

Growing Up

Questions and challenges to promote
successful housing association growth

Report of the Future Shape
of the Sector Commission 2006

Contents

Chairman’s Preface	3
<hr/>	
1. Why hold a Commission?	4
<hr/>	
2. Executive Summary	6
<hr/>	
3. Our Place in the World	10
3.1 The political dimension	11
3.2 Maintaining the sector’s diversity	12
3.3 Effective partnership working	13
3.4 Regulating a changing sector	14
<hr/>	
4. Delivering for Customers and Local Partners	16
4.1 Local presence	16
4.2 Local accountability	18
4.3 Understanding the customer	20
<hr/>	
5. Being Fit for Purpose	22
5.1 Getting governance right	22
5.2 Operational structure	25
5.3 Finance and efficiency	27
<hr/>	
Appendices	
<hr/>	
Appendix 1 - List of contributors to the Commission.	30
Appendix 2 - Size comparison between the largest housing associations in France, Holland and England.	31
Appendix 3 - Summary of questions and challenges for different stakeholders – housing associations; central government and its agencies; local authorities and partners; the National Housing Federation.	32

The quotes shown in each of the main sections of text are taken directly from evidence submitted to the Commission by over 30 contributors.

Commission members

Robert Appleyard (Chairman)	Former Group Chairman, L&Q Group
Geoffrey Barnett	Chairman of Barnardo's Former L&Q Governing Board member Former investment banker at Barings
Brian Carroll	Church Commissioner Board member of Shaftesbury HA Recently retired Finance Director, Waitrose (John Lewis Partnership)
Sue Goss	Principal, National and Local Services Development, Office of Public Management
Kevin Ireland	Executive Director, London Housing Foundation Governing Board member, L&Q Group and Chairman of Quadrant Community Investment Committee
Diane Phillips	Governing Board member, L&Q Group and Chairman of L&Q Beacon Retired Senior Civil Servant
Christopher Powell-Smith	Former Board member, Thames Valley HA Former Senior Partner, Cameron McKenna
Wendy Pritchard	Group Solicitor, Berkeley Group Holdings plc Board member, L&Q Beaver Ltd.
Serviced by: Don Wood David Montague Pippa Gatward	Group Chief Executive, L&Q Group Group Finance Director, L&Q Group Graduate Trainee, L&Q Group
Report written and edited by: Simon Graham	Housing Policy & Communications Consultant

This report was sponsored by the L&Q Group.

A summary report has also been produced for wide distribution. Copies of both the full report and 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.

Chairman's preface

There are now nearly 20 housing associations in England each owning and managing over 25,000 homes. The largest associations have over 50,000 homes. Most of this recent leap in scale has come from consolidation – mergers and acquisitions – though there has also been considerable organic growth in recent years.

My own experience, and that of my fellow Commissioners who are involved in housing, is that there is a real difference between managing an organisation of 30,000 homes and managing one of 50,000 homes. In France and Holland, associations of 70,000-100,000 homes already exist. We think that time will come shortly in England too.

There is a responsibility on the very large housing associations to consider with some urgency how we should change the way we operate in this new world. Our homes represent the core of many thousands of people's lives. Our decisions affect their well-being and quality of life.

This Commission is not an attempt to say 'big is beautiful' or 'the future is ours'. Smaller and more specialist housing associations will definitely maintain a key role in the future and the diversity of the sector is a valuable strength. At the same time, we are certainly asking 'How can big be beautiful?' and trying to plot a route to that objective.

The largest associations do have some important natural advantages - their ability to lead and deliver strategic mixed tenure communities, develop more homes with less public grant, and the scale of social capital they can generate within neighbourhoods to name but three - so it is critical for customers, for government and for the sector's future that we capitalise on them.

Part of the answer to this is undoubtedly financial efficiency and an ability to generate reasonably high surpluses through cost effectiveness that we can plough back into communities. We must not be shy about the crucial role surpluses play in helping us to fulfil the government's social policy objectives and the government must not get squeamish about this either. We are also convinced that the efficiency of the largest housing associations is already on an improving trend.

While we do not try to provide definitive answers, we do outline the issues for the largest housing associations in more detail, reach some conclusions, and pose some 'questions and challenges' arising from our discussions.

The majority of our questions are aimed at housing associations themselves, but some are larger issues for government, local authorities, the Housing Corporation and others to ponder too. We are not looking for direct responses, but we hope the report as a whole will stimulate debate and change.

The emphasis throughout is practical rather than academic; a stepping stone towards solutions, so the sector can continue to play as effective and valuable a social role in the future as it has done throughout the last forty years.

I am extremely grateful to the Commissioners and our many contributors for their substantial and telling input throughout our deliberations. I am delighted to have chaired this Commission and I recommend its report to you.

Robert Appleyard

1. Why hold a Commission?

The pace of consolidation in the housing association sector is accelerating. Less than 20 large associations now own over 700,000 homes between them. However, though they own just over one third of the total sector stock, they control a majority of the sector's financial capacity.

The creation of the first housing association in this country to own 100,000 homes is now a distinct possibility. But rapidly increasing size has major implications: externally in terms of relationships with and services to customers and partners, and internally through the need to ensure that governance and operating structures are fit for purpose.

While organic development adds considerable new stock, it is certain that the fastest growth will continue to come from mergers and acquisitions. But the approach to these has changed little over the years. So far the biggest associations have tended to be designed along traditional lines even as they add new members. Yet the challenges and sheer scale of responsibilities associations now face are very different from the past. As the largest associations grow further, there is a danger we may try to face tomorrow's problems using yesterday's structures, methods, technology and mindset. It is unlikely to work.

In 2005 the L&Q Group established the Future Shape of the Sector Commission. Most of the largest housing associations (over 25,000 homes) were already thinking strategically about the future, but this Commission aimed to create a forum for sharing experience and views, and for examining the implications of continued growth in a more concerted way. In particular, the Commission wanted to move the debate on substantially in the following areas:

- Developing governance and operational structures that will be stable and effective and allow very large associations to act as key agents in delivering government housing and social policies.
- Considering how the largest associations can provide better services at lower cost, while managing the sector's complex multi-accountability framework successfully – that is, delivering the best outcomes for customers and local partners.

As the largest associations grow further, there is a danger we may try to face tomorrow's problems using yesterday's structures, methods, technology and mindset.

Why hold a Commission?

As a first step, a brief was sent to every housing association with over 25,000 homes, some associations which had been involved in sizeable mergers in the last two years, some medium-sized associations and a range of other relevant bodies, including the Housing Corporation, the National Housing Federation, the Chartered Institute of Housing, the Audit Commission, the Office of the Deputy Prime Minister (now the Department for Communities and Local Government), a number of local authorities, and selected consumer groups and consultants/advisors to the sector.

The brief outlined the drivers for continued growth in the size of the largest associations and suggested the key issues and dilemmas that these presented. It sought views against a number of questions the Commissioners felt the largest associations would need to address to ensure continued success in the future as they grew.

The preliminary findings from this wide ranging consultation were discussed at a seminar in March 2006, with all consultees invited. The Commissioners then agreed the main topics for further work and this work was completed between April and June 2006. The report was then drafted and amended through further Commission meetings.

The scope of the Commission's working was consciously kept fairly narrow. The intention was to deliberate on the evidence presented by the responses to the brief and at the seminar, to define the questions and challenges for the sector and its partners and to create a positive debate. There are clear areas of the report where more work could usefully be done in the future.

The Commission accepts entirely that the future shape of the sector will include a place for medium, small and specialist associations. The justification for our focus on the largest associations is that this is where most change is likely to take place in the sector for the foreseeable future.

