

The largest associations have important natural advantages, but they have to use their advantages to best effect to deliver powerfully for customers, local partners and the government.

In 2005, the Future Shape of the Sector Commission was established to examine the implications for the sector and its main stakeholders of the rapid growth in the size of the largest housing associations (those with more than 25,000 homes).

Report Summary

Report of the Future Shape of the Sector Commission 2006

Growing Up

Questions and challenges to promote successful housing association growth

Report Summary

In 2005, the Future Shape of the Sector Commission was established to examine the implications for the sector and its main stakeholders of the rapid growth in the size of the largest housing associations (those with more than 25,000 homes).

This summary outlines the Commission's main findings and conclusions. It suggests the fast growth of the largest associations will continue through organic growth and mergers and acquisitions. They will need to fundamentally review their internal ways of working and their external relationships to manage this growth successfully, both from a customer service and business perspective, and to maximise their ability to meet the government's housing and social policy objectives.

The full report sets out more than 30 key questions and challenges for the largest associations themselves, for the government and its agencies, for local authorities and local partners, for the National Housing Federation and for other housing associations.

Headline conclusions:

- Less than 20 housing associations own over one third of the housing association sector's stock and control a majority of its financial capacity.
- These associations have important natural advantages – for example their ability to lead and deliver strategic mixed tenure communities, the scale of the social capital they can generate within neighbourhoods, and their ability to provide higher volumes of affordable homes for less public grant – but they have to use their advantages to best effect to deliver powerfully for customers, local partners and the government.
- The largest associations are improving their financial efficiency and cost effectiveness. This must continue in order to generate the surpluses necessary for them to be able to maximise their contribution to achieving the government's social policy objectives. The government must recognise and accept the need and value of surplus generation.
- To continuously improve financial efficiency and cost effectiveness as they grow further, the largest associations will need to simplify their governance and operational structures. These structures will need to adapt and remain dynamic as circumstances change.
- In parallel, the largest associations will need to institute more flexible and dynamic local accountability structures and ways of working. These must focus on the outcomes for customers and on driving up customer satisfaction levels. A wider base of customers must be involved more effectively in service development.

Executive summary

The Commission's report focuses, in particular, on the role the largest housing associations should play in the future; on how their relationships with customers, local partners, central government, developers and other housing associations will evolve; and on how internal governance and operational structures would need to change to ensure continued success. This executive summary shows the main findings and conclusions in each of these three areas. A brief summary of questions and challenges is also included.

Our place in the world

This part of the report examines the potential value of very large housing associations and the effect continued growth will have on their major sectoral relationships, including with the government and regulator.

- The growth of the largest housing associations will continue, fuelled by government policies around maximising production of affordable housing, neighbourhood regeneration and social inclusion, and the desire for efficiency and value for public money.
- Further growth in the largest associations will alter the dynamics of sectoral relationships. Government scrutiny will increase as the value and political risk the largest associations' carry grows. Very large associations will need to invest more, individually and collectively, in conducting a dialogue with government to wield greater influence than they do today.
- Medium, small and specialist housing associations will continue to play a powerful role in delivering services to local communities and diversity of provision will remain a sector strength. Large Scale Voluntary Transfer organisations will achieve increasing sectoral influence as they move past peak debt.
- Partnership working will prove critical to success. The largest associations will use a range of joint ventures, strategic alliances and other close and loose relationships, with both public and private partners, to leverage resources and maximise local benefits for customers.
- To deliver the desired social and economic results, regulation will need to focus more on outcomes – specifically on risk, resident satisfaction and service quality.
- Regulatory barriers to growth are likely to come from a range of other government agencies, such as financial, charity and competition regulators, as well as the housing association regulator itself. Government must take a wide view of the overall burden for housing associations in developing an appropriate regulatory framework for the future.

“To deliver the desired social and economic results, regulation will need to focus more on outcomes – specifically on risk, resident satisfaction and service quality.”

