grant from shared ownership reduces the need for capital subsidy for new homes but also provides additional receipts that create a buffer for housing associations.

If a household in shared ownership circumstances change for the worse it is better for exchequer as any benefit claim is less immediate.

The treasury benefit from the stamp duty paid on shared ownership.

Type of impact	POSITIVE	<i>Generally positive, but actual value depends on individual properties at different points in time</i>	Scale of impact	MEDIUM	<i>Positive benefits are not particularly significant for the Exchequer</i>
-----------------------	-----------------	--	------------------------	---------------	---

Market Rent

Positive: The treasury benefit from the stamp duty paid by Sovereign on procuring market rent.

The benefits of higher labour market mobility associated with market rent are positive for the exchequer as it helps reduce the benefit bills and increase taxes.

Sovereign's participation in market rent has a secondary benefit in that profits are actively recycled into economic activity, which may not equally apply in the private sector.

Negative: Due to Sovereign's group structure we do not incur tax liability, unlike other private landlords.

Housing benefit costs for tenants on low incomes is higher than through social rent; while the proportion of Sovereign's market rented tenants on housing benefit is low, a change in their circumstances results in higher Exchequer costs in the short term.

Type of impact	POSITIVE	<i>Positive effects of labour market mobility balanced by increased housing benefit bill</i>	Scale of impact	MEDIUM	<i>Positive benefits are not particularly significant for the Exchequer</i>
-----------------------	-----------------	--	------------------------	---------------	---

IMPACT ON SOVEREIGN – ASSETS

General Needs

Positive: General needs properties are well maintained and likely to retain their value better than equivalent privately let properties

Overwhelmingly, Sovereign's general needs stock have positive Net Present Values (NPV), with an average of around £50k, and we know which ones have a negative NPV.

Negative: If we had a property that wasn't delivering financially we might not necessarily offload it because of the social value of the product. Therefore, there is an opportunity cost of retaining it as a social asset.

Our new build is being subsidised off the cashflow of older stock that are no longer carrying debt.

The stigma attached to social housing can devalue the sale value of the asset.

Type of impact	NEUTRAL	<i>Our asset base needs active and constant management</i>	Scale of impact	HIGH	<i>Asset values will vary significantly and decisions are complicated by the social aspect</i>
----------------	---------	--	-----------------	------	--

Supported

Negative: Supported housing brings further risks to our asset base, with the average NPV significantly lower than general needs.²¹

There is a concern that some schemes are not fit for purpose which has a negative impact on asset value; an ageing stock profile with more to go wrong in terms of equipment, more technological development to keep up with and the expense of things becoming obsolete.

The next generation are likely to have higher expectations in terms of the service offering and specification of home.

All of this means that some of our supported units are becoming increasingly difficult to let.

In terms of asset management, our supported housing stock is particularly inflexible.

Type of impact	NEGATIVE	<i>Keeping pace with shifting demand and expectation is costly</i>	Scale of impact	HIGH	<i>Significant challenge of inflexible, ageing stock profile and meeting increased expectations</i>
----------------	----------	--	-----------------	------	---

Affordable Rent

Affordable Rent properties are likely to give a higher NPV than general needs because they generate more rent for effectively the same product. Otherwise the general needs description applies here.

Type of impact	POSITIVE	<i>Income of Affordable Rent higher than general needs but costs similar</i>	Scale of impact	HIGH	<i>A consistently high NPV</i>
----------------	----------	--	-----------------	------	--------------------------------

IMPACT ON SOVEREIGN – ASSETS

Shared Ownership

Positive: In a buoyant market, the surplus from shared ownership is greater as asset values increase and people are more likely to staircase in a buoyant market, therefore realising this benefit.

Shared ownership offers greater flexibility around asset management – there are exit strategies not available to social rented properties (with some caveats).

Negative: The asset value is more volatile than general needs as it is driven by the market.

There is an underlying risk that the maintenance of our portion of the asset value is in the hands of the tenant.

If the market declines, particularly if the decline happens between viability assessment and completion, the asset value will be less than expected. This happens infrequently in practice.