While L&Q has led this process, it should be stated that the final report is an amalgamation of the views of around 30 organisations and individuals. The views expressed should not be seen as L&Q views, but the broad consensus the Commissioners have found. L&Q is midwife rather than parent.

Housing associations play a unique role in neighbourhoods and for government, operating between the private and public sectors and delivering broad social and economic change. As the biggest associations grow, there is a strong desire to retain the ethos of a powerful social purpose with a high degree of economic competence. To do so in an increasingly demanding operating environment requires long and careful consideration. The Commission is a first step along that path.

2. Executive Summary

Our place in the world

This section 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. (Section 3 – introduction)
- 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. (Section 3.1)
- 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. (3.2)
- 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. (3.3)
- To deliver the desired social and economic results, regulation will need to focus more on outcomes – specifically on risk, resident satisfaction and service quality. (3.4)
- 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. (3.4)

Executive Summary

Delivering for customers and local partners

This section 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. (4.1)
- 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. (4.1)
- 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. (4.1)
- 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. (4.2)
- 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 examined and discussed in the light of customer satisfaction and should not be set in stone for long periods. (4.2)
- 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. (4.3)
- 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. (4.3)
- 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. (4.3)

Executive Summary

Being fit for purpose

This section 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. (Section 5 – introduction)
- 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. (5 – introduction)
- Governance structures in the largest associations have become increasingly complex, costly and outdated in many cases. They will need to simplify as the associations grow further, with fewer boards and committees, to improve efficiency, control, fleetness of foot and real accountability. (5.1)
- 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. (5.1)
- 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. (5.1)
- For organisational efficiency, legal entities should be kept to a minimum as the largest associations grow. Branding and legal structures should be kept distinct. (5.2)
- Organisation-wide 'golden threads' of commitment to customer service goals, high quality service 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. (5.2)

Executive Summary

- 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. (5.2)
- 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. (5.2)
- 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. (5.3)
- 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. (5.3)
- 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 sits well with 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. (5.3)
- 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. (5.3)

3. Our Place in the World

The major housing associations have continued to grow in size for decades and instances of de-merger in the sector are extremely rare. Moreover, the pressures to expand in size are greater now than at any other time in the sector's history. It seems inevitable, in the existing political, regulatory and financial climate at least, that the largest housing associations are here to stay and will grow significantly bigger yet.

Organisational growth has been fuelled mainly by government policy. Serial changes in the public grant framework for associations over many years, such as the introduction of Housing Association Grant, the development of private financing and the new investment partnering regime (including grant to private developers) have been one catalyst.

Social and economic priorities have been another. The drive to increase housing supply is pushing associations to maximise production of affordable housing as well as widen their products and markets. The neighbourhood agenda of regeneration and social inclusion also demands very substantial capacity and skills to deliver highly complex physical changes alongside wide ranging, multi-agency community development initiatives. Only the largest associations are capable of managing all of these tasks together.

The efficient management of social housing is a third driver for growth. The Housing Corporation, as the sector regulator, has encouraged and occasionally forced mergers to protect the interests of residents and the financial integrity of the sector. Now, the government's efficiency agenda aims to create greater value for money

by pushing up customer service standards and reducing procurement costs across the board year on year while maintaining pressure on real rises in rental income. Again, it is the biggest associations which are most likely to be able to keep on achieving efficiency gains into the future by creating ongoing economies of scale.

At the same time, medium, small and specialist housing associations will continue to play a very important role. There are well over 1,000 housing associations managing less than 5,000 homes each, but which between them own over 700,000 homes (around one third of the sector stock). Another 90 associations own 5,000-25,000 homes each and around 600,000 homes between them. Many of these organisations have strengths which some of the very largest housing associations may not, such as intense local knowledge of an area, a particular niche in the market or valuable historic assets.

The Commission's focus on size is not intended to suggest a monopoly of strengths for large associations. In very many places success will involve working closely with other housing associations, developers and partners at a local level to harness different abilities, knowledge and skills.

With operating conditions favouring continued expansion among the large associations, however, it makes sense to consider how a changing dynamic might alter relationships between the biggest associations and government, the sector regulator, lenders, local authorities, other associations and our trade body.

“The largest associations will become more exposed to direct governmental pressure. Up until now associations have been able to steer clear of this interference. It is something many associations will be unprepared for. A new set of relationships between government and associations will be needed.”

Our Place in the World

3.1 The political dimension

The growth of very large housing associations will change relationships at all levels. At the highest level the largest associations will need to develop, but will also be forced to have, a changed dynamic with government.

Government scrutiny

The attitude of government is likely to be driven by politicians' views of the results being achieved by these associations. If the results (or perception of results) in terms of more homes, delivering regeneration and social inclusion, greater efficiency, higher resident satisfaction, etc. are good, government will take a positive view of what very large associations are bringing to society and to the economy. But the converse is also true.

Either way around, it is inevitable that a dominant few housing associations will attract much greater scrutiny from parliament and ministers than has been the case to date. As the size of the biggest housing associations grows, so the potential for greater government intervention and the political risk for associations grows too.

Political influence and representation

From the other angle, the largest associations will wield more influence with government than they do at the moment. This will command different arrangements for representation. Existing large associations are already developing their relationships with ministers and senior civil servants and this is bound to continue and increase.

The National Housing Federation will continue to have a role across the whole sector, taking a holistic view, identifying common interests and representing those interests. But it will also need to move much further in its ability to positively represent different segments of its membership.

There was a high degree of consensus that the largest associations will need to invest more in and take more responsibility for their own representation, probably operating both within the NHF and in their own right. The relationship may well mirror arrangements agreed between more dominant partners and their trade bodies in other industries. This will require improved public affairs, marketing and communications strategies and capacity within the largest associations.

Questions and challenges

- How should the largest housing associations and the NHF define their relationship, and their relationships with government, for the future? What steps must be taken, individually and collectively, to ensure a changed dynamic with government can be managed effectively and the sector provided with a policy framework which allows it to maximise benefit?
- How can government best redefine its relationship with the sector, taking into account the potential role and power of larger associations and the need for greater trust and independence for the sector to maximise its contribution to national social policy goals?

“Individual or groups of large housing associations must take on more responsibility for their own representation.”

Our Place in the World

3.2 Maintaining the sector's diversity

Bigger is not automatically better or cheaper. Achieving economies of scale and efficiencies and being responsive to customer and partner needs on the ground can be as much about leadership and management capability as about size. A diversity of provision has long been a strength of the sector and should remain so in the future.

A place for medium, small and specialist associations

Medium, small and specialist housing associations will continue to play a powerful role in delivering services to local communities and, through consortia arrangements, in providing new homes. Many associations which have no desire to grow large enjoy huge respect and loyalty locally from partners and residents, and have sufficient unencumbered assets to allow them to continue to make a major contribution in the future. They are also often great breeding grounds for talent, allowing capable people opportunities to gain bigger responsibilities earlier than they might be able to in large organisations, and effectively growing much of their own talent.

Even for those which do feel there could be benefits from joining a much larger association, the cost-benefit ratio of any merger may prove difficult to get right and this could hamper sector consolidation beyond a certain point.

As Large Scale Voluntary Transfer associations begin to mature and move past their peak debt, they too will play an increasing role in the future shape of the sector. Many LSVTs will be financially powerful, while remaining strongly geographically focused. They will have the ability to deliver significant gains for customers and partners, the more so if they build alliances with each other or join other large, powerful and influential organisations within the sector.

Public and private sector involvement

Private developers have also been invited to get fully involved in delivering affordable housing. Political will and the developers' own business planning suggest their presence is likely to be more long lasting than in the past. Arms-Length Management Organisations and local councils are examining the possibility of applying for Social Housing Grant as well, with encouragement from the government.