Summary of questions and challenges:

The questions and challenges here call for:

- A redefinition of relationships between the largest housing associations and the government to take account of the associations' growing role and financial power.
- The regulatory and inspection framework to develop in ways that enable the largest associations to maximise their contribution to meeting government social objectives.
- A redefinition of relationships in local areas between the largest associations and those with fewer than 25,000 homes, including specialist associations.
- Medium sized and smaller associations to assess and address the challenges they face as a result of the changing nature of the sector.
- A new focus within the sector on creating more powerful partnerships and ways of collaborating in local areas.

Delivering for customers and local partners

This examines how the 'ground level' relationships with residents, local partners and communities may need to change for the largest associations to deliver what is wanted successfully.

- A critical mass of stock will not be possible in all localities, even for the largest associations. Very large associations will need to harness the increasing power of new technology, develop local management agreements, partnerships and strategic alliances, and regularly examine rationalisation options to deliver consistently high quality customer services locally.
- Senior operational managers will need a high level of autonomy, with the power and responsibility to take major decisions over local services and with the resources at their disposal to implement them.
- The scale of financial and functional support available from the corporate centre should give the largest associations the potential for competitive advantage locally, in terms of the range, quality and consistency of service they can provide.
- Local accountability arrangements are unlikely to stay the same as the very large associations develop, or to be the same in every locality. While local managers will play an expanded role, regional committees will probably struggle to maintain their value. Where accountability structures are failing there must be the flexibility for change.
- Local authorities will remain key stakeholders with a degree of influence over how the largest associations operate locally. However, it is important neither party is dogmatic about local structures. What matters is the outcome for customers. Considerations around office proximity, nomination arrangements and service delivery must be regularly examined in the light of customer satisfaction and should not be set in stone for long periods.
- Improving customer satisfaction levels is fundamental to perceptions of housing association success. Very large associations should use (and, where necessary, expand) their resources, skills and creativity to drive up service quality sufficiently to boost customer satisfaction beyond current levels and beyond what other associations can achieve.
- Resident involvement at the highest level must be maintained, though this may not always mean residents on the main board. Main board responsibilities are likely to become strongly legal and business focused. It will require sector-wide training programmes to develop a wide pool of talented, willing and able resident governors.
- Investing more in resident involvement will bring gains in customer satisfaction. Again, outcomes are more important than structures. The largest associations are likely to move to a more marketing based analysis of services and direct, regular interaction with a much broader base of customers than at present.

“Investing more in resident involvement will bring gains in customer satisfaction. Outcomes are more important than structures.”

Summary of questions and challenges:

The questions and challenges here call for:

- The largest housing associations to actively review their strategies for growth to ensure they maintain and improve levels of service quality and responsiveness in each locality as growth occurs.
- Local authorities and other local partners to recognise the changing nature of the housing association sector and to examine how their own internal policies may need to develop to ensure more dynamic and flexible ways of working.
- More creative and broader resident involvement, and a much stronger focus on outcomes for customers and on customer satisfaction levels in performance monitoring.

Being fit for purpose

This part of the report explores changes to internal governance and operating structures likely to be necessary for the biggest housing associations to maintain and enhance efficiency, control risk and manage their assets to maximum effect.

