New world of risk: embracing the unknown
Perspectives on risk for the Social Housing sector

In association with
Ipsos MORI
Ipsos MORI
research methodology

Ipsos MORI interviewed 79 board-level chief executives and directors within the social housing sector. Interviews were conducted on the telephone and fieldwork was conducted between 17 November and 12 December 2014.

Results are based on all respondents unless otherwise stated. Data is unweighted. Where results do not add up to 100 this may be due to multiple responses or computer rounding.
Political uncertainty, major welfare reforms and unprecedented financial pressures are driving a growing trend towards diversification as well as changing business and funding models within the social housing sector.

Facing these new pressures, Registered Providers (RPs) are increasingly looking for new and innovative ways to meet demand and deliver their services to the people who live in social housing across the UK. Indeed, our research shows that three in four (76%) RPs are introducing new services that are supplementary to their core role of providing social housing.

The appraisal and management of the new and existing risks arising from this diversification is crucial if RPs’ initiatives are to achieve their desired objectives, and deliver for the often vulnerable people that rely on their services.

Zurich Municipal has many years’ experience in providing risk and insurance solutions to Britain’s public services, providing us with a unique insight into the challenges that public services face when adapting to complex and wide-ranging changes.

This report, developed in association with Ipsos MORI and based on a survey of board level chief executives and directors in the social housing sector, is in response to the need for RPs to tackle these challenges head on. It identifies what these new challenges and uncertainties mean in terms of their risk priorities, as well as assessing how these challenges can be met.

Designed to act as a practical tool to spark strategic considerations and ideas, the report opens with a summary of the findings of our research into the risk priorities, before moving on to discuss other risks facing the sector, ranking them by their relative importance, and offering expert guidance on how the sector can meet these challenges.

But the risk landscape is always in flux, and RPs must be ready to update their risk strategies accordingly. The Care Act 2014, for example, means that RPs are now more involved than ever in the safeguarding of vulnerable adult tenants at risk of abuse. With this new responsibility comes new risks.

The regulatory landscape will change further in April 2015, as new Homes and Communities Agency (HCA) regulations come into force. Among other requirements, RPs will have to maintain a register of assets and liabilities and to subject their business plans to rigorous stress testing. We fully welcome the sensible approach to managing risk that these regulations endorse, and see this as an area where Zurich Municipal can offer customers our support.

We look forward to working with RPs to help them manage risk and meet new challenges as they navigate through this transitional period towards further diversification of services, in order to embrace changing needs and demands.

Foreword

Richard Wood
Head of Housing and Health
Zurich Municipal
Your views on risk priorities

We undertook a series of telephone interviews with board-level chief executives and directors within the social housing sector. Our research participants identified the issue of changes in government policy, legislation and regulation as highly important but considered their ability to deal with it as weak. Safeguarding vulnerable individuals was also high in the importance stakes but RPs were more confident of their ability to deal with this. Further, RPs saw welfare reform, economic uncertainty, diversifying and meeting demands, and the ageing population as key challenges for the social housing sector in the next five years.

Prioritising the Risks

For participants’ own organisations, risks associated with changes in government policy, legislation and regulation are considered by far to be the most significant during the next five years, 71% rating these of high importance and 16% of medium importance.

71% of RPs believe that changes in government policy, legislation and regulation represent the biggest risk to their organisation over the next five years.

The proportion of organisations rating political risks as highly important vastly outweighs the emphasis placed on the next three significant risks – financial uncertainty, budget pressures and safeguarding vulnerable individuals. Interestingly, however, over 80% of respondents rate each of these as important, the only variation being whether the importance level is high (49% financial uncertainty, 41% budget pressures and 34% safeguarding) or medium (34%, 42% and 49% respectively).

Other important risks overall, but with similar variations in emphasis, are reputation management (32% high, 47% medium) and operational risk management, including health and safety (30%, 49% respectively). There are also similar results for the next three key risks – social risk, workforce and data protection/security. 24% see social risk as highly important, with 48% viewing it as of medium importance. 23% rate risks associated with workforce as highly important, 58% as medium and 20% consider data protection and security issues of high importance, 52% as medium.

Other risks come lower on the importance scale although, overall, the majority consider them important. These are:
- offering a broader range of services (18% high, 43% medium) but a significant proportion 38% regard this as of low importance
- working with other organisations (14% high, 52% medium) – with 30% rating this as being of low importance
- environmental challenges (6% high, 51% medium) – with 43% considering this low importance.

As shown earlier, RPs clearly consider safeguarding an important risk and it is reassuring that they are confident about their abilities to manage it. However, this may become more challenging for those that become involved in the wider social care arena.

RPs obviously find other risks more taxing. For example, they rank their ability to work with other organisations as 47% good, 48% average and 1% poor, and data protection/security at 46% good, 51% average and 4% poor.

