

## **Written evidence submitted by Legal & General Affordable Homes [RSH 082]**

### **Introduction**

Legal & General Affordable Homes is one of the biggest for-profit registered providers in the UK. It is part of the Legal & General Group, and its purpose is to use society's capital to create long-term socio-economic benefits to society – it does this through the delivery of energy efficient, affordable homes. Legal & General Affordable Homes is a business with customer service at its core and we therefore welcome the opportunity to provide feedback on the role of the Social Housing Regulator from the perspective of a for-profit provider.

### **How widespread and serious are the concerns about the quality of social housing?**

All our homes are relatively new (all completed within the last 5 years) and so do not have any quality issues. We have a robust inspection regime during the construction process and so the risk of the homes we own being inappropriately built, or in poor repair, is relatively low.

We believe the wider sector is largely made up of organisations that provide well managed homes and that RP's deliver crucial services to customers, some of whom are vulnerable and most in need.

However, we do worry that there is a lack of use of customer service insight measures which offer real insight into customer experience. As a result, the experience of the everyday resident is not understood. This allows failing services to go unchallenged, sometimes over many years. An example of this is research from the Institute of Customer Service into the failure to deliver services right first time. Their research shows that nearly 40% of social housing customers report a failure in service delivered right first time, compared to around 13% for organisations across all sector types in the UK.

We are also concerned that the use of cost metrics to assess efficiency without sufficient focus on value creates circumstances in the existing sector which are detrimental to the customer. The example of a focus on driving cost efficiency at the point of a property being empty between tenancies is one such case. This usually results in a social housing customer moving into a home which is undecorated and has no flooring in most rooms. We suspect such examples lead the customer to feel they and their interests are not valued by their landlord.

At Legal & General Affordable Homes, we believe it is our obligation to provide a home fit for a household to live in from the moment they arrive, and that efficiency of service operation should not undermine the quality of service delivery experienced by a resident.

In the past 20 years, the quality of service delivered to customers across service industries in the UK has generally increased. This service improvement has been further enabled and accelerated by digitisation of customer service activities. These changes have elevated the general expectations of the average customer in relation to the quality of response they receive, the responsiveness of the service provider, the ease of receiving a service and the ability to self-serve. We do not believe affordable housing customers have benefited from the same level of general uplift in customer service. This is for a variety of potential reasons:

- The pressures to improve are less pronounced in the affordable housing sector – there is generally limited shareholder pressure to improve compared with the commercial sector

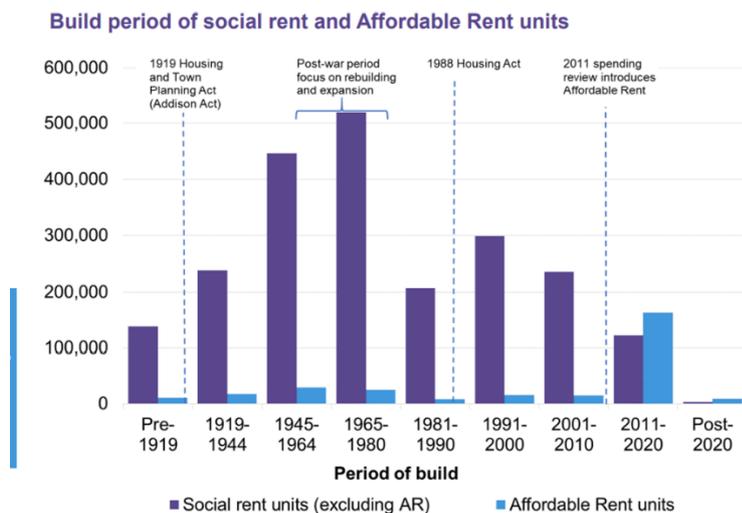
- The competitive environment is reduced (it is difficult for a disgruntled affordable housing customer to move)

This means there is a reduced set of pressures to improve the customer offer – and as a result the affordable housing sector lags other sectors in the quality of service delivered. There is therefore a need for strong regulation to compensate the lack of market pressures.