Despite the significant advantages of combining major regeneration skills with sustained community development initiatives that the largest associations have, and their potential for greater and longer term efficiencies, the housing and communities world is not going to belong solely to the very big traditional housing associations.

While the focus of this Commission lies with the largest housing associations, it has become clear that there is an equal challenge for other associations, for housebuilders and others, to examine for themselves how they can maximise their social and economic contribution for the future and what changes this will require of them.

Questions and challenges

- **Are medium, small and specialist associations (and other organisations) examining the implications of likely changes within the structure of the housing association sector and defining the future challenges and appropriate responses for their own organisations?**
- **How can medium, small and specialist housing associations work best with large associations to deliver enhanced benefits for local people? What demands should smaller housing associations be placing on the biggest?**

“Within the two or three boroughs where we work we are hugely influential. We are not too small to have influence. It is perfectly possible for small and medium-sized associations to be efficient and offer good value for money.”

Our Place in the World

3.3 Effective partnership working

It is plain, then, that harnessing some of the benefits of size will depend on how well the largest associations work with other organisations on the ground.

Even a 100,000 home association will only have a serious concentration of stock in a relatively few local areas. Delivering for customers and partners to maximum effect locally will require excellent local management and an enabling structure, but also the ability to form relevant and powerful partnerships.

High quality partnerships already exist in many localities between larger and smaller or more specialist associations, between two or more large associations and sometimes developers, and between housing associations and many other agencies. But the advent of very large associations should create a new impetus and a much greater potential in local partnership working to add extra value for customers and stakeholders.

There should be possibilities, for example, to leverage more finance, skills and knowledge and to work in a more regular and in-depth way with a wider group of local landlords, developers and agencies in health, education, crime and anti-social behaviour, and employment. This ought to bring new benefits in sustaining regeneration and community development.

In the commercial world, companies are increasingly operating using joint ventures, strategic alliances and a range of other partnerships to achieve specific goals. The prospect is that very large housing associations will also use a plethora of close and loose relationships to maximise local benefits for customers, local authorities and other local partners.

Some of the issues involved in working with others are also examined in section 4 of the report on local presence and responsiveness.

Questions and challenges

- **Has the association taken steps to project itself to small and medium associations, developers and other agencies working in the same localities, searching for ways to collaborate, offer services, and avoid actions which may cause them difficulty?**
- **Has the association defined its responsibilities to smaller associations working in each area?**
- **Does the association share knowledge and experiences with other associations to raise standards for itself and others within the sector?**

“There are some activities which can be undertaken by very large associations which add real value to our work. The largest associations have the capacity to develop mixed tenure, mixed economy estates in a way which is beyond the scope of smaller organisations.”

Our Place in the World

3.4 Regulating a changing sector

The appearance of very large associations will have major implications for regulation of the sector. The government's push for greater efficiency and for increased housing supply, including giving public grant direct to developers, is already having an impact on the regulatory framework.

The recent review of regulation by Sir Les Elton has moved the debate on and the review of agencies involved in delivering sustainable communities is an opportunity to take forward regulatory change and look to the future.

Direction of travel

As things stand, the Housing Corporation's 'direction of travel' on regulation is to step back more from day to day engagement with associations and place more emphasis on an association's internal controls and approach to risk and on independent third party assessments, often obtained by the associations themselves. The Corporation also sees itself having a smaller number of relationship managers but stronger backroom analysis.

These proposals square with what very large associations will want to see and are welcome. The largest associations are already growing their competence in dealing with risk, including paying for independent self-assessment and creating stronger internal audit processes. A high level of independence of action will be key to delivering all of the benefits required of associations and which they want to achieve.

Potential regulatory barriers

The Corporation's stock rationalisation agenda and its role in the efficiency drive within the sector has led to some encouragement of consolidation up to now, though overall it would declare a neutral stance.

Future regulatory barriers to further growth in already large associations could well come from the Financial Services Authority, the Charity Commission, HM Revenue & Customs, the pensions regulator or the Office of Fair Trading as well as from traditional sources. Tax, financial propriety and competition factors in some areas could all become issues and, for some, already are. Legal and regulatory factors may endanger the largest associations' ability to grow and deliver all that is wanted from them and government must act to ensure this does not happen.

Outcomes based regulation

It is inevitable that for the largest housing associations to maximise social and economic benefits they will have to run higher risks. Regulatory neutrality on housing association growth and consolidation is only an option while those benefits continue to accrue and the risks remain unrealised. Ensuring that happens means regulation will have to evolve to become both simpler and smarter.

The future for regulation in a context of very large housing associations is likely to include a more tiered, outcomes based approach. There will be a narrower focus on risk as well as association size, more emphasis on resident satisfaction and service quality, and a need for very high calibre regulator staff with the expertise necessary to provide the comfort the government, lenders and others will continue to look for.

“Unfortunately, we work in a regulatory climate where local flexibility and the freedom to interpret policy against a local context is labelled inconsistent and therefore inequitable.”

Our Place in the World

There is also a question around whether the regulator should continue to examine each association within a group structure separately. In terms of efficiency, for both the associations and the public purse, there could be benefits either for the regulator to check only the parent or perhaps for associations to structure themselves in a way where only the parent remains a registered body.

Inspecting the largest association

To date, the Audit Commission has been able to adopt a broadly similar approach to inspection irrespective of housing association size. This may prove more difficult to maintain as the largest associations grow significantly and begin to alter the dynamics of their relationships with both customers and local partners (see section 4).

The basis on which very large associations operate could well become too different for a single inspection framework to analyse services fairly across the board. A more outcomes based framework may be necessary.

As with regulation, a uniform approach could undermine the flexibility associations sometimes require to deliver the type of service the customer wants, with a consequent impact on the key issue of service satisfaction levels. The largest housing associations must get to a position where their customer service levels are sufficiently good that the sector inspectors can focus on other areas.

Questions and challenges

- **Is the government taking into account the potential for much larger housing associations in considering the future structure of sector regulation, including assessing and reviewing current tax, financial propriety and competition rules and their growing impact on associations?**
- **Have association boards considered how regulation will need to be managed within their organisations as they grow and made their views known to the government?**
- **Has the Audit Commission considered the likelihood of very large housing associations emerging and the implications this might have on the validity of the current inspection framework?**

“Regulatory change will need to reflect the fact that the business competence of very large housing associations is changing and they are becoming very significant in their own right.”

4. Delivering for Customers and Local Partners

If very large housing associations are to build and maintain a place in society they will have to show they can deliver cost effectively for their customers and their local partners to a level that others cannot. This will be their collective selling point.

Murmurs of existing large associations being 'out of touch', becoming bureaucratic or being in danger of repeating the mistakes of the biggest old municipal housing authorities can already be heard.

While the validity of many of those murmurs is open to question, the evidence so far on comparative customer satisfaction levels between the largest and smaller associations is equivocal. Though high customer satisfaction ratings are only one element driving operational scale, they are fundamental. The biggest associations will not be able to claim real success without delivering unequivocal gains here.

Sheer scale has some fairly clear benefits in being able to drive development volumes and deliver the larger and more complex regeneration projects (including developing social capital locally), but it also has the potential to be a disadvantage in delivering for existing customers at ground level.

The largest associations will therefore need to think long, hard and regularly about their structures and systems for maintaining a strong local presence wherever they work, about being locally accountable and about making sure residents are involved and heard at all levels of the organisation and have an impact in improving services. Getting these things right should allow the largest associations to deliver more and better and so add extra value in localities.

