Regulator of Social Housing

Sector Risk Profile

October 2024

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Executive summary

A landlord's ability to deliver more and better social homes relies on having the resources to do so. Over the past year, the risks to local authorities' and private registered providers' viability have intensified and their financial performance continues to weaken. This has been driven by internal and external pressures, including record and increasing spending on existing homes, and sustained higher interest rates increasing the cost of debt. Tighter financial headroom needs active management and leaves less margin for errors in decision making.

Boards face increasingly difficult decisions as they navigate carrying out much needed improvements to existing homes and delivering hundreds of thousands of new social homes, with reduced financial capacity. While the financial pressures on local authorities are different, the non-financial risks and challenges that they face are very similar to those of housing associations and other private registered providers. Boards and councillors will need real skill and judgement, underpinned by the right information and the willingness to provide effective challenge, if their organisations are to continue delivering for current and future tenants.

Strategic direction

It is for boards and councillors to set their organisation's strategic direction and priorities whilst delivering the outcomes required by the standards. A lack of strategic direction can prevent important decisions being taken. Boards face difficult trade-offs: between utilising financial capacity and maintaining financial resilience; between investment in today's homes and tomorrow's. As the sector's financial capacity becomes increasingly strained these trade-offs are made more stark. Boards must maintain real clarity of purpose to successfully navigate these competing demands while maintaining their financial viability so that they protect tenants' homes. Landlords need to articulate their purpose and priorities clearly, and communicate their performance transparently, to help manage the risks inherent to these trade-offs. Constrained resources increase the importance of providing value for money, and boards must ensure that what they do is effective in achieving their strategic objectives. Landlords can expect their purpose, choices, and performance to be scrutinised by a wide range of stakeholders. These include current and future tenants, local communities, councillors and MPs, local and national government, lenders, contractors, the media, and other regulators. We will scrutinise that a private registered provider has effective governance arrangements that deliver its objectives.

Financial viability

Constrained financial headroom reduces the capacity for the sector to manage downside risk and increases the risk that governance failings will lead to financial distress. While it continues to retain many sources of financial strength, including a strong liquidity position, the private registered provider (PRP) sector's weakening financial position has continued to intensify. Last year, and for the first time since 2009, the cost of servicing debt exceeded net earnings. In aggregate terms, forecast PRP sector interest cover over the next five years is just 111%. The strongest financial pressures are seen in London and other urban areas where large numbers of flats need building safety works. Landlords are taking action to manage viability risks, including deferring uncommitted development and arranging loan covenant waivers. However, reduced financial headroom reduces the capacity to manage downside risk and increases the risk that a governance failure leads to financial distress.

PRP boards need a strong internal controls framework and a thorough understanding of where risk sits within their organisation and can flow around their group structure. This will include having an accurate and up to date assets and liabilities register that provides swift access to information on a landlord's housing assets and security position. Boards must closely monitor their organisation's financial position and covenant compliance, engaging positively with funders at an early stage where compliance may be threatened. As boards make choices on priorities they will need to undertake stress testing of key assumptions, establishing robust, worked up mitigation strategies to address possible future pressures. Frequently, mitigation plans only offer a short-term fix – relying on debt or the sale of fixed assets to meet non-discretionary running costs is not a long-term solution. Boards will need to consider all their available options to ensure continued viability; where viability is uncertain this may include whether they should remain as an independent organisation or look for a suitable merger partner. We will continue to engage closely with landlords where our analysis suggests that financial performance is weak and reflect this in regulatory judgements. Where a landlord identifies a potential problem with, or threat to, its viability we expect it to give us early warning.

Tenant safety

Ensuring that tenants are safe in their homes is a fundamental responsibility for any landlord. Failure to do so risks catastrophic harm to tenants and can damage trust in the sector as a whole. Boards and councillors must ensure they understand the landlord's legal obligations in relation to the health and safety of tenants in their homes and communal areas. This includes required assessments for fire, gas, electrical, asbestos, water, lift safety, and ensuring the presence of carbon monoxide detectors and smoke alarms in all required homes. Assurance on tenant safety must be underpinned by accurate, up-to-date, and complete data, including through physical inspections of properties to assess the presence of hazards under the Housing Health and Safety Rating System. Landlords also need to take a proactive approach to identifying and tackling damp and mould. Boards and councillors must learn from the tragic case of Awaab Ishak and should ensure they seek to understand tenants' needs and take these into account when assessing the risks from damp and mould.

Fire safety remains a key priority, particularly in multi-occupied medium and high-rise buildings. The Grenfell Tower tragedy highlighted the potential catastrophic impact if these risks are not addressed, and the importance of remediation being completed at pace. While the sector has made good progress on completing required risk assessments, around a quarter of buildings with identified life-critical fire safety defects either have no, or unclear, plans for remediation.

Boards and councillors must ensure that landlords are taking prompt and effective action so that tenants' homes are safe. Where work will take time to complete, landlords should be taking interim measures to keep tenants safe.

Stock decency

Homes are a long-term asset and failing to invest adequately can have serious consequences for tenants as well as leading to deterioration that costs more in the long run. Social landlords are currently spending record amounts on repairs and maintenance and forecasting further substantial increases. However, skilled labour shortages continue to impact repairs and maintenance programmes and demand for damp and mould work remains high.

Boards and councillors must understand the condition and quality of tenants' homes and ensure that, as a minimum, homes meet the requirements of the Decent Homes Standard. Our new Safety and Quality Standard sets specific expectations about accurate, up-to-date, and complete stock condition information based on a physical survey. Boards and councillors need to ensure that their organisations are both providing an effective and efficient repairs service that fixes problems in a timely way, and communicating openly and promptly with tenants about maintenance and repairs and updating them regularly on progress. Boards must understand how the condition of stock relates to current and evolving requirements, in particular net zero, and know how their stock may be affected by any changes which may arise from the government's review of the Decent Homes Standard and its consultation on minimum energy efficiency standards (MEES).

Service delivery and accountability

A failure to deliver good quality housing services or to engage effectively with tenants could result in harm to tenants, as well as seriously damaging the reputation of the provider and sector. Tenants, politicians and others will continue to provide considerable scrutiny of the sector's performance in providing quality homes and services, listening to tenants and treating them with fairness and respect. Boards and councillors must ensure strong governance arrangements are in place to oversee service delivery and achieve the outcomes set out in our new consumer standards. This will include collecting and reporting robust and accurate data on performance, including tenant satisfaction measures data. They will also need to actively manage the ongoing risks from cyber security threats in order to ensure continued delivery of essential services.

We know from our casework that landlords have room for improvement when it comes to engaging with tenants in a meaningful and impactful way. Boards and councillors must take tenants' views into account in their decision making and let them know how their views have been considered. Our new Transparency, Influence, and Accountability Standard requires landlords to have a simple, accessible, and publicised complaints process. Boards and councillors should see complaints as an important source of insight, ensuring that systems are in place to learn from complaints when things go wrong.