In view of the Information Commissioner’s Office’s (ICO) less than complimentary assessment of RPs (see p15) and the stringent fines it can impose for failure to protect data, we would suggest that there is some complacency regarding risk management of confidential data. Further responsibilities, as with safeguarding, may increase with a greater amount of sensitive data being held, particularly with welfare reforms and Universal Credit driving single payments, and due to increasing social care activities in some organisations.

There is also room to improve the management of workforce risks: 41% consider themselves good at dealing with workforce risks, 54% class their performance as average, and 4% describe it as poor.

Capabilities for dealing with financial uncertainty get a very mixed response. While 46% consider their management abilities good and 42% average, 11% say they are poor at dealing with this. Similarly, while 46% consider they are good at dealing with risks associated with offering a broader range of services, and 39% rank themselves average, another 11% say they are poor. 35% of respondents feel their abilities in social risks are good and 52% average, whilst 11% think they are poor.

There is considerably less confidence about managing the risks associated with environmental challenges and political changes, perhaps because these are two areas where RPs consider they have least control. Only 27% feel their risk management in connection with environmental challenges is good, with 53% describing it as average, and 19% poor.

Even worse are perceptions of the quality of risk management regarding changes in government policy, legislation and regulation – 25% good, 51% average, 23% poor.

Over 80% of RPs rate each of the following as important: financial uncertainty, budget pressures, safeguarding vulnerable individuals.

Managing the Risks

The risks that RPs feel they deal with best are:
- operational risk management (63% good, 34% average, 1% poor)
- reputation management (57% good, 35% average, 6% poor)
- safeguarding vulnerable individuals (56% good, 38% average, 3% poor)
- budget pressures (54% good, 39% average, 6% poor).

Importance of risks for organisation/perceived ability to deal with those risks:
Diversification and Risk Management

Three quarters (76%) of RPs are introducing new services to a greater or lesser extent, including tenancy support and diversifying the products available.

However, they recognise that these will present new risks, with the greatest concern relating to potential financial loss, reputational damage and impact on workforce capability.

Three-quarters say they are offering new services in addition to their core role

![Pie chart](image)

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Making a financial loss</td>
<td>43%</td>
</tr>
<tr>
<td>Reputational damage</td>
<td>39%</td>
</tr>
<tr>
<td>Impact on workforce capability</td>
<td>30%</td>
</tr>
<tr>
<td>Not being able to deliver core and non-core services</td>
<td>27%</td>
</tr>
<tr>
<td>Loss of skills for what lies ahead</td>
<td>18%</td>
</tr>
<tr>
<td>Insufficient funding / maintaining financial stability</td>
<td>15%</td>
</tr>
<tr>
<td>More short-termist approach to planning</td>
<td>15%</td>
</tr>
<tr>
<td>Business continuity</td>
<td>15%</td>
</tr>
<tr>
<td>Having right resources / capacity</td>
<td>12%</td>
</tr>
<tr>
<td>Government policy / regulation / changes to legislation</td>
<td>12%</td>
</tr>
<tr>
<td>Supplier / shared service / partner underperformance</td>
<td>12%</td>
</tr>
<tr>
<td>Disconnect with central government strategy</td>
<td>10%</td>
</tr>
<tr>
<td>Impact on workforce morale / co-operation</td>
<td>8%</td>
</tr>
<tr>
<td>Managing change</td>
<td>7%</td>
</tr>
<tr>
<td>Loss of independence</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>No risks</td>
<td>8%</td>
</tr>
</tbody>
</table>

Base: All Social Housing Sector board-level Chief Executives and Directors who are making changes to their services (60)
17th November – 12th December 2014
Source: Ipsos MORI

Tenancy support and diversifying the products available are ways in which housing associations are offering new services

To what extent, if at all, would you say your organisation is offering new services in addition to your core role of providing affordable homes?

<table>
<thead>
<tr>
<th>Extent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To a great extent</td>
<td>32%</td>
</tr>
<tr>
<td>To some extent</td>
<td>15%</td>
</tr>
<tr>
<td>Hardly at all</td>
<td>6%</td>
</tr>
<tr>
<td>Not at all</td>
<td>3%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>15%</td>
</tr>
</tbody>
</table>

Base: Social Housing Sector board-level Chief Executives and Directors (79)
17th November – 12th December 2014
Source: Ipsos MORI

What are the main new services that you are offering, or are planning to offer in the nearer future?