**What is the impact on social housing providers’ resources, and therefore their ability to maintain and improve their housing stock, of the need to remediate building safety risks and retrofit their homes to make them more energy efficient?**

We believe that the requirement for social housing providers to invest in existing stock to remedy building safety risks and to retrofit homes to make them energy efficient will create a significant additional financial burden to these organisations. To fund these additional costs, housing associations will need to re-divert resources from development activity funding, retrofit and building safety works. There are only about 220 of the circa 2100 registered providers that have development programmes. For the organisations that are not developing (c1900 housing associations), these organisations will have to re-divert resources from operating activities to fund retrofit costs. Clearly some of the smaller organisations will only have very limited resources and so the ability for them to fund additional retrofit costs will be extremely limited.

There are just under 3.1m homes owns by Private Registered Providers (“PRPs”). In addition, Councils own another 1.5m affordable homes. The majority of stock owned by PRP’s was built between 1945 and 1980.



Through the Clean Growth Strategy, the UK government has set a target for social housing providers to attain the minimum rating of Energy Performance Certificate (EPC) C for rented properties by 2035 (2030 for ‘fuel poor’ households). According to Government data, 54% of affordable housing stock is EPC C or better. The mean score of all social housing stock is 68 out of 100 – putting it at the top of band D in the energy efficiency rating (Band C starts at 69).

The National Housing Federation (NHF) believes the ‘extra/over’ cost of getting from an EPC D to a mid-C is c£4-5k per property over and above a normal set of major works. We believe that

measure is artificially low - our own independent advice from Arup, to take a home from mid EPC C to mid EPC B is c£15-20k per property (source: Arup).

So, taking bookends, the possible minimum cost to the sector could be c£14bn, and the upper end (to take the home to EPC B – equivalent to the average new home) is c£63bn. To put this in context, £10bn is the approximate total investment of the sector to build 50,000 new affordable homes. Therefore, spending £63bn on retrofit (excluding fire safety) is equivalent to stopping all affordable housing development for over 6 years. Whereas building 50,000 affordable homes delivers income to the landlord to finance the costs, spending on retrofit generates no additional income to the landlord (unless the retrofit is funded by Government).

Institutional investment can help address this issue in the following ways:

- By purchasing EPC D and worse stock and investing in its improvement to EPC C or better – so reducing the economic drag on the not-for-profit sector, and thus allowing the sector to build more.
- Government should consider the introduction of ‘green affordable rents’ where the reduction in energy costs can be offset with a less significant increase in rents – so green homes will always be less to rent and pay energy costs than EPC D and below homes – encouraging the sector to invest-in and ‘green’ homes more quickly.

### **Is the current regime for regulating social housing fit for purpose?**

We believe that the current regulatory regime for social housing is generally fit for purpose. However, we do think some changes need to be made particularly in relation to how new entrants (or institutionally-funded registered providers) are regulated.

For example:

- It takes too long to register a new Registered Provider (RP) (1-2 years on average)
- New entrants need to operate multiple entities to ensure they are tax efficient – the regulatory framework (and particular ‘In Depth Assessments’) needs to evolve to reflect this new norm
- We still believe Government’s approach to regulating customer service will not encourage best practice – for example we do not believe delivering great customer service is achieved by scrutiny panels, meetings or by having resident representation on the Board of an organisation. Great customer service delivered by organisations such as FirstDirect, Amazon and others is delivered from businesses with an ethos of customer service at their core. Regulators in different sectors – e.g., power, telecoms and water - have managed to encourage incremental improvements in customer service, albeit there has been the additional pressure from shareholders to deliver better levels of customer service, so reinforcing the Regulator’s efforts.
- In considering whether the regulator is fit for purpose, it should be considering the current and future needs of the sector and the customer, namely:
  - More players with greater diversity (e.g., for profit RP’s)
  - That the future needs and expectations of customers are different than those of the past. We look at the emerging proposals for customer service and we believe they reflect where the social housing sector has come from (i.e., are rather backward looking) rather than changing to be ready for the future needs of the sector.