1. Introduction

1.1 The 2024 Sector Risk Profile sets out our view of the most significant sources of risk to landlords' ongoing compliance with our regulatory standards. By landlord, we mean a registered provider of social housing, including local authorities and private registered providers (PRPs) such as non-profit housing associations, co-operatives, and profit-making organisations. This publication draws on submitted regulatory returns and other data provided to us as the regulator where applicable.

1.2 The risks set out in this document have the potential to threaten the successful delivery of landlords' strategic objectives, viability, or the safety and well-being of tenants. Boards of private registered providers and, where relevant, the councillors forming the governing bodies of local authority registered providers – henceforward 'boards' – should be alert and responsive to these risks.

1.3 In April 2024 we introduced significant changes to the way we regulate social landlords as a result of the greater powers we have been given under the Social Housing (Regulation) Act 2023. This includes the introduction of revised consumer standards and a range of other tools such as tenant satisfaction measures, as well as our programme of regular, proactive, inspections of landlords with 1,000 or more homes. While the outcomes of the new consumer standards and the Rent Standard apply to all landlords, the outcomes of the Governance and Financial Viability Standard and Value for Money Standard apply only to private registered providers. However, whether economic or consumer, the required outcomes of our standards are interdependent as they all share the aim of a viable, efficient, and well-governed social housing sector able to deliver quality homes and services for current and future tenants. The risks set out in this document will therefore be of relevance to all social landlords as they look to deliver the outcomes of our standards.

1.4 We remain firmly committed to a co-regulatory approach where boards are responsible for their organisations and are held to account for how they are run and the outcomes they deliver. This drives improvements in landlords and creates a more effective and resilient sector where there is a positive relationship between landlords and tenants. It is for boards to ensure that landlords are managed effectively and that they meet all regulatory requirements. As part of this, we expect boards to have in place an effective risk management and internal controls assurance framework. It is for each board to assess its own risks in the round and satisfy itself that appropriate strategies are in place to mitigate these.

2. Strategic risks

Financial viability

2.1 Fundamentally, to deliver services to existing and future tenants, landlords need to remain financially viable organisations. Constrained financial headroom reduces the capacity for the sector to manage downside risk and increases the risk that governance failings will lead to financial distress. Our Governance and Financial Viability Standard applies solely to private registered providers (PRPs).

2.2 The PRP sector retain many sources of financial strength, including secure income streams backed by government benefit payments and relatively low gearing. However, the sector is also facing significant financial pressures: from necessary expenditure on existing stock safety and quality, and to bring these in line with strengthening expectations on energy efficiency; from the increasing cost of capital as a result of higher interest rates; and from the need to build new homes for future tenants. This pressure has resulted in a continued trend since 2018 of reducing financial performance. Private registered provider EBITDA MRI interest cover has fallen below 100% in 2023/24 and is not forecast to return above 100% until 2025/26 (Financial Forecast Return (FFR) 2024 data). Aggregate EBITDA MRI interest cover over the first five years of forecasts has fallen from 190% in 2017/18 to 111% in 2023/24. The previously projected recovery in interest cover in landlords' business plans has consistently failed to materialise as a result of higher than expected interest rates, building remediation costs, and the impact of the cap on rent increases. Financial pressures are currently particularly acute for landlords in London and other urban areas where they own a large number of flats in need of further safety and quality works. In general, we have assurance that private registered providers are taking mitigating action to manage viability risks while as far as possible delivering strategic objectives. This includes through deferral of uncommitted development and the arrangement of loan covenant waivers. Forecasts for development of new homes have substantially reduced in recent years. We have also seen a substantial forecast increase in fixed asset disposals, with its own attendant risks (*see: Fixed asset sales*).

2.3 It is essential that boards have a strong internal controls framework and that they have a thorough understanding of where risk sits within their organisation and (where relevant) how it can flow within group structures and between registered and unregistered entities. This will include having an accurate and up to date assets and liabilities register that enables swift access to information on housing assets and security position to support decision making and risk management. Boards will need to ensure that they are closely monitoring their financial position, including covenant compliance, and that they are engaging positively with funders at an early stage. Managing these risks while delivering their objectives will inevitably result in difficult trade-offs, and boards must be proactive and transparent in communicating with stakeholders to manage the reputational implications of these. Boards will need to set a clear strategic direction in order to maintain viability while prioritising essential services and tenant safety. In weighing the available options to ensure continued viability boards are likely to consider whether their objectives are best achieved as an independent organisation or whether they should look for a suitable merger partner. Any landlord that thinks a merger may be a good idea needs to start on this process as early as possible, so that decisions can be made in plenty of time, with the ability to consult their tenants and other stakeholders as necessary.

2.4 The PRP sector has a long track record of no loss on default, meaning no secured lender has lost money investing in social housing and no tenants have lost their home as a result. We will continue to engage closely with landlords where our analysis suggests that financial performance is weak and reflect this in our regulatory judgements. In February 2024 we set out guidance on our use of insolvency and moratorium powers under the Housing and Regeneration Act 2008 and Housing and Planning Act 2016.[1] Where a private registered provider identifies a potential problem with, or threat to, its viability we expect it to give the regulator early warning of such issues.

Delivering against expectations

2.5 In setting their strategic direction, landlords will need to navigate a range of competing expectations from stakeholders. Failure to consider competing expectations at the outset, or failure to communicate these choices effectively once made, can have serious ramifications for a provider's own reputation and that of the sector as a whole.

2.6 As organisations with a social purpose, many of which have charitable status, landlords' actions will inevitably be scrutinised by a range of stakeholders. These include current and future tenants, local communities, councillors and MPs, local and national government, lenders, contractors, other regulators, and the media. As the financial capacity of the sector becomes increasingly strained, the trade-offs landlords have always faced will become more stark. This includes appropriately balancing investment in existing stock against development of new stock. The sector will be expected to deliver on a range of new policy initiatives to increase the quality of social housing and it will need to balance these with the objective to increase new supply. For example, the government has committed to consulting on and implementing areas such as the Decent Homes Standard, Minimum Energy Efficiency Standards, and raising professional standards through new Competence and Conduct requirements. These

[1] Guidance Note 19: Insolvency and Moratorium Powers - GOV.UK (www.gov.uk)

policies will create new costs and investment pressures for landlords. The government will also be expecting the sector to support its commitment to deliver 1.5 million homes over the next five years.[2] The introduction of proactive regulation of the consumer standards will only increase the scrutiny on landlords' decisions. In particular, our new Transparency, Influence, and Accountability Standard emphasises that genuine consideration of tenants' views should be at the heart of landlords' decision making about services and that landlords should make information available in order to enable tenants to hold them to account.