4.1 Local presence

Very large housing associations will have a critical mass of stock in a number of areas, but by no means everywhere they operate. Yet they must find ways of being able to provide local responsiveness to customers and partners. This is recognised as crucial to the delivery of high quality services and achieving high levels of resident satisfaction. Local focus must not be lost.

Is critical mass important?

Critical mass clearly eases this dilemma in that it provides an obvious business basis for local management offices, relatively high numbers of local staff and an opportunity to have high calibre staff operating day to day within the locality, able to nurture and influence the local networks which will help drive service provision.

At the same time, this was a question where the Commission found considerable disparity of views. If services are working well, stock condition good and resident satisfaction high, the scale of local presence required to really deliver what is wanted may not need to be so intense.

Increasingly, there are other ways of managing a service well which do not demand so heavy a concentration of local resources and which can improve cost efficiency. Telephone and internet technology offer the ability to manage many housing management issues remotely and this ability will grow in the future.

The largest associations might also overcome the need for a big local presence by using management agreements with local associations, partnership working with other associations to create a joint critical mass, through strategic alliances with specialist housing associations or by working towards further local stock rationalisation and consolidation between local associations. Or by using a combination of these.

“The basic parameter has to be to operate at a level that ensures the regular presence of staff sufficiently senior to form and nourish the necessary local networks.”

Delivering for Customers and Local Partners

Local arrangements and structures are going to be influenced by the type of customers being served, the nature of relationships with the major local stakeholders and the range of service and community development required to enable local neighbourhoods to survive and thrive.

The general view was that it is impossible to be prescriptive about what arrangements will work best in different localities for different associations. The key is ensuring that whatever arrangements are in place enable the associations to serve both the customer and local partners well, including an ability to keep on driving up the quality of service provision.

Local networks and local managers

While a lack of critical mass may not be conclusive at the very local level, it does seem crucial that critical mass is achieved at a sub-regional or at least a regional level. The biggest associations will have to operate in a way that allows a regular presence on the ground of staff senior enough to form and nurture the necessary local networks.

These senior operational managers will need a high level of autonomy. They need the power and responsibility to be able to take major decisions over local services and the resources at their disposal to be able to implement them. Very large associations must retain the ability to operate flexibly, responsively and quickly at a local level. The scale of financial and functional support available from the corporate centre ought to give the largest associations the potential for competitive advantage locally, in terms of the range, quality and consistency of service they can provide.

Questions and challenges

- Does the association have a clear strategic focus combined with the capacity for responding to local needs?
- Has the association addressed the issue of critical mass in housing stock terms? Is there a level of concentration below which a good standard of service cannot be delivered? Is there a stock density above which a different type of service needs to be offered?
- Does the association have a strategy for growth which will allow it to assess and improve local responsiveness in the areas where it operates?

“The key to high quality services is to give control over local services to locality managers who have real power and responsibility.”

Delivering for Customers and Local Partners

4.2 Local accountability

There is an obvious worry as the large associations grow larger that they become more remote and less accountable. Consequently, developing or maintaining genuine local accountability will be an essential part of ensuring that improved services allied to local priorities are delivered.

Monitoring quality

In particular, in areas where the association may not have critical mass, the mechanisms for measuring and monitoring the quality of local services and their compatibility with local customer and partner goals become key.

Local accountability arrangements are unlikely to stay the same as the very large associations develop. As section 5 of the report notes, the prevalent view among today's large housing associations is that regional committee structures may not be the way forward for local governance. As far as real local accountability is concerned, there is a feeling that regional committees can flatter to deceive. Local operational managers may need to play an expanded role in creating and delivering appropriate accountability mechanisms.

It is important that neither associations nor local partners are dogmatic about accountability structures. What is important is the outcome for the customer. The value of local arrangements will have to be regularly re-assessed and, where they no longer contribute effectively, changed.

Building and maintaining relationships

The association's own framework is only one part of this equation. Relationships with local authorities will need to evolve too. Local authorities will remain key stakeholders with a degree of influence over how very large associations operate at local level.

But the growth of ALMOs, continued stock transfer, Local Area Agreements, more partnership working with PCTs and the NHS, the development of sub-regional working and the evolution of regional governmental arrangements are all going to change the working context for housing associations and will have to be factored into the decisions associations make.

The relationship with each local authority is also bound to be influenced by the volume of stock the association manages there, the relative value the association places on its engagement in different localities, and the degree of local presence. Local accountability cannot mean the same everywhere.

Empowered regional or local managers will play a key role in making sure the biggest associations operate in a way consistent with local strategic priorities, but also consistent with the association's view of its place in that locality. The relationship with local authorities has to reflect the association's business considerations, not just the local authority's view.

“Regional committees do not tend to secure a local dimension to service delivery, image or new business. They cannot any longer be linked to the group board. An alternative is to develop more customer focused forums.”

Delivering for Customers and Local Partners

As new ways of working well locally become apparent, how local accountability is measured will also need to change. Decisions around office proximity, nomination arrangements and other service delivery issues will need to reflect customer satisfaction results. Partnerships should be more than just contractual, with an eye to the need for future flexibility to deliver desired outcomes. The critical point is to maintain a constant and honest dialogue and to recognise that accountability arrangements may need to adapt.

Questions and challenges

- Are there adequate measures in place for seeing the association from the perspective of its major stakeholders, for conducting a dialogue and for responding to their requirements?
- Have local authorities and other local partners given consideration to what a very large association might deliver for them and how local accountability and service decisions may need to change? Have local authorities considered how their own policies may need to change to take account of the advent of much bigger associations?

“Relationships with local authorities need to develop in a much more businesslike fashion than at present and this will require significant changes.”

Delivering for Customers and Local Partners

4.3 Understanding the customer

Customer satisfaction is a litmus test for housing associations whatever their size. So far, scale has not made a significant difference to customer satisfaction ratings. But very large associations ought to have the resources, skills and creativity available to drive up service quality sufficiently to boost customer satisfaction levels.

Resident involvement is going to remain an absolutely integral part of understanding customers and achieving higher satisfaction. The question is how residents can best be involved to produce the necessary gains in satisfaction with the service.

The government has made clear that it expects residents to be represented at board level within associations. There was a clear consensus among contributors to the Commission that this is absolutely right. However, it is important that government is not over-prescriptive about the form this should take.

Different associations must have the freedom to manage resident representation in the best way for their individual circumstances. As both this section and section 5 show, the pressures and responsibilities for housing association boards are going to increase markedly.

Board level resident representation

In section 5, the argument is made for smaller, more strategic boards with non-executives operating in a way not dissimilar to their counterparts in larger private companies. The largest associations will need to square this with ensuring the resident perspective remains heard at board level.

The legal responsibilities of the board will increase as large associations grow and much of what the board considers may seem tangential to how the service operates day to day on the ground. Maintaining resident involvement at the highest level within the governance structure is likely to require substantial (probably sector-wide) training programmes to develop a pool of resident governors willing and able to take on the role.

An alternative might be to task an individual non-executive with representing the resident view to the board, co-ordinating the relationship and spending considerable time working with residents to ensure their views are represented faithfully; getting the best for the customer within the overall context of the board's responsibilities.

Or it may prove more fruitful to develop a parallel process, with residents, staff and one or more board members interacting at different levels to manage how customer views are represented at board level and acting, for example, as a policy sounding board.

Resident involvement options

Key within whatever formalised structures are agreed is that representation within the governance structure is not seen as a proxy for effective resident involvement. It is just one aspect of involvement. Associations should not be criticised simply for choosing one method of formally involving customers over another. What counts is what works. The outcome is more important than the structure.