- The emerging recommendations relating to the measurement of customer service across the sector through customer satisfaction is, we feel, a tool to measure average satisfaction. Organisations that are great customer service businesses use Net Promoter Scores and this scoring basis increases the focus on remedying underperformance. We do think the Regulator would be well advised to re-think the way in which it is encouraging the sector to measure customer service.

Overall, subject to the Regulator re-thinking its recommended customer service satisfaction measures, we would support the Regulator having stronger intervention powers to remedy continued poor customer service through, for example, fines and penalties. The affordable housing sector does not benefit from the ability of customers to vote with their feet and choose an alternative supplier, as exists in other service sectors. It also does not benefit from shareholder pressure to deliver great customer service. As a result, we conclude that the Regulator's role needs to be strong to compensate for the lack of these market forces affecting the affordable housing sector, and to support the cause of the resident where there are providers delivering consistently poor and unresponsive services.

### **How clearly defined are the roles of the Regulator of Social Housing and the Housing Ombudsman?**

We think the roles of the Regulator of Social Housing and the Housing Ombudsman are clearly defined. There is a memorandum of understanding between the two organisations which sets out the roles and responsibilities of each.

However, as currently defined, there is a 'gap' or lack of 'teeth' in relation to an organisation that consistently delivers poor service but where residents are not put at 'risk'. We believe, for example, that consistently poor levels of customer service should be put under the spotlight and organisations fined, or Boards required to be restructured or asked to look at the Executive capability.

We believe that the social housing sector would benefit from a regulatory presence that had real strength in its enforcement measures. This would go some way toward addressing the lack of competitive forces in this sector which are present in others, such as consumer choice and new competitors entering the market. We look to other similar markets such as the water sector and see the strength of the Regulator and the sensible use of performance metrics as a good case study example.

### **Does the current regime allow tenants to effectively resolve issues?**

We do not think it is the responsibility of tenants to resolve service failures created by their landlord.

We are troubled by the consistent low levels of service satisfaction suffered by affordable housing tenants compared to service levels delivered across other industry sectors to their customers. As an example, the Institute of Customer Service (ICS) benchmarks multiple organisations across a variety of diverse sectors. The affordable housing sector average Net Promoter Score (which is a measure running from minus 100 to plus 100) is minus 12. This compares to the average service provider in the UK delivering a service level of around plus 25.

The fact that the social housing sector is already regulated by the Housing Ombudsman in relation to customer complaints but still delivers very poor levels of customer service is, in our view testament to the fact that the system is not currently working. The role of the Housing Ombudsman to consider complaints, and the fact that the RSH only considers customer service failure where there is a 'serious detriment' to the tenant, exposes a significant 'gap'.

We believe there is real value in sharing best practise in the sector to enable providers to support each other to lift up the customer service level across the sector. We would welcome the opportunity to explore this further with government.

### **Do the regulator and ombudsman have sufficient powers to take action against providers?**

We do believe the Regulator has sufficient powers to take action against providers. However, in relation to persistent and continual failures from a registered provider, we think the Ombudsman should have greater enforcement powers, or the ability to recommend a downgrading on governance grounds where an organisation is persistently delivering poor quality service, for example if held to be systemic organisational failures.

We believe the removal of the cap on fines that the Regulator can issue is a positive step, but we hope to see further guidance from the Regulator on how it proposes to make active use of these powers to tackle persistent underperformance. As we have stated, we believe an active Regulator is a necessary force for good in the sector.

We do also question whether the continued focus of regulation on only tenanted property is reflective of the changing shape of the sector. We believe that shared ownership customers have as much right to benefit from positive regulation of the social housing sector as their neighbours who rent their property. We would support the extension of appropriate regulation, such as the need to consult customers on the transfer of their home to another entity, to shared ownership customers.