2.7 Boards should be aware of and have regard to the expectations of tenants and other stakeholders as part of their strategic approach. Boards must be able to clearly articulate their organisations' purpose and priorities, engaging openly with stakeholders in order to manage the risks inherent to the trade-offs faced in employing landlords' scarce resources. Where difficult trade-offs are required, boards should ensure that they have timely and effective mitigating strategies in place to manage reputational risks, including transparent and effective communication with tenants and stakeholders. This will involve actively seeking tenants' views and communicating how these have been taken into account when making decisions about delivery of landlord services. Boards will need to ensure they are transparent in their provision of performance and other information to support effective scrutiny by tenants and other stakeholders – including collecting and publishing Tenant Satisfaction Measures data. Boards must ensure that they are able to demonstrate that their activity effectively achieves strategic objectives and represents value for money.

Diversification

2.8 Diversification into non-traditional business streams can allow landlords to increase their turnover and supplement their rental income and grant funding, enabling them to invest returns back into their core activities. However, diversification introduces additional risks alongside those from social housing activity. Failure to appropriately manage these can be detrimental financially and can damage a landlord's reputation. Poorly managed diversification potentially puts social housing at risk.

2.9 Diversification can include market sales, student housing, portfolios of commercial property, specialist care, and many other activities. These areas of activity may be in line with a landlord's core purpose, but they bring a different profile of risk. Private registered providers forecast that 22% of income over the next five years will be accounted for by activity other than social housing lettings, though this represents a reduction when compared with previous years' forecasts (FFR 2023 5 year aggregate 25%; FFR 2022 28%). Landlords have previously undertaken substantial development

[2] Housing targets increased to get Britain building again - GOV.UK (www.gov.uk)

of homes for market sale to cross-subsidise social activity but latest forecasts (FFR 2024) show development of homes for outright sale down 21% on previous forecasts, and development of low-cost home ownership down 15% compared with 2023 business plans. However, the sector still expects to supply a large number of homes for sale over the next five years – in particular for shared ownership – and landlords will need to manage development and sales risks carefully.

2.10 Boards must ensure that they have the required skills, information and advice to appropriately assess any move into a new business stream and manage this on an ongoing basis. Boards must understand the full range of risks that diverse activity can expose them to and ensure that such activity has a clear strategic role in meeting their organisation's purpose and objectives. Boards must ensure that such activity provides value for money and that the rewards from this activity are commensurate with its risk profile. Furthermore, boards must understand the potential risks associated with the funding structures and finance of non-social housing activities and must have appropriate governance structures and ring-fencing arrangements in place to ensure that social housing assets are not put at risk by, for example, cross-guarantees or impairment relating to non-social assets. Charitable landlords must also have regard to charity law when undertaking diverse activity.

2.11 As the regulator, we will seek assurance from landlords that non-social housing activity creates rewards commensurate with its associated risks, that this activity makes a clear contribution to the landlord's core purpose, and that social housing is not put at undue risk.

Counterparty risk

2.12 Landlords enter into contracts with a wide range of third parties, including funders, insurers, auditors, pension providers, construction and maintenance contractors, care providers and through joint ventures. These can represent effective ways for landlords to deliver key services and help deliver value for money. However, entering into contracts with third parties exposes landlords to counterparty risks and can reduce the control that landlords have over the quality of delivered services. Reliance on a limited number of third parties or sources of finance also exposes landlords to concentration and reputational risks.

2.13 Contractors frequently operate on tight profit margins and have faced a challenging environment in recent years from rising interest rates and periods of high inflation. The rate of insolvencies in the year to August 2024 was higher than pre-pandemic levels, though much lower than the rate seen during the 2008-09 recession.[3] Construction

[3] Company Insolvency Statistics, August 2024 - GOV.UK (www.gov.uk)

businesses account for the largest contribution towards total company insolvencies in England and Wales. Contractor failure has resulted in impairments from increased costs and development schemes delayed while new contractors are appointed.

2.14 Some landlords deliver services through third parties. This may be the case where landlords' properties have specific lease structures resulting in complex management arrangements. Other landlords have outsourced landlord services to contractors as an option to drive down costs. Local Authority Registered Providers make use of a range of service delivery and management arrangements, including Private Finance Initiatives, Tenant Management Organisations, and Arms-Length Management Organisations.

2.15 It is ultimately boards that remain accountable to their tenants and stakeholders. Contracting out services does not contract out landlord responsibility, and it is essential that boards maintain oversight of service delivery; failure to do so risks tenants' safety and the quality of their homes, as well as damaging the landlord's reputation. Where landlords' properties have complex management arrangements, it is for boards to ensure that liabilities and responsibilities are established and that these are clear both to counterparts and to tenants. Boards must ensure their organisations conform to all relevant policies, standards, and law when outsourcing to third-party organisations. Boards will need to have considered impairment implications from potential counterparty failures and ensure contingency plans are in place. Boards must have assurance that concentration risk is being managed, including monitoring of counterparty robustness and consideration of protections for breaches or termination of contracts. Due diligence should be undertaken to ensure any potential conflicts are identified that could breach policy, regulation, legislation or cause reputational harm.

3. Existing stock and service quality

Health and safety

3.1 The provision of safe homes is a fundamental responsibility for every landlord. Failure to take all reasonable steps to ensure the health and safety of tenants in their homes and associated communal areas risks catastrophic harm to tenants and can damage trust in the sector as a whole. Landlords also have wider responsibilities, such as fulfilling their legal duty of care to their staff.

3.2 Our quarterly Fire Remediation Survey[4] provides an overview of the progress of social landlords in remediating fire safety issues in relevant buildings – those which measure more than 11 metres in height or that have 5 or more storeys. This demonstrates that, while 99% of buildings now have a fire risk assessment, progress has been slower in remediating identified defects. 11% of all relevant buildings have a life critical fire safety (LCFS) defect relating to the external wall system (EWS). Of these, work is complete or in progress on 36% of affected buildings but 28% of buildings currently have no plans in place for remediation or plans are unclear. Our Consumer Regulation Review[5] identifies the key issues and lessons arising from our casework in 2023/24. Although this covers the period before we began our new regulatory approach, the findings are still highly relevant and landlords should take account of these as part of their ongoing work to meet the required outcomes of the new consumer standards, including the new Safety and Quality Standard. In 2023/24 we found landlords that had not completed required assessments and checks for fire, gas, electrical, asbestos, and water safety. We also found landlords who could not provide assurance that all required homes had smoke alarms and carbon monoxide detectors. In some cases, required fire risk assessments had been completed but identified remedial actions had not been completed within specified timescales. We also found landlords who had a significant number of homes not meeting the Decent Homes Standard, or where they did not have the data to be assured that homes met the standard. Our investigations into how landlords are managing damp and mould has demonstrated a need for landlords to take a broader approach to keeping tenants safe that goes beyond legal health and safety checks. This includes having a proactive approach to damp and mould and acting in a timely way to resolve issues when these are reported. The government is currently considering responses to its consultation on the implementation of Awaab's Law, which was introduced as part of the Social Housing Regulation Act 2023 and which will ensure