There was a strong consensus that investing more in resident involvement will bring gains in customer satisfaction. The largest associations will need to widen and deepen opportunities for customer views to be gathered and absorbed into policies and services.

“On too many occasions board membership is used as a proxy for effective resident involvement, when in fact it is only one aspect of involvement.”

Delivering for Customers and Local Partners

Some of the largest private sector companies have shown that formalised structural involvement is not essential to delivering excellent customer service. Very large associations may need to move to a more marketing based analysis of services, with much more regular interaction across a broader base of customers, including increasing use of customer research, weighting performance management to take account of customer feedback, and so on.

For very large associations, resident involvement will take a wide variety of forms, with associations using a menu of options and finding new ways to involve and understand the perspectives of far more customers than at present. What will then be critical is making sure the results cascade into meaningful actions on the ground.

Questions and challenges

- **Is the association being creative in developing resident involvement and looking beyond the sector for good practice in understanding the customer?**
- **How has the link between resident involvement, service improvement and customer satisfaction been established and proved within the association's internal monitoring arrangements?**
- **How is the board actively involved in driving customer satisfaction improvements and understanding customer views?**

“Traditional representative forms of resident involvement are simply inefficient and insufficient. We need a marketing based analysis of our services; much more regular interaction with customers on a broader base, not just relying on small numbers of residents involved in governance processes.”

5. Being Fit for Purpose

As section 4 implied, delivering what customers and local partners want depends partly on how associations organise themselves internally. As housing associations have grown, the tendency has been for them to become more complex organisations.

Looking forward, it is hard to see how very large associations will be able 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.

Very large associations should have an advantage in driving the back office systems support and development which can help achieve innovation, better service delivery and monitoring, strong risk management and organisational resilience. They should also be in a better position to attract the high quality board members and staff across the wide range of disciplines they need to deliver a growing portfolio of products and services. And greater financial power really should mean an ability to do more to meet housing and community needs and fulfil government's social objectives. But associations will only get the result on the ground if the operating structure allows it to happen.

As associations grow, they will need to keep their internal arrangements under review. Governance and operational structures will need to be dynamic and adaptable to serve changing businesses. At the same time, there is probably a need for a new reality to develop in merger discussions, with more plainly defined aims and objectives and less space for vested interests.

Together with this, the government and its agencies will need to assist simplification of structures with rule changes that promote efficient working and build cash reserves. Housing association surplus generation leads to greater social results – more affordable homes and greater investment in social capital.

The government needs to be unequivocal in its support for the largest associations, because these are the associations with the financial capacity to drive forward most powerfully to deliver and support government programmes by reinvesting substantial surpluses. It is also important that associations retain substantial control over surpluses so they are able to manage business risks, as well as create benefits for customers, partners and government.

5.1 Getting governance right

As organisations grow, governance structures need to remain dynamic to continue serving the business well. There is a sense already in the largest associations that present governance arrangements are too linked to their past and have yet to catch up with the dramatically different operating conditions associations are working with today.

The advent of associations possibly twice the size of today's biggest is bound to exacerbate this problem and stretch the status quo to breaking point. Suggesting how governance might need to change for a future very large association was, consequently, one of the top priorities for the Commission. The Good Governance Standard for Public Services developed by Sir Alan Langland's independent commission in 2004 offers an excellent reference point in this regard.

Role of the board

There was widespread agreement that the boards of the largest housing associations will become more strategic and less operational. The biggest associations will be comparable in turnover to sizeable PLCs and be operating with at least a similar degree of complexity and often more, because of associations' multi-faceted accountability structures. Boards will have to reflect that reality.

The focus of the board will be on running the business, providing strategic direction and monitoring performance in line with the association's vision and objectives. There are question marks over how this can be managed if the board is expected to retain a direct role in deciding complaints, appeals and other 'lesser' regulatory and operational functions.

“The sector must move from a position of introspection and historic precedent to one where it combines social enterprise with corporate and governance structures appropriate to the economic and commercial business realities it faces.”

Being Fit for Purpose

Very clear accountability between the board and the executive team will be needed, but more tasks will have to be delegated to officer level if the board is to be able to carry out its main functions successfully. The board will continue to oversee delegated issues through risk management and performance monitoring. The executive team will need the skills to manage delegated responsibilities. As the largest associations grow and become more complex, the company secretary role, for example, will also have to evolve.

What type of board?

The legal and functional demands on board members of very large associations are, again, likely to be similar to those experienced by their PLC counterparts. It is asking a vast amount of volunteers to take on these responsibilities.

The general expectation is that board membership will need to evolve broadly along PLC lines, with paid non-executives, chosen specifically for their skills and experience, offering high level strategic direction and having the personal authority to drive change where this is required. The size of the board in many large associations is likely to shrink.

The appointment process should become much more rigorous. While some associations have already gone down the payment route, this has not always been accompanied by a major change in expectations of the board member. The relationship will need to become more clearly contractual. Payment should set free changes in selection and appraisal.

High quality, paid non-executives can expect in the future to be selected using more robust assessments and for a fixed term. The use of search consultants to attract the required skills could become common. Board members will be appraised more formally, trained more comprehensively and their performance properly scrutinised. Perceived non-performance will be tackled far more assiduously than at present in most associations.

As with a PLC, executives will be board members, though within housing associations non-executives will remain in the majority. There was no universal view as to how far executive representation might stretch, but it will certainly include the chief executive and possibly the finance director.

Representation

The Commission found some variation of view on the issue of representation. The majority view was that it would be hard for new style boards to operate in a truly strategic way if they are required to be representative of subsidiary organisations in their make up. Main boards will probably consist of no more than around 8-12 people to maximise their effectiveness.

If the board is going to operate to maximum impact in running the association, then it will need to remain fairly simply constituted and avoid the potential for 'special interest groups' to use board meetings to advance their case. The board has to work with the interest of the whole organisation to the fore.

It is perfectly possible for subsidiary interests and views to be represented within this kind of structure. Main board members could sit on subsidiary boards or committees and hold a brief to ensure those interests are properly taken into account in group level decisions.

There was some feeling that so far board representation has been used as part of the process of successfully managing consolidation within the sector, but that a new dynamic of much larger associations is likely to make this unsustainable. Board membership cannot be an exercise in vanity; the role is becoming far too important for that. Board members will have to be able to make the right contribution.

The appropriateness of having individual local authorities represented at main board level was a common theme of contributors. There must be a question mark over whether a local councillor representing the interests (and voters) of one local authority should have a place on the main board of an organisation which might be active in over 150 council areas. The person concerned would have to bring other specific and strong competencies with them to merit inclusion.

“The strategic board of a very large housing association cannot afford to be representative. It is unsustainable for groups to grow by offering each subsidiary a sense of influence through a place on the main board.”

Being Fit for Purpose

Linked to this is the question of how a very large association should weigh at board level the twin needs of reflecting the communities it serves and providing a specific set of skills and competencies. Finding high quality board members who reflect gender and ethnicity across the areas where the association works is perfectly feasible and should be pursued.

As is clear in section 4, the Commission regards it as essential to retain the resident and ground level perspective at strategic board level. But having a customer or local partner representative actually on the main board may not always be the best way of achieving it. This is an area where more work needs to be done to understand the most effective way forward.

Governance structures

The creation of group structures in the housing association world (with mergers often providing the catalyst) has led to increasingly labyrinthine governance structures. A few of the biggest associations number more than 20 different legal entities under the group umbrella in large federal structures.

The largest associations are already questioning not only the efficiency of these structures, but how well they contribute to real accountability at local level. The costs of servicing an array of subsidiary boards, and functional and regional committees are high. Section 4 indicates the general view that the very large associations of the future will have to find more effective ways of being responsive and accountable locally, including an enhanced role for local managers.