- “Welfare to work services; handy man services; repairs and maintenance on a commercial basis; Telecare Support services.”
- “Employment training services, money advice services, support around affordable warmth and I suppose tenancy sustainment services for vulnerable people, especially the elderly.”
- “Tenancy support; neighbourhood management, where we house people in villages and try and integrate them into the community. Public open spaces.”
- “Most housing associations provide court housing, but we provide vocational help such as training and vocational courses as well.”
- “We aim to move and diversify by leasing property with the private sector as an intermediary; it is not ground-breaking, but it is new for us.”
- “We’re offering new products for people to access housing including market, rent and other deferred sale type products and we’re offering customers condensed insurance, like new insurance and financial advice and training for new customers. When it comes to local authorities we’re offering new ways of working in partnerships to deliver new housing, and also in a wider geographical location than we currently operate.”
- “We’re offering new services including tenancy support and diversified products.

76% of RPs are introducing new services including tenancy support and diversified products.

43% of RPs considered financial loss a main risk associated with delivering new services – the highest top-of-mind risk identified.
Organisational ability to respond to risks

We asked RPs to identify their main strategies for dealing with what they perceived as the key risks for their organisations. As the chart below shows, greater visibility at board level of risk response and recovery plans, and improving or reviewing risk management information systems such as risk registers, are the most popular strategies generally, with use of external risk advisers and insurers a key element in helping to tackle financial uncertainty issues.

Greater visibility at board level and reviewing risk management systems tend to be the most common approaches, with use of external advisers or insurers important for dealing with financial uncertainty

You said earlier that one of the risks your organisation was facing is [X] financial uncertainty/safeguarding vulnerable individuals/social risk/workforce. Which, if any, of the following steps are you taking to manage the risks associated with this?

Future trends

By far the greatest number of RPs think that commercialisation in the social housing sector will continue, with 54% strongly agreeing and 30% tending to agree. The need to offer new services to secure long term financial stability is also strongly supported by a quarter (25%) of respondents, with 29% also tending to agree that this was the way ahead.

Interestingly, however, more than a quarter (27%) tend to disagree and 10% strongly disagree, indicating a significant difference in views. Those that do embrace diversification will need to ensure that they have the necessary skills to manage new or changed activities.

84% of RPs strongly agree or tend to agree that the trend of commercialisation in the housing sector will continue.

Over half strongly agree that housing associations will become increasingly commercial

To what extent do you agree or disagree with the following statements about your organisation?

- Housing associations will continue to become more commercial in the future
- My organisation has an effective social media policy that helps us manage reputational risks
- My organisation needs to offer new services to secure its long term financial stability
- My organisation increasingly uses alternative materials and modern construction methods when building new homes

Reputation risk is likely to grow in importance both because of the prevalent use of social media spreading news of problems and rumours and because of new challenges, probably less well understood than traditional risks, which RPs face as the result of diversification. Only 18% of RPs strongly agree that their organisations have an effective social media policy that helps them manage reputational risks, although 39% tend to agree. Against this must be balanced the 11% that are neutral combined with 19% that tend to disagree – and 13% that strongly disagree.
Ongoing concerns

61% of RPs are very concerned and 25% fairly concerned that the development of future housing stock will not meet demand. The government’s welfare agenda appears to be even more worrying, with 65% of respondents saying that they are very concerned and 27% fairly concerned.

Six in ten are very concerned that housing stock will not meet demand with a similar number very concerned about the Government’s welfare reform agenda

How concerned, if at all, is your organisation about each of the following?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Very concerned</th>
<th>Fairly concerned</th>
<th>Not very concerned</th>
<th>Not at all concerned</th>
<th>Not applicable</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>The development of future housing stock will not meet demand</td>
<td>9%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>The government’s welfare reform agenda</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>61%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Reflecting these doubts about welfare, 38% of RPs expect their organisations will have to take on more social care activities in the future to a great extent, with a further 35% agreeing to some extent. As stated earlier, this is likely to mean greater exposure in terms of safeguarding vulnerable individuals and protecting sensitive data. In addition, any failures that arise in potentially emotive areas could have a significantly damaging effect on reputation.

There is less concern about the financial stability of contractors and partners. Only 3% of RPs are very concerned about the stability of organisations in their supply chains, with 39% being fairly concerned. Against this can be balanced 43% that are not very concerned and 14% that are not at all concerned. As regards partners within the public sector, 15% say they are very concerned and 22% fairly concerned. 41% are not very concerned and 16% not concerned at all.

86% of RPs are either very concerned or slightly concerned that development of future housing stock will not meet demand.

Only 3% of RPs are very concerned about the stability of organisations in their supply chains.

Successfully engaging with young people that use their services can be a challenge for RPs. However, 22% are very confident and 43% fairly confident that they are achieving this.

An additional challenge is protecting sensitive data, particularly in view of the ICO’s focus on this sector (see p15). The majority of RPs are either very confident (29%) or fairly confident (66%) about their capabilities in this area. Only 5% say that they are not very confident.

The demand for social housing looks set to grow – but is there the space to accommodate it? 47% of RPs feel that a lack of land for future social housing will be a very big problem while 32% regard it as a fairly big problem. Some have developed specific strategies to counter this.