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[4] Fire safety remediation in social housing in England 2024-25: Quarter 1 - GOV.UK (www.gov.uk)

[5] Consumer regulation review - GOV.UK (www.gov.uk)

landlords are taking swift action on the assessment and remedy of the most serious hazards.[6]

3.3 Boards must ensure that they adequately understand all legislative and regulatory requirements relating to health and safety compliance and that their organisations comply with all statutory obligations. These requirements apply to both existing stock, and to new build properties. Boards must also ensure that they have comprehensive and effective building safety systems and programmes in place to provide assurance that tenants remain safe in their homes. This is particularly important when services are provided by third parties such as managing agents or contractors, as ultimate responsibility remains with the landlord. Boards must ensure that their provision of well-maintained and safe homes is underpinned by effective systems and reliable information on the condition and quality of the homes they manage. Boards will need positive assurance on the number of homes for which all specified safety checks have been carried out. In particular, boards must ensure that they have robust assurance that at a minimum their stock meets the Decent Homes Standard, including using the Housing Health and Safety Rating System to assess the severity of risks to tenants from any hazards present in their home.

3.4 Boards are expected to ensure timely action is taken to remediate LCFS defects in the buildings they are responsible for. Boards must understand the costs associated with remediation works and any implications for other planned major repairs, particularly for large and complex buildings and properties with tenants who may have additional needs. Boards should also be conscious of timelines and the interaction with service delivery risks. Where remediation works could take time to implement, boards must ensure that their organisations communicate transparently with tenants and stakeholders while taking account of industry capacity and risk. Where necessary, boards should ensure steps are taken to ensure risks to tenants are mitigated in the period before physical remediation works are complete. Boards should also ensure that no-access policies are robust while remaining mindful of tenants' individual needs.

Existing stock quality

3.5 Failure to ensure homes are maintained at a decent standard or to effectively respond when issues arise can result in significant consequences for tenants, as well as having substantial implications for the trust and confidence that tenants and other stakeholders have in a landlord.

3.6 In recent years there have been a number of high-profile instances of extremely poor stock quality that have led to severe impacts to tenants and have damaged the

[6] Awaab's Law: Consultation on timescales for repairs in the social rented sector - GOV.UK (www.gov.uk)

reputation of the sector. Through our engagement with landlords we find significant variation in landlords' understanding of the condition of their homes, with our consumer regulation casework highlighting a number of landlords without accurate, up-to-date, and complete data on the condition of their homes. We found examples of landlords with a significant number of homes that did not meet the Decent Homes Standard, or where poor data meant there was a lack of assurance the standard was being met.

3.7 The sector is currently spending record amounts on repairs and maintenance, with further significant increases forecast (FFR 2024). Over the next five years, repairs and maintenance expenditure is forecast to amount to £50bn, 43% of social housing lettings turnover. Although the impact of inflation and resource shortages has lessened in recent months, landlords continue to report difficulties in recruiting trades operatives in certain specialist areas, and demand for damp and mould work remains high.[7] High per unit expenditure on repairs and maintenance is particularly prevalent in some of the largest providers, particularly those operating in London. These providers generally have stock types that are more challenging, including flats in high-rise buildings that need further safety and remediation works, and where the stock itself is more intensively used with issues around overcrowding and the need for regeneration.

3.8 The requirements set out in our new Safety and Quality Standard apply to all landlords. Boards must ensure that their organisation provides a repairs and maintenance service which ensures tenants' homes and communal areas meet minimum standards and that represents value for money. Boards must ensure they have an accurate, up-to-date, and evidenced understanding of the condition of their homes that enables the provision of good-quality homes to tenants. In particular, boards must ensure that they have robust assurance that at a minimum their stock meets the Decent Homes Standard, and that they observe the requirements in the Safety and Quality Standard to hold accurate stock condition information at an individual property level that is underpinned by a physical assessment. Data should support understanding of investment needs, as well as the potential implications of the government's upcoming review of the Decent Homes Standard and consultation on Minimum Energy Efficiency Standard. Insurers increasingly also require more detailed information to price risk appropriately. Boards will need to consider the implications from such new requirements on the economic performance of assets. In ensuring their stock remains fit for purpose, alongside investment in stock to achieve net zero, landlords will also need to consider the resilience of their stock to the effects of climate change, including from an increased likelihood and severity of flooding and storms, greater subsidence, and overheating.

[7] Quarterly survey for Q1 (April to June) 2023 to 2024 - GOV.UK (www.gov.uk)

Delivering services to tenants

3.9 The provision of good quality housing services to their tenants is core to the role of a registered provider. As well as not meeting consumer standards, a failure to deliver these services or to engage effectively with tenants could lead to a breakdown in trust in the relationship landlords have with their tenants. This could result in harm to tenants, as well as seriously damaging the reputation of the provider and sector.

3.10 The Transparency, Influence, and Accountability Standard came into force from April 2024, and applies to all landlords registered with us. The standard requires landlords to use relevant information and data to understand the diverse needs of tenants and assess whether housing and landlord services deliver fair and equitable outcomes for tenants. Our casework highlights the importance of engaging effectively with tenants, taking their views into account in decision-making and letting tenants know how their views have been considered. We know from our casework that the sector has room for improvement when it comes to engaging with tenants in a meaningful way. Landlords are required to have a simple, accessible, and publicised complaints process, and to provide tenants with information about how to make a complaint. Landlords must have the systems to handle complaints effectively, learning from the insight complaints provide; failure to handle complaints effectively damages tenants' trust and confidence in their landlord. We continue to see examples of landlords that lack the robust data necessary to underpin a clear and accurate account of performance, particularly where this relates to the quality and condition of tenants' homes.

3.11 Boards must have strong governance arrangements in place to manage the delivery of services to tenants and maintain compliance with regulatory standards. Landlords should ensure all decisions and communications with tenants demonstrate transparency and accountability. Robust data and effective performance management should support decision making so that boards have assurance that landlords are delivering effective services and that tenants are being treated with fairness and respect. Boards need to have a robust understanding of performance across all areas and ensure that they are receptive to the issues that tenants raise through feedback and complaints. Boards are ultimately responsible for ensuring reported performance data is accurate and in line with regulatory requirements.

Data integrity

3.12 Data integrity refers to the accuracy, consistency, and reliability of data over its lifecycle. Data integrity is fundamental for boards to monitor areas such as rent setting, financial management, stock condition, tenant needs and expectations, health and safety, and meeting consumer standards. Board oversight, control, and decision making is undermined by failure to maintain data integrity.