### **Will the reforms proposed in the social housing White Paper improve the regime and what progress has been made on implementing those reforms?**

- We think the proposed changes in the White Paper will go some way to improving the regime, but we do not think the changes go to the heart of the challenges the sector is facing.
- That said, we strongly believe great customer service businesses have a culture of customer service. The proposals in the White Paper do not, in our view, create an expectation of great customer service and focus overly on the methods by which the customer voice is present rather than requiring the Board, Executive and organisation serving that customer to demonstrate that what matters to the customer is relentlessly their focus.
- We do not believe the act of meeting with customers, of having customers on the Board in themselves creates a better environment for customer service. However, the process of constantly getting feedback from customers, and evolving the customer service model can provide a framework for organisations to significantly improve customer service.

- Measuring spend in areas, is not a good way of measuring performance. For example, which is better - an organisation that has new homes and spends nothing on repairs or an organisation whose homes are 100 years old and spend lots on repairs?
- Again, we look to other Regulated sectors such as financial services and the FCA performance scorecard. We question why the proposals in the social housing sector are to use measurements which the industry has built to measure its own performance, such as a version of the STAR survey, whilst other industries use globally recognised metrics of customer feedback such as measures of net promoter score, ease of use and trust. We worry that the good intention of the White Paper will fail to be realised as a result of performance being judged upon metrics that the social housing sector feels confident to report, rather than those which will present a truly transparent and recognisable view of the customer experience to those very same customers. As a result, we are concerned the Government will find the public perception of social housing continues to be mismatched with the reported performance of the sector.
- We also feel that the White Paper proposals may need to be taken further by the Regulator to recognise the sentiment expressed by customers as reported in the Social Housing Green Paper, namely that larger RP's sometimes feel less effective for customers. We observe that there is little evidence to show that scale achieves economy in this sector currently. The concerns of customers and the inability to achieve efficiency at scale over the wider sector raise a question for us about the effectiveness of operating model design when service delivery is executed over a wider geographical area.
- These are weighty challenges for large RP's, and we believe the Regulator needs sufficient powers to force change for organisations of such size when customer experience falls short. We would again argue that the Regulator, or possibly the Ombudsman, should have powers that are sufficiently scalable to force the largest organisations in the sector to make substantial changes to their business model where required. No organisation in the sector can be too large for the Regulator to be powerless to drive a change in the thinking of the Board and Executive over their prioritisation of consumer standards.

### **What changes, if any, should the Government make to the Decent Homes Standard?**

We think that Government should review the Decent Homes Standard in the context of considering the customer and environmental impacts of maintaining homes to modern standards. The Decent Homes Standard currently requires the building not to be in disrepair, for the facilities to be reasonably modern, and for the building to provide a reasonable level of thermal comfort - the standards are not high. Also, a household could move into a home and there be no carpets or curtains, and still meet the decency standards, but not deliver levels of service that a modern customer might reasonably expect. We therefore believe the decency standards should be a base requirement, with RP's encouraged to state what they do to go beyond the decency standards for all their residents.

### **Should the Decent Homes Standard be amended to include energy efficiency and other means of mitigating climate change, and if so how?**

We do not think there is benefit of the Decent Homes Standard being changed at the current time to include energy efficiency, mitigating climate change or protecting the environment (for example biodiversity). The need for homes to perform to certain energy efficiency standards is

covered through the EPC framework and the requirement that all rented social housing should be at least EPC C by 2035. This provides a clear and workable target for the sector to focus upon.

We are also conscious that the Future Homes Standard and Future Building Standard will come to establish benchmarks for the efficiency and sustainability of homes and buildings across the country. Any future changes to the Decent Homes Standard should reflect the experience that results from the application of these standards to a fabric-first approach to delivering substantial improvements in the sustainability of housing.