Around two-fifths concerned about the financial stability of public sector partners and organisations in their supply chain

How concerned, if at all, are you about the financial stability of the organisations…

<table>
<thead>
<tr>
<th>Concern</th>
<th>Very concerned</th>
<th>Fairly concerned</th>
<th>Not very concerned</th>
<th>Not at all concerned</th>
<th>Not applicable</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>That the development of future housing stock will not meet demand</td>
<td>16%</td>
<td>41%</td>
<td>43%</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>That you partner with in the public sector?</td>
<td>22%</td>
<td>22%</td>
<td>39%</td>
<td>15%</td>
<td>41%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Only 61% of RPs are either very concerned or slightly concerned that development of future housing stock will not meet demand.

66% of RPs are either very concerned or slightly concerned that development of future housing stock will not meet demand.

There is less concern about the financial stability of contractors and partners. Only 3% of RPs are very concerned about the stability of organisations in their supply chains, with 39% being fairly concerned. Against this can be balanced 43% that are not very concerned and 14% that are not at all concerned. As regards partners within the public sector, 15% say they are very concerned and 22% fairly concerned. 41% are not very concerned and 16% not concerned at all.

86% of RPs are either very concerned or slightly concerned that development of future housing stock will not meet demand.

Only 3% of RPs are very concerned about the stability of organisations in their supply chains.

Successfully engaging with young people that use their services can be a challenge for RPs. However, 22% are very confident and 43% fairly confident that they are achieving this.

An additional challenge is protecting sensitive data, particularly in view of the ICO’s focus on this sector (see p15). The majority of RPs are either very confident (29%) or fairly confident (66%) about their capabilities in this area. Only 5% say that they are not very confident.

The demand for social housing looks set to grow – but is there the space to accommodate it? 47% of RPs feel that a lack of land for future social housing will be a very big problem while 32% regard it as a fairly big problem. Some have developed specific strategies to counter this.

Around two-fifths concerned about the financial stability of public sector partners and organisations in their supply chain

How concerned, if at all, are you about the financial stability of the organisations…

<table>
<thead>
<tr>
<th>Concern</th>
<th>Very concerned</th>
<th>Fairly concerned</th>
<th>Not very concerned</th>
<th>Not at all concerned</th>
<th>Not applicable</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>That the development of future housing stock will not meet demand</td>
<td>16%</td>
<td>41%</td>
<td>43%</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>That you partner with in the public sector?</td>
<td>22%</td>
<td>22%</td>
<td>39%</td>
<td>15%</td>
<td>41%</td>
<td>15%</td>
</tr>
</tbody>
</table>
We're looking at alternative sources of provision such as conversions and acquisitions.

We are trying to compete with the private sector. We are lobbying both local and central government to make more land available for affordable housing. We are also lobbying for a change in planning legislation, to make it easier to develop houses.

I suppose early negotiations with local authorities as part of long term partnership deals. Land banking to a certain extent and again developing strong relationships with private sector organisations through joint ventures.

We tend to operate with a variety of local developers and builders and we try to develop as many partnerships as we can; we are very small.

We have looked at our land holdings; we have looked at potential landfill sites and we are working with the Local Authority at regeneration, open land and open spaces regarding what we can do with these.

Finally, do RPs consider that their risk management is robust enough to deal with all these risks and challenges? The answer is an almost overwhelming ‘yes’, with 32% expressing themselves as very confident, and 65% fairly confident that their organisations’ risk management processes are able to fully address the risks that face their organisations. Just 3% say they are not very confident in this area.

Almost all are confident about addressing the risks they face, with one in three saying they are very confident

Overall, how confident, if at all, are you that your organisation’s risk management processes are able to fully address the risks which face your organisation?

Very confident: 32%
Fairly confident: 65%
Not very confident: 1%
Not at all confident: 1%
Don’t know: 1%

Base: Social Housing Sector board-level Chief Executives and Directors (79)
17th November – 12th December 2014
Source: Ipsos MORI

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.

Wider social housing risk landscape

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.

Wider social housing risk landscape

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.

Wider social housing risk landscape

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.

Wider social housing risk landscape

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.

Wider social housing risk landscape

In addition to the risks identified through our research, we include further detail around several risk areas that we feel warrant the focus and attention of RPs to create a fuller picture of the social housing risk landscape.

Cyber and data security risks

The risk of cyber attacks is ever present – but far more likely is data leakage, particularly as the current trend towards diversification potentially increases already widespread data sharing agreements throughout the supply chain. If, as seems likely, some RPs become more involved in social care, the amount of sensitive data they hold – and the need to keep it secure – will grow.

Last year, the Information Commissioner warned RPs that they must keep their tenants’ data secure. On 25 June, he said that the most important data protection issues facing the social housing sector included data sharing with other organisations, data retention and secure home-working.