3.13 Several factors contribute to the risk profile of data integrity in the social housing sector: fragmented data systems; reliance on manual data entry; outdated IT systems; and lack of standardised data entry. Strengthened requirements for landlords to ensure performance data is accurate, transparent and comparable are at the heart of the Transparency, Influence, and Accountability Standard, including the requirements on TSMs. Our consumer regulation casework continues to demonstrate the importance of robust data, with many areas of non-compliance found to be the result of an incomplete understanding of landlords' housing stock. Regulatory engagement has highlighted instances where landlords' stock condition survey approach is inadequate to fully assess compliance with the Decent Homes Standard, or where landlords cannot evidence that all required legal health and safety checks have been carried out.

3.14 Boards must have assurance that decisions are underpinned by robust data that is appropriately managed, ensuring confidentiality, integrity, and availability. This will require adequate quality controls and robust audit trails to be in place. For example, boards must ensure that stock condition survey approaches produce data that is sufficiently detailed to enable assurance against compliance with health and safety legislation, the Decent Homes Standard, and delivery of repairs, maintenance, and planned improvements to stock. It is the responsibility of boards to ensure the collection of robust data to support key regulatory returns. Furthermore, the government is consulting on new rights for tenants to access information about their homes, supplying tenants with data that is accurate, consistent and reliable is fundamental to this process if implemented.

3.15 Accurate and timely data underpins our engagement with landlords. We consider failure to manage data integrity to be indicative of a poor internal controls assurance framework. Failure to provide accurate and timely data that meet regulatory requirements will be reflected in our judgement of a landlord's compliance with regulatory standards.

Costs and access to skilled labour

3.16 A failure to effectively manage landlords' cost base could impact on business resilience, with reductions in free cash flow, margins, and interest cover. Landlords are reliant on the availability of skilled labour to deliver programmes of major repairs and maintenance, comply with safety requirements (including building safety), and deliver key services to tenants. A tight market for such labour is driving up costs and exacerbating underlying skills shortages, and this can threaten landlords' ability to deliver these programmes and services.

3.17 Inflation has steadily fallen from the 11.1% peak in October 2022 and has now returned to near the Bank of England's target. Twelve-month Consumer Price Index (CPI) inflation was 1.7% in September 2024. Latest Bank of England forecasts are for CPI to remain relatively near target over the medium term, rising to around 2.7% in Q4 2024/25 before falling gradually to 1.5% by Q2 2027/28. However, cost levels remain much higher than previously.

3.18 There continue to be particular labour shortages in construction, building safety, care, and support, with pronounced issues in some local markets. Landlords' development ambitions are being constrained by labour shortages and in some cases subcontractor insolvency. The lack of available tradespeople affects landlords' ability to provide an efficient and effective repairs and maintenance service. A lack of fire engineers, scaffolders, and roofers are making it harder to meet existing and future building safety requirements. Changed standards from the ongoing review of the Decent Homes Standard are likely to lead to further demand for skilled labour. Procuring external auditors continues to be challenging and the cost of auditors has increased. This is partly due to a lack of firms, a shortage of suitably qualified staff, and changes to standards that auditors must meet. In the face of substantial shortages in staff, high staff turnover, and increasing demand, landlords offering care and support are frequently reliant on high numbers of agency staff to deliver services, with significant implications for costs and reduced control over quality of care. Landlords are facing significantly increased procurement administration and associated costs due to the new Procurement Act 2023.

3.19 Insurance premiums and excesses have increased markedly since the Grenfell Tower fire exposed widespread safety failings in multi-occupancy stock and as a result of high materials and labour inflation in recent years leading to higher replacement values. A lack of readily available data on properties' construction and insulation materials for some landlords is increasing insurance costs. There is a limited range of insurers in the sector and some landlords have reported difficulties in obtaining multiple or even any quotes. In response, some landlords are considering alternative insurance options such as captive insurance.

3.20 Boards will need to ensure they understand their operating environment and how emerging and longer-term labour and skills shortages impact the delivery of organisational objectives, safety, and quality. Boards must understand their cost base, stress testing plans against the impact of rising costs and establishing effective mitigation strategies to ensure that they have the necessary skills and labour to continue to deliver essential services and maintain stock decency. Boards must ensure they understand insurance cover and policy limits and have robust data on construction and insulation to support insurance valuations. Where boards are considering alternative insurance options they must ensure they understand any implications for covenant compliance.

Rent setting

3.21 Both private landlords and local authority landlords must set rents and service charges in accordance with the government's Policy Statement on Rents for Social Housing 2022[8] and the regulator's current Rent Standard[9]. Failure to set rents correctly can lead to over-charging tenants and calls into question a landlord's system of internal controls and board's assurance on this, as well as damaging a provider's reputation with stakeholders.

3.22 Our previous regulatory engagement suggests the majority of landlords set their rents correctly. In response to high levels of inflation during 2022, government acted to limit annual rents increases to a 7% ceiling for rent periods that begin between 1 April 2023 and 31 March 2024, applied to both social rent and affordable rent homes (though excepting supported housing). Subsequently annual rents increases have returned to CPI+1%, based on September CPI, with permitted rents growth for rent periods that begin in the year from April 2025 of 2.7%. Government has committed to setting out plans at the next fiscal event to give local authorities and housing associations the rent stability they need to be able to borrow and invest in both new and existing homes.[10]

3.23 Boards and governing bodies should ensure that they have adequate assurance on the quality of their organisation's internal controls on rents, and that these continue to meet any changes to the rent setting regime. They should further ensure that they understand the expectations regarding service charges, including affordable rent where rents are inclusive of service charge. There must be appropriate controls in place to ensure compliance with all relevant law, particularly the Landlord and Tenant Act (1985), which sets the principle that variable service charges should only cover identified costs. Failure to manage service charges can adversely affect affordability and cause reputational damage.

3.24 In its addendum to the 2018 Sector Risk Profile[11], the regulator highlighted a lack of assurance around whether appropriate rents are being charged by landlords who deliver specialised supported housing using a lease-based model. Boards of landlords with such provision must assure themselves that the rents charged are in fact below market rents (which is part of the definition of social housing in the Housing and Regeneration Act 2008), and that the letting meets the definition of specialised supported housing. In March 2020 the regulator published an addendum to the 2019 Sector Risk Profile on setting rents in social housing[12], setting out some of the themes that the regulator has

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[8] Policy statement on rents for social housing - GOV.UK (www.gov.uk)

[9] Rent Standard and Guidance - GOV.UK (www.gov.uk)

[10] Written statements - Written questions, answers and statements - UK Parliament

[11] Lease-based providers of specialised supported housing - GOV.UK (www.gov.uk)

[12] Setting rents for social housing - GOV.UK (www.gov.uk)

found in its engagement with landlords on rents. Rent setting compliance will continue to be an area of focus for the regulator.