We also believe there is a risk in amending the Decent Homes Standard that investment into existing homes may end up being inefficient. This could result where the requirement to replace an aged component with a more sustainable alternative occurs prior to the point at which reliable, tested alternative components are available. Or where investment to improve, for instance the performance of an energy component, occurs prior to improvements upstream in, for example, the decarbonisation of the energy grid.

### **Should all providers of social housing, not just councils, be required to register with the regulator?**

If more organisations are required to be regulated with the RSH, Government needs to be really clear what problem would be solved by more organisations being brought into the ambit of regulations, and whether the adverse consequences of bringing more organisations and activities into scope would be greater than the anticipated benefit, For example:

- Intermediate rented homes are not currently within scope. This allows these homes to be held by a BTR operator alongside BTR homes in the same building and allows a single management regime across all homes in the building. If the intermediate rent homes were brought into the scope of regulation, then either the BTR operator would need to set up their own RP, or a new RP would need to be appointed to manage these homes.
- There are some arrangements between councils and providers to provide discounted market rent homes outside the social housing regulatory framework and bringing these activities in scope would serve neither local authorities seeking to discharge their duties in challenging financial times, nor do we believe there is a material regulatory risk in this area.

### **What challenges does the diversification of social housing providers pose for the regulatory system?**

We currently estimate that new entrants (for profit RP's) currently develop between 10% and 15% of all new affordable housing. Based on research from Savills, they estimate that the proportion of new affordable housing delivered by these new entrants could reach as high as 50% over the next four to five years.

The RSH's current approach is to adopt a single methodology to regulate all organisations. We're not convinced this approach can work in the medium term. For example, the Regulator requires organisations to produce value for money statements. Value for money from an institutional perspective may suggest a different set of metrics compared to a not-for-profit organisation; commercial entities will tend to look at driving high customer service at competitive costs whilst

delivering a fair risk-adjusted return to shareholders. The Regulator should welcome a broader set of definitions from a value for money perspective.

As stated above, we believe the regulatory system needs updating in order to manage the differences between 'for profit' institutionally backed registered providers and not-for-profit organisations. As one of the largest institutionally backed registered providers in the country, we do see areas where the Regulators' approach could evolve to be appropriate to register to regulate these new entrants. For example:

- Institutional RP's sometimes have multiple RP's – These RP's create a sensible corporate structure to manage investment risk and allow compliance with regulation in pension and financial services markets. Regulating these RP's individually when they seek to operate as a family is inefficient for the Regulator. With collaboration we believe a better approach can be realised.
- Additionally, moving homes between RP's where the manager is the same, the landlord is within the same group, the service standards are the same, and the costs to the residents are the same, should be exempted from s20 consultation. To require s20 consultation on these transfers is nonsensical and an unintended consequence of legislation required for another purpose.

## **Conclusion**

In summary, we believe that all regulators play important roles in providing a central point of regulation for their relevant sector. Now is the right time to refresh regulation for the benefit of the customer.

We do not believe that better customer service will be achieved merely through more resident representation on Boards. Many organisations already have customers on their Boards, and we see no positive correlation between the number of customers on the board of an organisation and its customer service output. Nor do we think that materially better customer service will be enabled through more transparent reporting, or through reporting where organisations spend their money. These changes will not help the resident who has contracted their landlord and the landlord has not been responsive or addressed the problem.

We strongly believe that now is the time to be more ambitious in terms of the Regulator's role to support a significant endeavour to improve customer service across the sector - and Legal & General Affordable Homes wants to be part of the solution. We see how great customer service can be delivered through a culture of the customer at the core of every business decision. If the sector can pivot over time to adopt this culture of great customer service, then service improvement will, in our view, accelerate and start to catch up with the rest of the service sector.

In a world where more transactions are online and customer's expect rapid responses from their service providers, the affordable housing sector has a long way to go. Nevertheless, the sector does want to deliver great customer service, but it needs support to progress towards delivering great customer service more rapidly. Legal & General Affordable Homes looks to partnering with the sector to deliver this bold, but achievable set of targets.

*December 2021*