The warning followed the Information Commissioner’s Office’s February 2014 report on its findings from ICO advisory visits to RPs. This highlighted areas where RPs should improve their compliance with the Data Protection Act, as well as areas of good practice.

The report said that RPs may hold sensitive personal data, especially where they are involved in providing, for example, assisted housing for people living with a disability, elderly or vulnerable people, and often need to share this data with other organisations. This may include information needed to chase unpaid bills, or for legal proceedings where property is damaged.

Maintaining tenants’ trust is a vital part in the successful management of data.

Where RPs do not implement adequate measures to comply with the Data Protection Act, they could face enforcement action by the ICO. For serious breaches this may result in a civil monetary penalty of up to £500,000 in addition to claims from the individuals involved and reputational damage.
Diversification

Our research shows that 76% of RPs are introducing new services that are supplementary to their core role of providing social housing. Appraisal and management of the risks arising from these initiatives is critical to achieve the desired objectives.

A report from Social Housing published in September 2014[^3] claimed that diversified activities provide £2.3bn of collective turnover, with 34 RPs already generating a fifth of their turnover from non-core income. “From market sale to agricultural lettings, private rent to leisure centre management, the results show an increasingly diverse and complex social and affordable housing sector,” says the report.

There are 34 Registered Providers that generate 20% of their income from non-core diversified activities.

There are a number of reasons for the trend for diversification. Social Housing reports that embarking on or continuing with commercial activities may be viewed as a form of cross-subsidy in response to lower grant rates and what some consider increasingly onerous requirements to win funding, while undertaking community-based work, care and support (where classified as non-social housing in the accounts) is also a factor.

Many RPs will now be planning their business in the context of the overall housing market, rather than only affordable or social housing, whilst others also see their role as ensuring provision for the vast ‘middle ground’ between low cost housing and the private sale market. Across 120 RPs, market and property sales increased by 51% year-on-year, taking their income to £515m.

Across 120 RPs, market and property sales increased by 51% year-on-year.

We believe that RPs need to consider carefully the risks associated with diverse activities and new skill sets. ‘Traditional’ risk registers and business continuity plans may need significant alteration to take account of new activities while the way that diversified activities are structured, for example partnerships or registered companies through start-ups, mergers or acquisitions, also pose additional considerations around responsibility for risk, governance and workforce planning strategies.

Diversification can present attractive opportunities, producing additional income streams and/or an enhanced reputation within the community. Getting this strategy wrong can lead to an ongoing burden for existing staff, possible regulatory penalties and claims if statutory requirements and expectations are not fulfilled, as well as significant damage to reputation.

[^3]: [http://www.socialhousing.co.uk/free-preview-social-housings-diversification-report/7005588.article](http://www.socialhousing.co.uk/free-preview-social-housings-diversification-report/7005588.article)

Sustainability

Britain is committed to reducing its greenhouse gas emissions by 80% by 2050[^4]. The government expects organisations in public services to lead the way. Sustainability associated with modern methods of construction (MMC) is crucial for the social housing sector.

RPs that are involved in refurbishments, renovation and new-builds need to take account of ‘green’ issues. This is particularly important in terms of the ‘value for money’ regulatory standard that RPs need to comply with and report on annually for rented accommodation[^5].

In March 2014, the Guardian reported that the regulator, the Homes and Communities Agency, had issued 165 warnings over the risk of a downgrade if further improvements were not made[^6].

Demonstrating good practice and value for money by cutting accommodation running costs is clearly important but embracing sustainable practices can present a challenge for RPs. They need to be aware and up to date on alternative materials that offer a greener long-term solution. And they need to make sure that their contractors are equally aware and willing to undertake at a reasonable cost any necessary adaptation of traditional materials and methods.

Meeting environmental considerations in the long term may mean a larger initial investment. Not only may the materials concerned cost more but they may present a greater risk in terms of fire or flood hazards and so need greater protection.

Managing Reputation
Failing to manage the risks associated with data protection, diversification and sustainability can lead to significant financial and other losses. As with the other risks described in the next section of this report, poor risk management can also produce significant reputational damage.

Having a good reputation has always been important for organisations but today’s growth in the use of social media has made it vital. News of detrimental events and rumours are no longer spread by ‘word of mouth’ from one individual to another or through physical publications but are instantly broadcast for all to see – and comment on – via the internet.

For RPs, a serious incident, such as loss of life due to poor maintenance, could also result in loss of investment. Reputation damaging rumours, even if not associated with a particular disaster, could create an environment where tenants feel less inclined to co-operate in terms of taking care of property and paying rent on time.

RPs need to respond immediately to any incidents that occur and monitor social media sites so that they can respond equally quickly to any emerging issues. In the case of serious incidents or issues, response should be at board level and describe exactly what is being done to rectify them.

Honesty is also essential. Failing to admit to a fault and then being forced to ‘own up’ at a later stage is tantamount to reputational suicide – particularly in today’s world of the immediacy and permanency of the internet.