Rental income and arrears

3.25 Rental income accounts for the large majority of the sector's income. The high inflation and real terms wage reductions seen in the last few years have increased financial pressure on households and could result in an increase in arrears. Frequently this rental income is supported by government benefits such as Housing Benefit or the housing element of Universal Credit. Changes to benefits policy and the administration of benefits can have implications for landlords' rent collection. Failure to appropriately manage rent collection and arrears can ultimately impact landlords' financial viability.

3.26 Data from the Quarterly Survey[13] show average (mean) current tenant arrears in Q1 2023/24 at 3.3%, broadly in line with long-term averages and slightly reduced from the 3.4% reported in Q1 2022/23. The challenging economic climate of recent years saw a historic fall in real household disposable income, and whilst there are signs that pressures are easing, incomes will still be constrained. Shared owners coming to the end of fixed rate periods on mortgages in particular are likely to experience a significant financial shock as they look to re-mortgage in an increased interest rate environment.

3.27 Boards will need to continue to ensure rental income risks are appropriately managed and can demonstrate that they understand the implications of any potential issues, stress testing against falls in income and establishing mitigations for this.

3.28 Some landlords have diversified into the private rented sector (PRS). As with other forms of non-social housing investment, it is important that boards should have assurance that the level of return is commensurate with the level of commercial risk associated with PRS stock rents fluctuating more than social rents. Boards will need to understand these risks, stress testing the impact of falling market rents or increasing levels of arrears and ensuring this can be mitigated and that social housing assets remain protected. The regulator will seek assurance that Boards understand the risks and rewards of entering into this activity, and that these are appropriately balanced.

Data and cyber security

3.29 Data is an extremely valuable asset, of which landlords gather many types in the course of their activities including personal data of tenants, financial records, and organisational information. Alongside their legal obligations, landlords have a duty of care to tenants and staff to protect this data against a backdrop of increasing data security risks. As well

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[13] Quarterly survey for Q1 (April to June 2024) - GOV.UK (www.gov.uk)

as breaching legislation which can lead to significant penalties from the Information Commissioner's Office, failure to adequately ensure the security of data may also mean that landlords are unable to deliver the outcomes of our regulatory standards – for example through damage to landlord services provided to tenants, harm to tenants, and the impact on the reputation of the landlord and the sector as a whole.

3.30 While it is important that landlords have a good understanding of their tenants, they also need to ensure that they can protect this data from breaches. Delivering fair and equitable outcomes for tenants will involve collecting data to understand tenants' diverse needs, including sensitive data on protected characteristics, making the impact of any data breach more significant. There have been a number of high-profile instances of cyber-attacks in the sector, and these have had serious consequences for landlords' service delivery and resulted in substantial costs to rebuild and recover systems. Ransomware and extortion attacks have grown significantly in recent years, and the National Cyber Security Centre (NCSC) continues to consider these the most acute cyber threat for most UK organisations.[14] AI technology is more likely to amplify existing cyber threats by sharply increasing the speed and scale of some attacks. Remote working and increased online service delivery can make organisations more vulnerable to phishing, malware, and ransomware attacks. Some landlords might use legacy technology, leaving security holes in their systems, or have easily compromised infrastructure caused by a lack of proactive management. However, NCSC emphasises that the most common attacks are relatively unsophisticated and can be protected against through simple steps to increase resilience.

3.31 All landlords must comply with the Data Protection Act 2018 and other relevant data protection legislation. Boards should ensure that data protection risks are managed, and that appropriate technical and organisational measures are in place to implement the data protection principles effectively and safeguard individual rights. Boards must consider the implications of collecting or processing new data and take steps to prevent personal data breaches. They must also understand the risks of processing personal data with third parties, including the need to undertake due diligence on third parties' security measures, using standardised contractual clauses where necessary, and documenting where data is located.

3.32 Boards must also ensure that their IT security function is safe and secure and that security vulnerabilities are appropriately identified and mitigated. Boards should ensure their organisations have a proactive cyber incident response plan that is fully aligned with their business continuity and recovery plans. Response plans will need to ensure continued critical service delivery while prioritising service restoration and communication with tenants. The NCSC has a range of resources available to support

[14] https://www.ncsc.gov.uk/collection/annual-review-2023/threats-risks

boards, technical, and operational teams to understand and address the risks posed by cyber-attacks. In addition, registered providers are eligible for a range of free tools and services through the Active Cyber Defence Programme.[15]

Supported housing

3.33 Supported housing provision is central to many landlords' core purpose. Supported housing accommodation makes up around 11% of the sector's stock, with particular concentrations among small landlords. Much supported housing and support services activity, especially where reliant on local authority contract funding, is inherently low-margin and is vulnerable to fluctuating income and costs, or changes in government policy. Failing to provide adequate services can have severe impacts for tenants in need of support, including some of the most vulnerable people housed by social landlords.

3.34 Supported housing continues to experience cost pressure from a tight labour market alongside sector-specific recruitment and retention issues, as well as increases in the national living wage. Local authorities are experiencing significant cost and income pressures which could place further downward pressure on support contracts. There has been a gradual decline in supported housing activity operating margins, and this has prompted some landlords to look for additional sources of income, supplementing contract incomes by bidding for support contracts for tenants with complex needs.

3.35 Boards must ensure tenants' diverse needs, including additional support needs, are considered in assessing whether housing and landlord services deliver fair and equitable outcomes for tenants. Boards of landlords with significant supported housing or support contracts must ensure they understand funding risks, including stress testing against increased costs, loss of contracts, and the commissioning of revised or new services. Boards will need to manage staffing and other risks to ensure appropriate service delivery. Boards of landlords tendering for contracts in unfamiliar areas of support need to fully understand the wider risks involved, such as increased safeguarding risks, and have robust systems of oversight and effective mitigation strategies in place. Boards of landlords with significant supported housing or support contracts must ensure they understand funding risks, including stress testing against increased costs, loss of contracts, and the commissioning of revised or new services. They will need to manage staffing and other risks to ensure appropriate service delivery. Boards will also need to ensure they are familiar with the new framework for supported housing introduced by the Supported Housing (Regulatory Oversight) Act 2023.

3.36 The addendum to the 2018 Sector Risk Profile highlighted specific risks around specialised supported housing where the accommodation is leased to the landlord on a

[15] About Cyber Essentials - NCSC.GOV.UK

long-term lease. The risks identified in this addendum remain a significant concern. Boards of such landlords must ensure that they are able to manage the risks inherent to inflation-linked leases, including interruption to their cash flows and potential differential between index-linked liabilities and rental income.