Type of impact	POSITIVE	<i>The asset value is less predictable and maintenance out of our control, but this is actively managed</i>	Scale of impact	MEDIUM	<i>Properties will be negatively affected by market fluctuations, and in some cases this is crystallised</i>
----------------	----------	---	-----------------	--------	--

Market Rent

Positive: The expectation is that any disposal takes place when the asset value is high – we don't have this option with other tenures

The purchase cost of the stock as a portfolio is discounted, but if sold, is sold at market values.

Rising capital values increase the value of stock, although we need to ensure we have the right skills to maximise return

Market rented products are a flexible asset with no restriction as to what we do with it going forward.

Negative: The high turnover in market rent could have a negative impact on other tenures in mixed tenure schemes.

In a difficult market we could end up selling at an overall loss.

Type of impact	POSITIVE	<i>Flexible asset without the restrictions that prevent us maximising returns that exist in other tenures</i>	Scale of impact	HIGH	<i>The flexibility of each product allows us to take advantage of housing market conditions</i>
----------------	----------	---	-----------------	------	---

IMPACT ON SOVEREIGN – INCOME STREAMS

General Needs

Positive: General needs properties are held for the long term so initial subsidies in the short term eventually provides financial stability.

The rent regime provides certainty and stability around income streams.

The social rent model provides certainty for lenders; they see investment as low risk which is reflected in low funding rates.

Given the size of our operations we can benefit from economies of scale.

We know the stock and know that a large proportion of our ongoing costs are on maintenance, which can be lessened if there are other financial pressures.

Negative: Welfare reform carries a significant risk for Sovereign and this risk is concentrated in the social rent products, because it affects those on benefits. Cuts to housing payments and the imminent change to direct payment threaten what was once a relatively certain income stream.

General needs properties are let at relatively low rents but with a comparatively high spend on maintenance.

Social landlords are restricted in their choices around general needs and this can limit the potential for greater surpluses.

There is little flexibility around rent setting.

Tenants can go into arrears and landlords have less leverage to demand rents. If legal routes are used, courts expect more from social landlords.

Type of impact	NEUTRAL	<i>The long term stability and low funding rates balance the opportunity cost of charging higher rents</i>	Scale of impact	HIGH	<i>The majority of homes are to a good standard and services are consistent</i>
----------------	---------	--	-----------------	------	---

Supported

The general needs description is relevant here, in addition:

Positive: In terms of new supply, the cost is high but rents are higher and the offering such that demand for these units is high.

Negative: We don't have as clear an understanding of our costs, and providing supported housing arguably carries greater risks.

There is also an argument that given the disparity between the rent we charge compared to a similar service provided privately, there is a greater opportunity cost of generating a more income.

Type of impact	NEUTRAL	<i>We take on more risk and higher opportunity cost, but does generate surplus</i>	Scale of impact	MEDIUM	<i>The support services provided vary across our schemes, therefore so will the risk and opportunity cost</i>
----------------	---------	--	-----------------	--------	---

Affordable Rent

The descriptions of general needs apply here, with the addition that Affordable Rents are higher therefore a fairly clear financial benefit. However, there is a risk around welfare reform if we do not let to the right households: the welfare reform issues are magnified given the higher rent levels. This means bedroom tax cuts will be higher, benefit cap limits will be reached more quickly and there is a higher amount of rent paid directly to the tenant

Type of impact	POSITIVE	<i>Same stability and low funding as general needs but with higher income streams</i>	Scale of impact	HIGH	<i>Current HB rules ensure consistent income stream although welfare reform is a concern</i>
----------------	----------	---	-----------------	------	--

IMPACT ON SOVEREIGN – INCOME STREAMS

Shared Ownership

Positive: Shared ownership generates a profit for the business and in some areas, returns are good.

Income streams are generally stable with a good rent stream and in the main, growing equity.

There is less cost involved as there is no commitment around maintenance.

Negative: In some areas such as South Gloucester we don't repay our capital because of low rent rates (1%). These are a minority.

In the past we have underestimated the cost of providing services and have not / are not recovering some costs

Type of impact	POSITIVE	<i>Good income returns with less on-going costs</i>	Scale of impact	MEDIUM	<i>In some areas our return is partly determined by local authority rules</i>
-----------------------	-----------------	---	------------------------	---------------	---

Market Rent

Positive: We can choose where we do market rent, so we only do so where there is positive yield. If this position changes we have flexibility in our options in terms of selling the asset or converting tenure.

The income generated from market rent allows investment in other Sovereign services or assets.