Climate change
In recent years, Britain’s weather has changed significantly. Floods from increased rainfall and droughts are becoming commonplace. Ten year weather forecasts indicate wet summers, more flooding and more droughts. Climate change is an ongoing challenge for RPs as properties and tenants feel the effects.

As well as the huge impact of flooding on people, properties and infrastructure, the other effects of climate change also have a toll:
• Heat waves can present health risks for the vulnerable
• Drought, with its inevitable impact on farms and animals, can also produce water shortages and health risks, as well as the increased likelihood of subsidence and flash floods when rain does occur
• Windstorm can result in damage to property and infrastructure, while extremely low temperatures may result in frozen pipes and water damage.

Faced with a virtual litany of climate change effects, RPs have the challenge of building properties that meet new flood and water risk management duties and also protect their tenants against other potential disasters.
Welfare reforms are already producing financial pressures and initiatives such as the roll-out of Universal Credit look set to increase these challenges.

**Funding and welfare reform identified as key risks**

Looking ahead over the next five years, which two or three types of strategic risks or challenges will be priorities for Housing as a whole?

According to a report from Joseph Rowntree Foundation, Housing Benefit Size Criteria: Impacts for Social Sector Tenants and Options for Reform, all RPs are preparing for Universal Credit, which will combine different benefits into a single monthly payment to the benefit recipient. While Universal Credit has been rolled out to some areas, “delays and uncertainty over its implementation are causing concern among housing associations and tenants alike”.

The system of paying a total sum to most tenants and giving them responsibility to pay their rent could pose very real risks to the financial wellbeing of social tenants, with knock-on implications for RPs and the implementation of welfare reform, says the National Housing Federation. “More than 15% of local authority tenants and 13% of housing association tenants do not have a bank account, and so would be unable to pay their rent by direct debit if direct payment to landlords were brought to an end”. Further, for social landlords, the financial security that comes from direct payments has been critical to their ability to secure private investment at highly competitive rates, maximising their capacity to deliver much needed affordable homes at good value to the taxpayer.

The actual and potential negative effects of welfare reforms are putting constraints on some RPs, with a roll-on effect in other risk areas. They may:

- affect ability to invest in staff, leading to stress for existing staff and/or inadequate service for vulnerable individuals
- create asset sweating – trying to use existing property, facilities and services to the maximum to avoid expensive additions – leading to stress for staff and/or problems in maintaining continuity should a major problem arise without back-up
- restrict the amount of funds available to finance those very diversification activities that could help to offset the negative impact of welfare reforms.

Bedroom tax has proved a burden for the sector. According to the Housing Benefit Size Criteria report, the tax has failed to deliver the anticipated savings. In addition, landlords have incurred extra costs for rent arrears, welfare support, rent collection, arrears management and repairs linked to more transfers.

However, as with most risks, there is an upside. Managing the challenges presented by funding issues, particularly welfare reforms, is creating a competitive environment for RPs. Those that demonstrate good capabilities should attract the investment they need to build on their success and optimise further opportunities.
Governance and regulatory issues

RPs need strong governance in order to avoid problems like those that beset Cosmopolitan Housing Group in 2012/13. Understanding regulatory issues and effective long term strategy planning is crucial.

The Government’s June 2014 report on Cosmopolitan Housing Group\(^1\) highlighted weak governance and management and an over-ambitious development programme that overstretched finances as the key causes of the near demise of the RP. It made a number of recommendations:

- RPs’ governing bodies should analyse the skills they require to meet current and future business needs and refresh skills at board level if necessary – even if length of service has not been completed
- The boards of organisations entering into transactions (which may include those that involve taking on debt) must:
  - (a) ensure that expert advice is called upon in a timely manner and that there is a good understanding of what the organisation is trying to achieve
  - (b) carry out rigorous due diligence on investors
  - (c) actively monitor covenant compliance.
- The board should ensure there is a strong second tier of management and a good succession plan so that the organisation will continue to operate effectively should the executive team be focused on other urgent issues such as mergers, service failure or other significant issues.

Grant Thornton’s Housing Governance Review 2014, Steering the way to excellence in governance\(^2\), was less outspoken but nevertheless said, “Our review… found that many aspects of good governance – such as: diverse board membership; monitoring of external audit; and internal audit activity – are in place but that detail on these processes is often limited and doesn’t provide the insight that it could.”

At the end of January 2015, HCA published its Consultation on Changes to the Regulatory Framework decision statement, showing what it requires from RPs in terms of governance\(^3\). This includes provisions relating to the code of practice and the governance and financial viability standard, the greatest immediate impact being the maintenance of a register of their assets and liabilities, and subjecting their business plan to robust and multivariate stress testing.