4. Development and sales

Low-cost home ownership and market sales

4.1 The development of new housing – both social and non-social – remains a key priority for government, and social landlords will continue to play an important role in meeting demand. Some landlords develop homes for sale to meet their strategic objectives, as well as to generate surpluses to cross-subsidise other activity. However, exposure to the housing market brings its own set of risks to manage, including inflation or scarcity in material and labour costs, volatility in market prices or slowdowns in sales volumes, mortgage costs and availability, and impairment risks from joint ventures.

4.2 In response to weakened financial capacity the sector has been pulling back on development plans. Private registered providers forecast the development of just under 300,000 units over the next five years across all tenures (FFR 2024), 12% lower than 2023 forecasts. Outright sale has seen the greatest reduction in forecasts of 21%. The number of new units forecast by for-profit providers submitting FFRs has fallen significantly to 18,000 (FFR 2023: 33,000). Development of units for sale remains concentrated in a relatively small number of landlords, with the top 10 accounting for over a third of the 91,000 low-cost home ownership units (FFR 2023: 107,000) and over 60% of 20,000 market sales units (FFR 2023: 25,000) planned by the sector. A number of landlords undertake further market sale activity through entities in which they hold a non-controlling interest (mainly joint ventures). An additional 22,000 units are forecast to be developed for market sale in this manner.

4.3 Boards must assure themselves that they understand the implications from lower than forecast sales income, stress testing against feasible but severe scenarios for house prices and transactions and establishing mitigation plans for potential stress scenarios. Boards must understand the extent to which impairments of joint venture investments could affect social landlords, for instance through financial covenant calculations. Boards must understand the risk of default and factor the risk of impairment into their investment decision-making process, stress testing, and control framework.

Fixed asset sales

4.4 Fixed asset sales can be part of landlords' strategic plans, rationalising stock and generating receipts to fund future activity. However, where these are used to plug gaps in cashflows as a result of non-discretionary expenditure, this can raise concerns about a landlord's underlying viability. Large scale disposals or transfers out of the sector can also present reputational risks with key stakeholders.

4.5 Landlords have materially increased the level of fixed asset sales in latest plans, forecasting £19.1bn in cash receipts (excluding for-profits) from the disposal or transfer of 107,000 social units over the next five years. These fixed asset sales are particularly concentrated in a small number of large landlords, some of which are planning to dispose of more units than they are developing. There can be a number of strategic reasons for disposals or transfers of stock, including geographical consolidation or a decision to withdraw from a specific market or tenure. Commercial reasons might include disposal of units with low or negative net present value. In some cases landlords have told us that they are increasing fixed asset sales to protect viability and maintain covenant compliance. Increasingly, we are seeing shortfalls in landlords' operating cash being managed by way of fixed asset sales. Receipts from fixed asset sales by non-profit private registered providers now account for 21% of the sector's planned capital spend on capitalised major repairs and development over the next five years (FFR 2024), up from 14% in last year's forecasts. Capitalised works include critical safety activity necessary to comply with minimum standards – selling fixed assets in order to meet such non-discretionary running costs is a viability concern in the medium term.

4.6 Boards will need to understand and manage the risks from programmes of fixed asset sales, stress testing receipts, identifying buyers in a timely manner, and establishing robust mitigation plans. Boards must remain conscious of the reputational risks from disposals of large numbers of units out of the sector and proactively engage with stakeholders to manage these. Where disposals will result in a change of landlord for tenants, boards must be mindful of the requirements under the Transparency, Influence, and Accountability Standard to consult affected tenants at a formative stage and take those views into account in reaching a decision. The regulator will continue to monitor the financial viability of landlords, including engaging with landlords where there is a reliance on fixed asset sales to support cashflows and reflecting our findings in regulatory judgements where appropriate.

Construction process risks

4.7 Construction process risks refer to the potential challenges and uncertainties that can arise during the planning, development, and construction phases of both social and non-social housing projects. These risks can include disruption to supply chains, increased input costs, quality control issues, weak labour markets, and contractor insolvency. Such risks can significantly impact the timely delivery, financial viability, and overall success of housing projects, resulting in potential financial impacts, reputational damage and harm to tenants.

4.8 Policy and legislative changes have increased expectations around the design and construction of new build homes. Safety standards have been strengthened with the enactment of the Fire Safety Act in 2021 and Building Safety Act in 2022 and the establishment of the Building Safety Regulator. Improved energy efficiency of new build homes will be supported through the Future Homes Standard set to be introduced by 2025 and the government's commitment to net zero. In addition, the New Homes Ombudsman will increase scrutiny and accountability from failings in safety or in the construction quality of new homes.

4.9 Boards must have sufficient assurance that new properties meet stakeholder expectations and satisfy all legislation regarding building regulations, health and safety requirements, and regulatory standards. This is the case regardless of whether the development is delivered by the landlord itself or acquired from a third-party developer or joint venture. Boards must manage counter party risk for third-party contractor development, considering possible impacts on contractual or planning obligations and establishing appropriate plans to mitigate exposures.

4.10 Boards should also be aware of changing and increasing stakeholder expectations with regard to construction methods as the government looks to drive improvements in energy efficiency, building safety, and design. Where these represent significant differences from landlords' current practices, boards should ensure they have sufficient assurance that new properties will meet statutory requirements and they fully understand the implications of any new development approach. Boards must also understand the risks inherent to development, including stress testing against increased costs or delays to programmes.

5. Finance and treasury management

Existing debt

5.1 Debt accounts for the majority of financing in the sector – now exceeding £100bn for the first time. At the end of June 2024, private registered providers (PRPs) had drawn £101.2bn from agreed debt facilities of £131.7bn[16]. The proportion of bond finance has grown rapidly since 2008 and the drawn amount has since 2021 exceeded the funding drawn from banks. While bonds mostly have more limited covenant suites, private registered providers still need to carefully ensure that these are respected. Failure to manage relationships with lenders or compliance with covenants can threaten financial viability and undermine the achievement of strategic objectives.

5.2 The sector's interest cover performance has declined steadily since 2018 and this trend has continued in latest forecasts, driven by record and increasing expenditure on repairs and maintenance and materially higher interest rates. Private registered provider interest cover has fallen below 100% in 2023/24, the first time since 2009 that the cost of servicing debt exceeds net earnings. The sector's forecast aggregate EBITDA MRI interest cover over the next five years has fallen to 111% (FFR 2024), down from 125% in 2023 and 190% in 2018. Over a quarter of PRPs forecast aggregate interest cover over the next five years below 100%, including 12 of the 17 PRPs with more than 40k units. Overall liquidity remains strong, with total cash and undrawn facilities totalling £34.2 billion sufficient to cover forecast expenditure on interest costs (£4.3 billion) loan repayments (£3.4 billion), and net development (£13.5 billion) for the next year[17]. The sector's effective interest rate has risen from 4.1% in 2022/23 to 4.6% in 2023/24 (FVA, FFR). The majority of the sector's existing debt is fixed for more than five years. Nevertheless, a number of landlords already have material proportions of debt at variable rate, or will soon need to refinance at higher rates and with potentially shorter terms. Landlords should also be aware of the implications of rents policy uncertainty and increasing maintenance costs for security valuations. Some landlord models, such as lease-based providers of specialised supported housing, make significant use of CPI-linked debt; this presents particular issues when the interaction between inflation and permitted future rental income growth is uncertain.