Investors see housing associations as a good manager, therefore we benefit from good rates.

Negative: There is a cost implication of providing a good quality product, given that we could potentially provide less.

Market rent has a higher turnover rate which brings increased void and maintenance costs.

Income streams are less predictable than social rents as demand is hard to quantify over time.

Our social ethos could be restrictive; we could end up providing a service which costs more than anticipated and being less able than anticipated to collect income.

In order to manage the theoretical risk to social housing assets, we will have to complicate our business structure and this will have associated costs.

Type of impact	POSITIVE	<i>In principle we expect a positive return, but it is a fairly new business model</i>	Scale of impact	HIGH	<i>The flexibility allows us to choose where we provide the product to maximise return</i>
-----------------------	-----------------	--	------------------------	-------------	--

Supporting Evidence

¹ Median length of time in current residence for social renters is 12 years and for private renters is 4 years ([English Housing Survey, 2011/12](#))

² “To compensate people in poor quality private rental homes such that they would be just as well-off as they would be had they been living in good quality HA we would need to give each individual (on average) an extra £997 per year.” Fujiwara, D. 2013. [The social value of housing providers](#). p. 27.

³ English housing conditions: the Decent Homes Standard (DHS) – In 2010 82% of housing association properties met the DHS, compared with 63% in the private rented sector and 75% owned outright. (what about Sovereign?) – get facts from James?

English housing conditions: average energy efficiency (SAP) ratings: In 2010 the average housing association SAP rating was 63.8, compared with 53.5 in the private rented sector and 52.8 owned outright.

⁴ As an example, 50% of stock in West Berkshire is in the top 25% most deprived areas in West Berkshire

⁵ [Housemark ASB benchmarking](#) found that social landlords resolve nine in ten ASB cases, compared to 1 in 5 for private landlords according to [Inside Housing](#)

⁶ Status 2011 - Satisfaction With Scheme at 86% with only 6% dissatisfied

⁷ NatCen for Social Research (2011), British Social Attitudes Survey

⁸ Satisfaction of Sovereign’s shared owners with our services (54%) is significantly lower than those in general needs (80%)

⁹ Of our c26,500 general needs social rent homes, c11,700 do not claim HB (44%) and benefit in full from social rents, paying approximately £118 a week in rent plus service charge. Data from Hometrack shows this is significantly cheaper than market rents in our operating areas, where the median weekly rent is £180 and 30th percentile figure is £166.

¹⁰ Department for Energy and Climate Change Low Income High Cost Indicator – 10% of housing association properties in fuel poverty compared with 21% in private rented.

¹¹ Ends and Means: The Future Roles of Social Housing in England, Hills, 2007, p5

¹² Can we get some evidence

¹³ An average deposit for an 80% mortgage is c£35k; for an 80% mortgage on the average share purchased is £15k. [Shared Ownership – meeting aspiration, National Housing Federation](#)

¹⁴ According to hometrack data in our concentration areas, the average weekly cost for shared ownership for a 2 bed property is £135 compared to £174 in market rent.

¹⁵ According to hometrack data in our concentration areas, the average weekly cost for market rent for a 2 bed property is £174; the next highest weekly cost is for outright ownership at £170

¹⁶ Centre for Economics and Business Research (2012), The economic contribution of new house-building and of housing associations at the national, regional and local levels

¹⁷ CLG tables: Housing associations built 22% of new homes in 2012, compared with 8.9% in 2003. Since the credit crunch in 2007, the number of homes built privately has fallen from 154,210 to 88,570, a 43% decrease, whereas the number built by housing associations has grown from 22,180 to 25,360, a 14% increase.

¹⁸ Between 2001 and 2011, total dwelling has increased by 1.8m and private rented dwellings increased by 2m. Private rented homes now make up 18% of total homes compared with 10% in 2001.

¹⁹ Our 5% efficiency target has been delivered for the last three years, with total savings exceeding £15m (approach to VFM at Sovereign).

²⁰ According to CACI data, 42% of our Affordable Rent households have someone in work, compared to 50% in general needs. 66% of those in Affordable Rent claim housing benefit compared to 56% in general needs.

²¹ Average NPVs: General needs = £51k, Supported housing £30k



For more information please email Natalie.Pearton@sovereign.org.uk