---

\(^2\)http://www.grant-thornton.co.uk/Documents/NFP-Housing-Governance-2014.pdf

---

Zurich Municipal view – social housing risk ranking

Risk Ranking Methodology

Harnessing experience working with social housing organisations, Zurich Municipal’s market and technical experts reviewed the risks (insurable and non-insurable) for the social housing sector. The risks were assessed by impact and likelihood and the end results represent our best assessment of the risks and challenges facing the sector. A best practice total risk profiling (TRP) methodology led to an evidence-based prioritisation. The risk ranking is not meant to reflect the specific profile of any one organisation.

Social Housing Risk Ranking

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Rank</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Climate Change</td>
<td>B2</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Protecting Sensitive Data</td>
<td>B2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Governance &amp; Regulatory Issues</td>
<td>D1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Failure to Manage Financial Plan</td>
<td>C2</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Reputational Damage</td>
<td>C2</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Supply Chain Management</td>
<td>B3</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Diversification</td>
<td>B3</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Demographic &amp; Market Change</td>
<td>A4</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Fire &amp; Explosions</td>
<td>C3</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Community Cohesion</td>
<td>D3</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sustainability</td>
<td>E3</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Political Uncertainty</td>
<td>E3</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Loss of Critical Infrastructure</td>
<td>E3</td>
<td></td>
</tr>
</tbody>
</table>

Likelihood:

- A = Very High
- B = High
- C = Significant
- D = Low
- E = Very Low
- F = Almost Impossible

Impact:

- 1 = Catastrophic
- 2 = Critical
- 3 = Marginal
- 4 = Negligible

Weak governance and management and an over-ambitious development programme are the key causes of the near demise of the RP, according to the Government’s report on Cosmopolitan Housing Group.
<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Examples of challenges</th>
<th>Trend Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Climate Change</td>
<td>UK has seen an increase in inclement weather patterns; repeated floods due to higher rainfall; 10 year weather forecasts indicate wet summers, more flooding, and more droughts; Heat waves are producing health risks for the vulnerable; Droughts have an impact on farms and animals and create water shortages and an increased likelihood of subsidence and flash floods; Windstorms damage properties and infrastructures; Higher snow falls and low temperatures can cause frozen pipes, resulting in escape of water; Building the right infrastructure; new flood and water risk management duties.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Protecting Sensitive Data</td>
<td>Data issues in this sector are mainly caused by leaks due to sharing with other organisations, data retention and home-working; More sensitive information is being shared, especially as organisations are diversifying into new areas; RPs have been warned by the ICO to improve their tenants' data protection, especially data on vulnerable individuals; Failing to protect data adequately may result in regulatory penalties and compensation claims from those involved and reputation damage.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Governance &amp; Regulatory Issues</td>
<td>RPs need strong governance and understanding of regulatory issues to avoid disaster; Inspection failures and loss of life occur due to failure to comply with regulation; Short term decision making creates difficulties with long term strategy planning; Business continuity plans are not sufficiently resilient; Although the HCA sets the standards, local providers are expected to self-regulate in a transparent manner, subject to tenant scrutiny and challenge.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Failure to Manage Financial Plan</td>
<td>Budgets are strained due to the lack of grants and limited funding to cope with increased demand in ongoing austere environment; Large amount of uncertainty over future budgets; Bedroom tax has failed to meet targeted savings; Universal Credit delays and uncertainty; Tenants receiving Universal Credit payments and being responsible for paying their rents is causing problems.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Reputational Damage</td>
<td>Detrimental news or rumours are spread instantly through social media and organisations are experiencing increased scrutiny; Loss of life due to lapses in maintenance (caused in turn by lack of funds) could cause reputational damage and loss of investment; Housing organisations need to monitor social media sites and respond immediately to any negative issues; Honesty is crucial, as being found out later would be even more damaging.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Supply Chain Management</td>
<td>Suppliers have to provide services at lower prices and potentially cutting corners to meet contractual demands, carrying increased risks of failure and health and safety issues; To create new income streams, some registered providers are diversifying into new areas in which they have little expertise and are open to new risks; High prices and shortage of materials are problems facing builders and suppliers; There is pressure for good contract management.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Diversification</td>
<td>120 registered providers have increased their total revenue by 25% (ranging from 3% to 53%) through diversified activities; RPs need to ensure they have the right skills to support these new ventures, a good business plan and effective risk management procedures; Strong governance is required, especially when working with partners or in the case of takeovers, mergers and acquisitions; Workforce planning needs to be reviewed to ensure acquisition of appropriate skills for new ventures.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Demographic &amp; Market Change</td>
<td>Devolution of powers to Scotland and Wales may spread to more regions in the near future; The North / South divide appears to be growing, with northern residents being hardest hit by welfare reforms; Housing benefits have been reduced – “under-occupancy” or “bedroom tax” charge, benefit cap and council tax benefit reductions; Long term demographic changes, including an aging population and long term unemployed youth, are increasing demand.</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Fire &amp; Explosions</td>
<td>Fires and explosions are physical risks, leading to loss of life, damage to assets and data, and business disruption; Dealing with incidents quickly must also include immediate, high level responses to media, including social media, broadcasts to alleviate further damage to reputation.</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Community Cohesion</td>
<td>Civil unrest is relatively rare but the 2011 London rioting is an example of how quickly incidents occur and how devastating they can be; Radicalisation of young people occurs in various communities and needs to be guarded against. Extremism / terrorism continues to be sporadic and topical; Fraud within the social housing sector increased in 2013-2014, moving away from land acquisition, to procurement and IT fraud; £340m out of £1.4bn of overpayments made in 2013-2014 was due to Housing benefit fraud.</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sustainability</td>
<td>Public sector organisations are expected to lead the way in reducing Britain's carbon footprint by 80% by 2050; Social housing organisations need to use “green” materials and comply with “value for money” regulations, ensuring their contractors follow suit; MMC may create more fire risks than traditional methods; a level of knowledge is required in alternative materials selection.</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Political Uncertainty</td>
<td>Uncertainty around the general election in 2015 is making it more difficult for organisations to make strategic plans; Scotland may not have independence but has been given more powers through devolution legislation. These powers may also be given to Wales, and English councils are now also calling for them; The Care Act 2014 comes into force on the 1st April 2015. This will place greater responsibility on social housing providers to safeguard vulnerable adults as well as children.</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Loss of Critical Infrastructure</td>
<td>An incident affecting the RP’s head office may result in loss of critical data, systems’ shut-down and/or inability to access the premises, causing significant disruption; As with any major incident, this needs to be dealt with quickly and efficiently. Such an incident may affect not only infrastructure but also media perception.</td>
<td></td>
</tr>
</tbody>
</table>
Meeting the challenges

