CCH

# Rent reductions and housing co-ops

**Introduction** - the Confederation of Co-operative Housing has carried out a consultation with our 162 members (most of them Registered Provider co-ops or their service providers) during July 2016 on the potential effects of a 1% rent reduction from 2017 to 2019. The responses received represent about 60 housing co-ops – although most responses have been received from 4 housing co-op service providers responding on behalf of their client co-ops. Information was specifically requested about the effects of rent reductions on the co-ops who lobbied the House of Lords during the passage of the Welfare Reform and Work Act 2016. Two out of the four of those co-ops are amongst those who have responded to the consultation.

**The CCH requests** on behalf of our members that the Government maintain the current exemption from the 1% rent reductions for housing co-ops (ie. effectively enabling co-ops to set their rents within a range from -1% to CPI plus 1%). This request is based on the following points:

- a small number of housing co-ops will experience severe financial difficulties as a result of implementing rent reductions
- long term uncertainty about rent levels (ie. post 2020) is comparatively more damaging to our members as small scale community-led housing organisations than for large housing associations who have more capacity to absorb change
- housing co-ops are by their nature about self-determination and self-reliance, and co-op members being able to set their rents within a range fits in closely with this self-help ethos
- given such a choice, most housing co-op members, because they are tenants, are likely to choose to minimise their rents wherever they can
- with decision-making controlled by tenants and members, the housing co-op sector is fundamentally different from other social housing providers, and it has traditionally set lower rents
- it is probable that there are more people on low incomes in housing co-ops (as opposed to housing benefit recipients) as a result of co-ops providing the stability, motivation and skills development for their members to progress from benefit dependency into employment

- the housing co-op sector is a tiny part of the social housing sector. Requiring our sector to reduce rents will have next to no impact on the national housing benefit bill, whilst it will potentially damage our small scale community-led housing organisations

- nonetheless, the housing co-op sector is the largest part of the UK's community-led housing sector and it would be disappointing for parts of our sector to face problems of viability at a time when work is being done to ensure that the co-operative housing sector broadly makes a significant contribution to building more homes.

## Key issues raised in the consultation:

- most respondents to the consultation indicated that they are likely to be able to find ways to manage 1% rent cuts from 2017 to 2019

- however, our sample included 9 co-ops whose business plans will result in either temporary or permanent deficits, with the latter potentially being forced to cease to operate as independent housing co-ops should they be required to implement 1% rent reductions (details from these co-ops are set out below). 5 of these co-ops had, for historic reasons, had particular viability challenges and rent reductions will make them even more difficult to deal with.

- even amongst those that have indicated that they will be able to manage some have expressed concern that they are able to do so only by stripping back their activities and removing safety margins. In many cases, co-ops will manage by reducing or delaying planned maintenance programmes to the very bare minimum.

Some respondents referred to the following actions being planned to mitigate rent reductions:

- encouraging more co-op volunteers to manage elements of the service to reduce costs to the co-op

- property sales with proceeds invested in the remaining stock

- increasing rents on relets to higher rent levels – challenging in co-ops where a potential consequential us and them divide could prove damaging to the co-op's governance

- refurbishing old offices and meeting rooms and renting them out commercially to raise additional income
- increasing charges for other sources of income that may not have changed significantly for many years, such as laundry tokens or car parking spaces
- comprehensively reviewing service charges (potentially resulting in increases to them)
- trimming overheads

Some of these changes are desirable, but taken together – increasing expectations that co-op members volunteer more whilst having to pay more for reducing services – is potentially a damaging cocktail for co-ops, dependent as they are on their tenants/members for their governance.

- 3 respondents indicated that plans they had for developing new homes have had to be shelved or postponed as a result of the rent cuts and long term uncertainty about rent levels.
- nearly all those who responded indicated that they are particularly concerned about the potential uncertainty regarding rent levels from 2020. Most co-ops have modelled their business plans on the former CPI plus 1% formula post 2020 and it is suggested that many co-ops will cease to be viable if this is not the case. It is harder for small scale community-led co-ops to absorb long term uncertainties in their business plans.
- several respondents pointed out the current year's exemption, where effectively co-ops were able to set rents across a range from -1% through to CPI plus 1% fitted in much more closely with the ethos of self-determination and self-help inherent to housing co-ops and wished for this level of autonomy and independence to continue.
- several pointed to the historically low rents set by housing co-ops – much lower than private rents, but also usually lower than other social housing providers. These historically low rents make it harder for co-ops to find further efficiencies. Some respondents referred to co-op rent setting approaches as "prudent".
- some also referred to comparatively higher levels of housing co-op tenants who are on low incomes (as opposed to being in receipt of housing benefit).

## Co-ops facing difficulties:

Business plan figures sent to us by co-ops facing difficulties are as follows (ie. including rent reductions. NB. some co-ops indicate rent reductions continuing until 2020. This is because some co-ops will have non-standard April to March rent setting years):

### Co-op A

| £000s | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Income | 504 | 499 | 495 | 490 | 505 |
| Expenditure | 496 | 511 | 591 | 607 | 631 |
| Net | 8 | (12) | (96) | (116) | (127) |

### Co-op B

| £000s | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Income | 222 | 220 | 218 | 216 | 222 |
| Expenditure | 195 | 223 | 228 | 244 | 250 |
| Net | 27 | (3) | (10) | (28) | (28) |

**Co-ops C & D** – we have not been supplied figures for Co-ops C & D, but we have been informed that they will be suffering similar problems. They were developed at the same time and under the same funding programme as Co-ops A & B.

### Co-op E

| £000s | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Income | 614 | 609 | 601 | 610 | 612 |
| Expenditure | 494 | 740 | 401 | 898 | 415 |
| Net | 119 | (131) | 199 | (288) | 197 |

This co-op is indicating that it will have some short term cashflow problems as a result of rent reductions not enabling them to put sufficient funds into reserves to cover its planned maintenance problems. Assuming that it will be able to increase rents from 2020, it anticipates maintaining its viability in the long term.

### Co-op F

| £000s | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Income | 216 | 214 | 212 | 210 | 212 |
| Expenditure | 198 | 202 | 206 | 210 | 214 |
| Net | 18 | 12 | 6 | (1) | (3) |

This co-op will accommodate rent reductions in the short term, but will enter viability problems in the long term as a result of rent reductions.

### Co-ops G, H & I

These co-ops did not provide us with detailed figures.  It was reported that one has existing viability issues that will be exacerbated by rent reductions. Another referred to a loss of £4K rental income and this resulting in viability problems for the co-op.  It was reported that the third will be at the margins of viability as a result of rent reductions.