5.3 Boards must ensure appropriate treasury management and governance processes are in place to effectively monitor existing loan covenants to manage the risk of breaches. Landlords should act early to communicate with lenders, including seeking waivers where essential safety works might threaten covenant compliance. Where financial

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[16] Quarterly survey for Q1 (April to June 2024) - GOV.UK (www.gov.uk)

[17] Ibid

performance is not meeting expectations, boards should ensure they are communicating effectively with investors and that debt capital markets remain well informed. Boards must also understand the risks from joint ventures, including impacts to financial covenants from impairments and any restrictions in on-lending. Boards must ensure risks from existing debt are managed, stress testing changes in underlying assumptions to understand and mitigate against unforeseen requirements for financing or increases in interest costs. Boards of landlords with index-linked debt must ensure that they are able to manage the risks inherent to inflation-linked leases, including interruption to their cash flows and potential differential between index-linked liabilities and rental income. It is essential that boards ensure sufficient liquidity is maintained.

5.4 The regulator will continue to monitor and engage with landlords that forecast low liquidity or weak interest cover. This is particularly the case where there is reliance on fixed asset sales to support cashflows. As ever, we will reflect our findings in our regulatory judgements.

New debt

5.5 Landlords' strategic purposes, objectives and risk appetites differ, and therefore suitable funding options also vary. Funder interest and activity in the sector can change, and failure to maintain investor appetite and manage interest rate exposure would lead to reduced capacity to deliver new developments and capital investment in existing stock.

5.6 PRP landlords' latest business plans forecast agreement of £48 billion in new debt facilities over the next five years, including refinancing. Total PRP drawn debt is expected to increase to £117 billion by 2028/29 (FFR 2024). Measures of indebtedness – debt to turnover, gearing, and debt per unit – are broadly consistent with last year's plans. Landlords' credit ratings are currently clustered in the low-single A band, but these are vulnerable to downgrades from weakened operating performance or falls in the UK sovereign rating. Falls in landlord ratings, especially below investment grade, will increase the cost of capital and may change the range and capacity of investors, potentially risking the availability of funding. There is also the potential that falls in landlord ratings may see debt holdings and future supply move to investors with different expectations and requirements than currently.

5.7 Boards should understand the potential consequences of weaker business plans that reduce investor appetite and consequent changes to the cost, tenor, and availability of debt. Boards will need to maintain a flexible treasury strategy, considering refinancing risk and the potential for changing counterparties. Communication with lenders and investors will continue to be key.

5.8 Boards should ensure that decisions around which debt funding option is right for their business stems from their activity, rather than the other way round. It is crucial that boards have the skills and expertise to understand and effectively challenge financial advice, especially when considering innovative and/ or complex funding structures. Where providers have employed facilities that have a sustainability or environmental, social, and governance (ESG) linkage boards should ensure they fully understand the implications of the associated covenant requirements.

5.9 We do not favour one funding approach over another, but we do expect to see evidence that a critical assessment has been undertaken with use of independent, specialist external advice as appropriate, and that boards are able to effectively understand and challenge this.

Alternative funding models

5.10 While debt accounts for the majority of landlords' funding, alternative models have become increasingly prevalent in the sector. These approaches can bring their own risks in addition to those applicable to all landlords.

5.11 Historically, social housing as an investment has been most suited to patient capital looking for predictable returns over the long-term. An increasing number of private investors have looked to invest in social housing products. This investment has been through the establishment of funds providing equity to (usually) for-profit registered landlords, by way of lease arrangements, or through direct equity investment in registered landlords. Private investment has allowed some landlords to target rapid growth in units under management, but this funding has the potential to be more expensive than debt. Furthermore, rapid growth can heighten the risk that managerial capacity may not keep pace. We have previously seen for-profit landlords established with tightly defined roles within wider corporate structures, with no staff and most business functions outsourced.

5.12 It is for boards to assess the risks associated with any new types of funding they take on. Where landlords are entering into partnership arrangements boards must ensure that they are entering into agreements with an appropriate funding partner, ensuring that goals are aligned and that there is clarity about how a partnership may dissolve if necessary. Boards must ensure that there are no potential conflicts from the influence of funders over strategic direction and that the board remains appropriately independent. Boards must also understand how governance and risk flow within wider corporate structures. Boards must bear in mind that they cannot outsource their responsibilities and ensure that they own and manage the risks associated with specific business models.

Pensions

5.13 Employer payments towards pension provision are today a standard part of most sector employees' overall remuneration. All schemes have membership and legal obligations. The balance of financial risk will vary depending on many factors including whether schemes are defined contribution or defined benefit.

5.14 Many landlords have exposure to defined benefit schemes. The financial obligations are remeasured on a triennial basis, creating risks of increased provider contribution costs where schemes are found to be in deficit. External events or changes in policy can materially impact such schemes. Changes from 2030 to align the calculation of the RPI with the CPI including owner-occupiers' housing costs (CPIH) will have a direct effect on funding levels for many schemes.

5.15 Boards should understand the potential for changed contribution levels and the implications of this. Where appropriate, boards should seek independent advice from relevant professionals to understand their risk exposure.

Fraud

5.16 Where fraud occurs, it is reputationally damaging and can have significant implications for landlords' financial viability and delivery of strategic objectives, disrupting their services and eroding tenant and stakeholder confidence. Fraud also has the potential for wide-reaching indirect impacts upon other organisations and businesses.

5.17 Fraud in the social housing sector involves illegal activities perpetrated by employees, contractors, or third-party vendors with the intent to obtain financial or material benefits unlawfully. This can include embezzlement, bribery and corruption, procurement fraud, false invoicing, money laundering and cyber fraud. Fraud schemes are becoming more sophisticated, making detection more challenging. Landlords are also vulnerable to many types of corporate fraud, including mandate fraud, supplier fraud, finance function fraud, and tenancy fraud. Additionally, due to the current heightened cyber security threat climate and the sector's adoption of more digital solutions, the risk of cyber fraud, such as phishing attacks and data breaches, is rising.

5.18 Boards must ensure that they have robust internal control procedures in place, and seek appropriate professional advice when fraud is identified. Boards should also understand their responsibilities under anti-money laundering legislation. Anti-fraud policies should be regularly reviewed and well communicated, with employees given appropriate training. Boards should also ensure that there are processes in place to enable the detection and countering of instances of tenancy and other fraud in their stock.

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The Regulator of Social Housing regulates registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver and maintain homes of appropriate quality that meet a range of needs.