- Very large associations will find it difficult to operate efficiently and with the customer centre stage if mergers continue to add to structural complexity. The triple demand for improved efficiency, increased housing provision and better customer service pushes associations towards a more streamlined way of functioning.
- At the same time, the largest associations are in the best financial position to drive forward most powerfully and reinvest surpluses to support government programmes and build future capacity. It is important associations retain significant control over surpluses so they are able to manage business risks, as well as create benefits for customers, partners and government.
- Governance structures in the largest associations have become increasingly complex, costly and outdated in many cases. They will need to simplify and remain dynamic as the associations grow further, with fewer functional and geographic boards and committees, to improve efficiency, control, fleetness of foot and real accountability.
- The main boards of very large housing associations will become more strategic and less operational, with greater delegation to officer level. Boards will need to reflect the reality of turnover, legal and functional demands comparing with sizeable PLCs.
- Main board size is likely to shrink to around 8-12 people and the appointment process will become much more rigorous, contractual, skills and remuneration-based. The current offer of parent board representation to secure support for some merger proposals is unsustainable. Members will have to be able to make the right contribution.
- For organisational efficiency, legal entities should be kept to a minimum as the largest associations grow. Branding and legal structures should be kept distinct.
- Organisation-wide 'golden threads' of commitment to customer service, high quality and other corporate objectives and values are necessary. But these can be reconciled with a level of brand and cultural variance locally, if that is what local customers and stakeholders want. Inspectors and regulators need to understand and support this flexibility where it is justified.
- The largest associations should use the scale and skills within their corporate services and specialist functional units to add real value by providing a wider range of cost effective services than others might manage. Very large associations need to combine the corporate with the local more effectively to deliver what the customer wants.
- Continued growth will create a need to power up leadership and management quality. The largest associations will need to find new ways to develop top management talent internally and opportunities for highly skilled senior managers from outside of the sector will increase.
- The relationship between larger size and greater financial efficiency, power and control cannot be taken for granted. Future merger discussions will need to look much harder at identifying, quantifying and setting timescales for financial savings to be delivered. Merging associations should think more about overall group value and less about status retention.
- It is not generally essential for local management units to own assets to operate effectively. Holding all group assets within one place is likely to be the most efficient way for the largest associations to operate.
- The very substantial community development activities of the largest housing associations can be detrimental in terms of 'official', published efficiency ratings. Yet the social capital generated is hugely important to people's lives and central to the government's inclusion agenda. Associations investing very significant sums in neighbourhood sustainability should realise a reputational advantage, rather than a possible disadvantage, as a result of their efforts.
- Increasing diversification and scale will make financial control and risk management a major priority for the largest associations. They are likely to want to exploit the financial muscle of their balance sheets more concertedly in the future to deliver more homes and a wider product base at excellent value for public money. But this has to be achieved without over-exposure to risk. Improved IT systems, separating out core business streams from non-core and better training for operational managers will be essential.

Summary of questions and challenges:

The questions and challenges here call for:

- The largest housing associations to conduct major reviews of their governance structures, including examining the size, composition and role of the main board; the purpose and value of sub-boards and committees; board selection and appraisal procedures; and the role of executives on the board.
- Re-examination of legal and registration structures within the largest housing associations with a view to cost effectiveness and quality of customer service.
- Re-examination of recruitment and retention processes and training programmes for senior managers.
- Much greater rigour in assessing and defining the benefits to customers and the cost-benefit of pursuing merger and acquisition opportunities.
- Substantive reviews of asset holding structures, and financial control and risk management systems within the largest associations.
- Full recognition from government of the value and need for surplus generation and clear strategic decisions within the largest associations around how surpluses can be used to maximum effect.
- Evolution of the system of measuring housing association efficiency by the government, properly recognising the social benefits of neighbourhood sustainability investment by housing associations.

“Governance structures in the largest associations have become increasingly complex, costly and outdated in many cases.”

About the Commission

The Future Shape of the Sector Commission was established by the L&Q Group. Its findings are based on evidence presented to the Commissioners by more than 30 organisations, including large and medium sized housing associations, government bodies, local authorities, trade bodies, and consultants and advisors to the sector.

As far as possible, the consensus view among contributors is presented in the report, supplemented by the Commissioners’ own conclusions, based on the available evidence.

Copies of both the full report and this summary report are available from the L&Q Group and can be seen at www.growing-up.org.uk. The summarised evidence base and further background information is also available on the Growing Up website. Alternatively, contact the Communications Department on **020 8852 9181**.