To be effective, the most sizeable associations will need relatively simple governance structures. In many cases, this will mean fewer committees and boards, whether functional or geographical. This is possible given a context of greater local empowerment, strong support from specialist units at the centre and the emergence of more influential customer service forums. However, greater delegation to officers will require strong accountability mechanisms, clear to both officers and board members.

“The reality is that very large associations are significant plc-sized organisations and need to be run that way. Payment will become inevitable, along with formal terms of appointment.”

As the largest housing associations increase further in size and scope, the main board will probably need to meet more frequently, perhaps as regularly as monthly compared to the more usual bi-monthly or quarterly meetings now.

As the biggest associations grow, the place and value of Industrial & Provident style shareholding looks precarious. While the shareholders’ role lies in guarding social purpose, very few are actually stakeholders of the association. Non-executive board members, with a clear remit, would have a specific role in protecting the social purpose of a very large association. In these circumstances, and with the radically different shape the sector has already taken since the 1960s and 70s, there is substantial doubt about what I&P shareholders will be able to contribute in the future.

Questions and challenges

- **Has the association’s board considered the Langland Commission’s Good Governance Standard in reviewing its governance arrangements?**
- **Do the association’s governance arrangements encourage cost effectiveness, high quality services and increased local connectivity? Do subsidiary boards and committees add real value?**
- **Is the size, composition and role of the board right, given the governance issues that the move to very large associations is presenting?**
- **Have executive board members’ executive roles and responsibilities been adapted to allow them to perform their expanded board duties effectively and has the association’s control framework been revised to take account of any additional possible risks this could entail?**
- **Are the selection, appraisal and other terms of board membership adequate to create an effective accountability framework?**

Being Fit for Purpose

5.2 Operational structure

The rationale for simpler governance structures holds good for operational structures. The basis for consolidation within the sector has not always lent itself to operating structures that make it easy to deliver consistent high quality services across the organisation or to establish a certain culture and identity. Organisational efficiency is harder to achieve with several boards and several management teams.

At its worst, the inefficiencies and lack of quality this creates may mean the association fails to deliver the benefits, for example in regeneration or community development and engagement, on which a merger was premised. The ability of a failing association to influence the future shape of its rescuer as part of the deal is one example of where the sector has yet to reach the right answer on operational issues.

If the very large associations of the future are to really deliver what is wanted by customers and partners over the long term, careful attention will need to be paid to developing the most suitable operational structure.

Branding and culture

Cost and administrative efficiency are likely to drive the largest housing associations towards having the lowest number of legal entities compatible with delivering what customers and stakeholders want from them. In the future, the creation or removal of a legal entity within the structure will tend to be for financial or legal rather than cultural reasons. The legal organisation of an association will have much less of an impact on branding and culture than tends to happen at present. Legal structure and branding decisions should be distinct.

Instead, branding and cultural values will be used more powerfully by very large associations for business, performance and service delivery purposes. Commercial industries have recognised the power of brands for many years. People make associations and allegiances with brands they feel are right for them. There are good examples of both companies making a unitary brand work and others using endorsed (or sub) brands to equally positive effect.

The key is what a brand delivers. A strong corporate brand can encourage a sense of internal cohesion and common identity and may assist buying power. But local brands (depending on the history) may be better at creating or maintaining customer loyalty and support.

The essential point is for very large associations to avoid falling into the trap of allowing multiple brands to mean legal complexity, swollen overheads and a lack of corporate consistency permeating the organisation. Organisation-wide 'golden threads' of commitment to customer service goals, high quality service and other corporate objectives and values are necessary. But this can be reconciled with a certain level of cultural variance locally, if that is what local customers and stakeholders want.

Some flexibility to interpret corporate policy and values locally may have enormous merit in producing higher customer satisfaction. As shown in section 4, senior local managers in very large associations will need autonomy if the service is not to become too remote from the customer. Service variation to meet local circumstances is an issue which the sector regulators and inspectors will have to get more in tune with in the future.

Devolution or central control?

One of the toughest tests of operational structure within the largest associations will be working through what should be done centrally and what should be done more locally. The equation is going to vary from association to association and is primarily pragmatic. The main drivers will be the quality of service delivery and efficiency and effectiveness around cost.

The arguments for strong local management with local discretion have already been made. One of the economies of scale very large associations ought to be able to deliver, though, is to use corporate services and specialist functions to provide a wider range of cost effective services than smaller associations might manage. This is where the biggest associations should be able to add real value.

Some tasks will be better operated across the whole organisation. These will include not just the normal corporate services (HR, communication, IT, finance, etc.), but also certain operational roles, from the more simple (eg. call answering) to the more complex, such as regeneration, community development and financial inclusion. The latter are services requiring relatively few highly skilled staff. Their workloads may ebb and flow within different parts of the organisation and it would be difficult to deliver these services cost effectively with staff placed in each locality.

Being Fit for Purpose

Again, there are good examples within the commercial sector of companies which manage to combine the corporate and the local exceptionally well to produce what the customer wants. These are the examples the largest housing associations will need to examine to find the right balance for their own organisation.

The right people

There was a broad consensus that to manage the anticipated growth in scale well, the largest housing associations will need to power up leadership and management quality. This will demand greater investment in management training and a re-assessment of how they recruit.

The governance and operational structures likely to emerge mean that the capabilities the biggest housing associations will be looking for among their senior executives will be more akin to the generic management and leadership skills of very large organisations in other business sectors than has been the case in the housing association world to date.

The housing association sector is going to have to find new ways of growing its own top management talent and training sufficient high quality leaders, as well as looking outside the sector more often for the necessary skills.

Offering bigger responsibilities to people at earlier points in their careers together with heavier investment in training will help, but opportunities to recruit the right people from outside of the association sector are also bound to grow.

While 'outsiders' have sometimes struggled to adapt in the past to the nature of the sector, the changing shape of the largest associations ought to suit their skills better and make the transition easier. The offer to these people is also becoming more attractive. They have the prospect of using the top quality generic management skills they have acquired still within the ambit of very substantial businesses, yet ones designed to deliver social goals. This should be an appealing proposition.

“If the sector is serious about delivering efficiencies through larger size, then more radical approaches to the structure of organisations need to be taken.”

Questions and challenges

- **Is the legal and registration structure promoting maximum efficiency and the best customer service? Is the need for brands and any sub-cultures considered separately from the legal structure? Is the value of each brand being reviewed regularly?**
- **Has the correct balance been struck between central, regional and local capabilities and offers?**
- **Is the association examining its recruitment and retention processes and training programmes to bring forward the leaders and managers of tomorrow?**

“For some associations a step change in the quality/calibre of leadership and senior management may be required. In the future we will have greater potential to offer exciting career opportunities. Lack of detailed knowledge of the sector may not necessarily be a barrier.”

Being Fit for Purpose

5.3 Finance and efficiency

The discussion on governance and operational structures shows that the relationship between size and financial efficiency, power and control cannot be taken for granted. In fact, there are some obvious financial dangers in diversification, larger scale development and regeneration, adding legal entities and devolving budgets. Very large associations will need to create operational structures which produce strong financial control and risk management, while harnessing the benefits that size can bring.

Being efficient

The evidence on size and cost efficiency remains equivocal, although the most up to date analysis of Audit Commission inspection reports does indicate a trend of improving efficiency among larger associations compared to others. The Future Shape of the Sector Commission expects this trend to continue.

In theory, scale should bring economies, but there are reasons why this may not happen in every case. Adding and absorbing new subsidiaries can distract from management focus, with the danger of a downturn in performance across the business.