The successful identification and deployment of risk management strategies and mitigation processes is key to intelligent risk-taking as RPs strive to protect the assets of their organisations and optimise their potential. Underpinning this, the Homes and Communities Agency expects RPs to meet high standards of risk management and is clear that responsibility for this resides with Boards and Senior Managers.

RPs are required to have a robust business planning risk and control framework. They must assess, manage, and where appropriate address risks to ensure their long term viability. At the same time it is important that they appreciate that risk management should not be considered purely as a preventative ‘downside’ measure, discouraging them from undertaking certain actions.

The sector is also continuing to grow and is becoming more diverse, meaning that the breadth of risk is constantly changing. The sector has not been exempt from the economic conditions that have affected the ability of many RPs to meet their growth and development strategies. Moreover, welfare reform and universal credit are shaping this sector’s risk profile. This is evidenced through direct payments of housing benefits, housing benefit caps in relation to property size and occupancy levels, plus the ongoing changes and reductions in funding streams. Whilst these are undoubtedly ‘downside’ risks, they have also prompted RPs to engage in ‘non-core’ activities, for example, larger construction projects, private sector rents and outright sales.

This risk landscape creates a strong need for RPs to be alert to the possibility of inter-connected risks, for example (but not limited to):

- Failure to maintain and improve stock: additional borrowing to complete work required, unable to maintain financial viability and poorly specified and delivered work leading to avoidable costs
- Inadequate Business Continuity Management/Plans: major damage to properties
- Over-development: fall in house prices and changing customer/resident demographics and needs, deflation, failure of a commercial venture/enterprise
- Failure of a key partner/supplier: collapse of a lender
- Increased overhead costs: pensions.

The need to meet the above challenges is detailed in the HCA’s ‘Sector Risk Profile’ (October 2014), which states that, “… Boards need to ensure that they consider risk in the round and are able to monitor risks in combination so that they can act in time to head off an issue before it can impact on their reputation or that of the sector”.

In meeting these challenges when operating in a group structure, assurances must be gained that the flow of risks must be known to all, and articulated in risk management frameworks (the ability to identify and escalate risks). Greater consideration to ‘stress testing’ both the cause and consequence of emerging risks is also required, which reduces risk exposure in a timely but cost effective way by developing effective risk mitigation strategies. Exploring those ‘slow burning’ risks through horizon scanning which may become more active over time is also essential. It is also important that it’s appreciated that if one risk occurs the probability of another occurring becomes more likely, with combined impacts becoming more severe.

By following the steps outlined above, RPs can make positive and effective changes to their risk management strategies to embrace the known, and unknown risk challenges, that operating in today’s market environment requires.

Further Information

For further information on the report or to provide feedback please contact social.housing@zurichmunicipal.com.

You can also read interesting newsworthy articles around key topics within the housing sector at newsandviews.zurich.co.uk.

Visit our website at zurichmunicipal.co.uk

Follow @ZurichMunicipal on Twitter