With many mergers and acquisitions there is an initial period of increased costs while the organisations are integrated. Once this stage is completed costs should reduce and efficiencies improve. One of the key roles of this Commission is to suggest possible routes to greater efficiency for the largest housing associations, so that the relationship between size and efficiency does become more automatic in the sector.

At the moment, the manner in which much of the consolidation within the sector has been achieved has not necessarily lent itself to greater efficiency. More boards, management teams and legal entities will make it difficult to improve operating cost ratios. And without better financial efficiency it will be hard to drive service improvements and to expand services.

The key to cost efficiency for most very large associations will be through simplicity of governance and operating structures. Achieving that could mean a different approach to merger and acquisition discussions. Unless efficiency gains can be identified, a good proportion of mergers will have limited value for the organisations, for customers and for local stakeholders.

Future mergers will need to look much harder at identifying, quantifying and setting timescales for financial savings to be delivered. Merging associations will need to think more about overall value to the group and less about retaining their status. This does not mean local identity necessarily needs to be lost. As indicated elsewhere, branding is different from legal status. What is important is delivering for the customer in the most effective way possible.

Asset grouping

A greater focus on asset grouping also looks likely. There was a widespread view that holding all assets in one place will be the most efficient way for very large associations to operate. It is not essential for local management units to own assets to be able to operate effectively. Managing assets together should allow major associations to maximise asset use for security and other purposes and deliver tighter financial management. However, there are regulation, tax, charity law and pension issues to overcome in many cases.

If several subsidiaries retain cash flows there is some possibility at least that the total cash being held will be higher than the group would need if it were managing cash centrally. It will be very difficult to be financially efficient while managing assets parochially.

Overall, merging associations will have to look at consolidation as more about creating a future and less about preserving a past. There has to be more will to ensure bigger equals better and cheaper.

“Commercial success will either require ‘teeming and lading’ of resources between companies within a large housing association group or aggregating group resources entirely.”

Being Fit for Purpose

Efficiency and social capital

At the same time, there was a general view that the government and Housing Corporation are measuring efficiency too narrowly. The largest associations are spending very big sums in delivering wide ranging community development initiatives in neighbourhoods and in delivering the most complex regeneration projects.

This sits firmly within the government's desire for achieving sustainability in communities and adds real value to people's lives by promoting social and financial inclusion. Yet it seems distinctly undervalued in official measures of efficient working. Indeed, investment in community development and 'added value' services can appear to undermine the efficiency of the core service under current scoring.

Essentially, an association runs the risk of reputational damage for trying to deliver higher levels of social capital into communities. This cannot be the government's intention and the regulator should address this issue.

There is a strong case for trying to quantify the added social return the largest associations bring to communities in a more rounded measure of organisational efficiency and to separate out reporting of core services. The National Housing Federation has begun to do some useful work in this area and there is a case for more research here.

Financial control and risk management

Broadly shared, too, was the sense that very large associations will need to place a higher emphasis and focus on financial control and risk management. While the sector's historic reliance on public subsidy may have led to this being a lower priority in the past, increasing scale and diversification will make it a top order issue for the future.

Financial muscle allows the largest associations to offer lower grant rates to the government, which means more homes for the same amount of public money. It also allows associations to develop homes in advance of grant, strike better deals with developers and cope with the costs of competing for major, complicated regeneration projects.

But large scale development and complex regeneration projects are risky and the mechanisms have to be in place to manage these effectively. The largest associations are likely to want to exploit the financial power of their balance sheets in a more concerted way in the future to deliver more for government, local partners and customers.

This has to be done without over-exposure. Part of this process may be the setting up of subsidiaries to deliver non-core products, to ensure diversification is managed in a way which avoids the potential for detriment to core business.

Generally, government needs to support an overall control framework which facilitates and eases the path of the largest housing associations to maximise what they can deliver in support of social policy goals. Higher surpluses can and should mean greater reinvestment to support government programmes in communities and there must be a full understanding and recognition in Whitehall that one leads to the other. Associations cannot deliver fully if they lose the ability to generate and control significant surpluses.

Higher profile and more sophisticated financial and risk management will need to go alongside these changes. Managers in all parts of the association will need to be more aware of their own responsibilities in making sure control is maintained and risk effectively managed, and improved IT systems will be key. Staff must understand the valid extra scrutiny that will come from government as the largest associations grow. Greater political vulnerability will need to be considered within risk mapping.

While lenders remain confident in an association's ability to manage the risks it is taking and control its finances, increasing size should not prove a problem in terms of higher lending limits or reasonable lending margins.

“Associations can raise their game significantly on financial control and risk management. That basically means shifting to a stronger business ethos and a recognition that the balance sheet itself is a powerful instrument.”

Being Fit for Purpose

Questions and challenges

- Have associations looking to merge pinned down the efficiency savings that will result and the structural changes, including asset holding, that will deliver greater efficiency and better service delivery? Is the benefit to the customer being given sufficient status?
- Has the association fully considered the issue of asset rationalisation within any group structure and its role in promoting greater organisational efficiency?
- How do the government, the sector regulator, the NHF and associations take forward the measurement of efficiency in a way that gives proper credit for both cost savings and social returns, while not adding further to the regulatory burden?
- As the association grows, does it have in place a system for regularly reviewing the adequacy and extent of financial control and risk management systems?
- Has the government fully recognised the need and purpose for substantial surpluses within large housing associations and created an operating framework which facilitates their use to maximise support for the government's own social objectives?
- Has the association made clear strategic decisions about how surplus reinvestments are to be used to both minimise business risk and maximise customer and community benefits?

“Mergers to date have not always demonstrated greater efficiency. Financial savings and efficiency gains should be a pre-requisite of mergers and merger management plans should clearly identify how and when these savings will be achieved.”

Appendix 1

Contributors to the Commission

Large housing associations

John Belcher	Chief Executive, Anchor
Richard Clark	Chief Executive, Midland Heart
David Cowans	Chief Executive, Places for People
Tom Dacey	Chief Executive, Southern
Simon Dow	Chief Executive, Guinness
David Eastgate	Chief Executive, Hyde
Keith Exford	Chief Executive, Affinity Sutton
John Gatward	Former Chief Executive, Hanover
Steve Harriott	Chief Executive, AmicusHorizon
Malcolm Levi	Chief Executive, Home
Tom Murtha	Chief Operating Officer, Midland Heart
Deborah Shackleton	Chief Executive, Riverside
Tony Shoults	Chief Executive, Metropolitan
Paul Tennant	Chief Executive, Orbit
Anu Vedi	Chief Executive, Genesis
Ben Wilson	Managing Director, AmicusHorizon

Medium-sized housing associations

Paul Doe	Chief Executive, Shepherds Bush
Keith Holloway	Chief Executive, Thames Valley
Tom McCormack	Chief Executive, Hexagon
Barbara Thorndick	Chief Executive, West Kent

External contributors

Jonathan Adlington	Senior Partner, Trowers & Hamlin
Julian Ashby	
Andrew Cowan	Senior Partner, Devonshires
Mike Davis	Director of Housing, Croydon Council
Bob Dinwiddy	Former Assistant Chief Executive, Housing Corporation
Nick Dudman	Consultant
Roy Irwin	Chief Inspector, Audit Commission
Phil Morgan	Chief Executive, Tenant Participation Advisory Service
David Orr	Chief Executive, National Housing Federation
Peter Williams	Former Deputy Director General, Council of Mortgage Lenders

Appendix 2

Size comparison between the largest housing associations in France, Holland and England

FRANCE*

Largest HLMs (Office Publique)	Homes owned
OPAC de Paris	100,000
Opievoy	56,910
Rhône	53,420
Pas de Calais	51,357
Partenord	50,720
Sud	43,272
Val de Marne	37,608
OPAC76	37,539
Oise	34,184
Saône et Loire	33,554
Grand Lyon	32,291
Ain	26,654
Isère	25,261
Indre & Loire	23,882
Total	606,652
Total Sector	c.2,000,000 homes

Largest HLMs (SA)	Homes owned
Immobiliere 3F	120,000
SCIC Habitat Ile de France	100,000
Logement Francais (AXA)	70,000
APEC – OCIL	60,000
Logirep	50,000
ERILIA	45,000
SAFC	c.30,000
SIA Habitat	c.30,000
Logicil	c.30,000
France Habitation	c.25,000
La Sablière	c.25,000
Total	585,000
Total Sector	c.2,000,000 homes

HOLLAND

Largest social housing providers	Homes owned
Vestia	70,000
Portaal	52,500
Ymere	46,000
Rochdale	45,000
Stichting Woonzorg	40,000
Woonbron	37,000
Staedion	33,000
Total	323,500
Total Sector	c.2,000,000 homes

ENGLAND**

Largest HAs (incl. mergers planned to Apr 2007)	Homes owned
Places for People	58,625
Riverside	53,386
Sanctuary	52,000
Guinness/Northern Counties	51,880
Home	51,242
Affinity Sutton	50,451
L&Q	49,738
Genesis	45,253
Hyde	36,990
Sunderland	36,356
Orbit/Shafesbury	35,521
Anchor	35,504
Metropolitan	34,000
Circle Anglia	33,633
Midland Heart	31,500
Wakefield & District	31,461
AmicusHorizon	27,909
Southern	24,281
Total	739,730
Total Sector	c.2,000,000 homes

*Note: The total social housing sector in France numbers around four million dwellings (there is no local authority housing). This sector is divided into two equal parts: the société anonyme group (broadly speaking like UK 'mainstream' or 'traditional' associations) and the office publique group (comparable to UK LSVTs).

**Note: Approximate figures based on information from Housing Corporation and Inside Housing websites, individual association websites, and London & Quadrant databases. Approximate analysis of remainder of sector:

	No.	Stock
Associations owning 5,000 – 25,000 homes	90	600,000
Associations owning 0 – 4,999 homes	1,100	700,000
Associations owning no homes	200	–

Appendix 3

Summary of questions and challenges for different stakeholders

For housing associations

Our place in the world

- How should the largest housing associations and the NHF define their relationship, and their relationships with government, for the future? What steps must be taken, individually and collectively, to ensure a changed dynamic with government can be managed effectively and the sector provided with a policy framework which allows it to maximise benefit? (Section 3.1)
- Are medium, small and specialist associations (and other organisations) examining the implications of likely changes within the structure of the HA sector and defining the future challenges and appropriate responses for their own organisations? (3.2)
- How can medium, small and specialist housing associations work best with large associations to deliver enhanced benefits for local people? What demands should smaller housing associations be placing on the biggest? (3.2)
- Has the association taken steps to project itself to small and medium associations, developers and other agencies working in the same localities, searching for ways to collaborate, offer services, and avoid actions which may cause them difficulty? (3.3)
- Has the association defined its responsibilities to smaller associations working in each area? (3.3)
- Does the association share knowledge and experiences with other associations to raise standards for itself and others within the sector? (3.3)
- Have association boards considered how regulation will need to be managed within their organisation as they grow and made their views known to the government? (3.4)

Delivering for customers and local partners

- Does the association have a clear strategic focus combined with the capacity for responding to local needs? (4.1)
- Has the association addressed the issue of critical mass in housing stock terms? Is there a level of concentration below which a good standard of service cannot be delivered? Is there a stock density above which a different type of service needs to be offered? (4.1)
- Does the association have a strategy for growth which will allow it to assess and improve local responsiveness in the areas where it operates? (4.1)
- Are there adequate measures in place for seeing the association from the perspective of its major stakeholders, for conducting a dialogue and for responding to their requirements? (4.2)
- Is the association being creative in developing resident involvement and looking beyond the sector for good practice in understanding the customer? (4.3)
- How has the link between resident involvement, service improvement and customer satisfaction been established and proved within the association's internal monitoring arrangements? (4.3)
- How is the board actively involved in driving customer satisfaction improvements and understanding customer views? (4.3)

Being fit for purpose

- Has the association's board considered the Langland Commission's Good Governance Standard in reviewing its governance arrangements? (5.1)
- Do the association's governance arrangements encourage cost effectiveness, high quality services and increased local connectivity? Do subsidiary boards and committees add real value? (5.1)

Appendix 3

Summary of questions and challenges for different stakeholders

- Is the size, composition and role of the board right, given the governance issues that the move to very large associations is presenting? (5.1)
- Have executive board members' executive roles and responsibilities been adapted to allow them to perform their expanded board duties effectively and has the association's control framework been revised to take account of any additional possible risks this could entail? (5.1)
- Are the selection, appraisal and other terms of board membership adequate to create an effective accountability framework? (5.1)
- Is the legal and registration structure promoting maximum efficiency and the best customer service? Is the need for brands and any sub-cultures considered separately from the legal structure? Is the value of each brand being reviewed regularly? (5.2)
- Has the correct balance been struck between central, regional and local capabilities and offers? (5.2)
- Is the association examining its recruitment and retention processes and training programmes to bring forward the leaders and managers of tomorrow? (5.2)
- Have associations looking to merge pinned down the efficiency savings that will result and the structural changes, including asset holding, that will deliver greater efficiency and better service delivery? Is the benefit to the customer being given sufficient status? (5.3)
- Has the association fully considered the issue of asset rationalisation within any group structure and its role in promoting greater organisational efficiency? (5.3)
- As the association grows, does it have in place a system for regularly reviewing the adequacy and extent of financial control and risk management systems? (5.3)
- Has the association made clear strategic decisions about how surplus reinvestment are to be used to both minimise business risk and maximise customer and community benefits? (5.3)

For central government and its agencies

- How can government best redefine its relationship with the sector, taking into account the potential role and power of larger associations and the need for greater trust and independence for the sector to maximise its contribution to national social policy goals? (3.1)
- Is the government taking into account the potential for much larger housing associations in considering the future structure of sector regulation, including assessing and reviewing current tax, financial propriety and competition rules and their growing impact on associations? (3.4)
- How do the government, the sector regulator, the NHF and associations take forward the measurement of efficiency in a way that gives proper credit for both cost savings and social returns, while not adding further to the regulatory burden? (5.3)
- Has the government fully recognised the need and purpose for substantial surpluses within large housing associations and created an operating framework which facilitates their use to maximise support for the government's own social objectives? (5.3)
- Has the Audit Commission considered the likelihood of very large housing associations emerging and the implications this might have on the validity of the current inspection framework? (3.4)

For local authorities and partners

- Have local authorities and other local partners given consideration to what a very large association might deliver for them and how local accountability and service decisions may need to change? Have local authorities considered how their own policies may need to change to take account of the advent of much bigger associations? (4.2)

For the National Housing Federation

- How should the largest housing associations and the NHF define their relationship, and their relationships with government, for the future? What steps must be taken, individually and collectively, to ensure a changed dynamic with government can be managed effectively and the sector provided with a policy framework which allows it to maximise benefit? (3.1)
- How do the government, the sector regulator, the NHF and associations take forward the measurement of efficiency in a way that gives proper credit for both cost savings and social returns, while not adding further to the regulatory burden? (5.3)

**For more information
telephone 020 8852 9181 or
visit www.growing-up.org.uk**