The Smith Institute
The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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moving up a gear:
new challenges for housing associations

Edited by Denise Chevin
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Preface
Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

Affordable housing is at the top of the political agenda, with the government aiming to achieve a considerable increase in the building of affordable homes over the next three years, to 70,000 a year (including a 50% rise in new social rented homes), with extra funding to promote mixed-income communities, eco-homes and greater housing choice. In addition, ministers have pledged to bring all existing social housing up to a decent standard by 2010 and to reform housing-related welfare support to tackle benefit dependency and worklessness which is concentrated in the social rented sector. Housing associations, which are the largest social landlords and the main suppliers of new social rented and shared-ownership properties, are central to the success of this ambitious housing programme. Without their co-operation and support, the government is unlikely to meet its housing targets.

The housing association sector has expanded year on year since the 1980s under the auspices of the housing stock transfer programme, and has now overtaken local councils as the largest group of social landlords. Many of the big housing associations are lead partners in major regeneration developments and most are actively engaged in neighbourhood renewal projects and “place-making” initiatives with their local council. However, the sector is far from homogenous and the size and reach of housing associations varies enormously. Although recipients of government grants and regulated by public agencies, housing associations are not creatures of central or local government. Most are independent charities with a long history of housing management and local community activity.

Against the backcloth of major changes in the affordable housing market, such as the creation of the new Homes & Communities Agency, reforms to the housing subsidy system and a new social housing regulator (Oftenant), this collection of essays debate what potential opportunities and risks lie ahead for the sector. The focus is on the future roles and performance of housing associations and how the sector can adapt and grow. The authors also show how housing associations in different ways can help shape the
future, not least in developing new approaches to funding affordable housing and improving partnerships with both local government and the private sector. Most importantly, this monograph demonstrates that the sector is changing and has fresh ideas about how to meet the complex housing challenges that face us all.

The Smith Institute thanks Denise Chevin (editor of *Building* magazine) for agreeing to edit this collection of essays and gratefully acknowledges the support of the Metropolitan Housing Trust, Places for People and PricewaterhouseCoopers LLP towards this publication and the associated seminar.
Introduction
Denise Chevin, Editor of Building

This monograph on housing associations could not be more timely. Examining the role and the future of housing associations is critical now for three key reasons. First, the acute shortage of housing and the need for an urgent remedy is one of the most pressing issues on the political agenda. Gordon Brown has pledged to build 3 million new homes by 2020, including large increases in the number of affordable homes for rent and shared ownership, and as the largest provider and developer of social housing, it is essential that housing associations step up to the plate.

Second, the investment and regulatory framework under which housing associations operate is set for a radical overhaul. The rules of the game by which housing associations play will change next April, when the provisions set down in the new Housing & Regeneration Bill should come into force. The Housing Corporation, which has been both the public banker and the regulator for housing associations, will be merged with English Partnerships to form the Homes & Communities Agency, and with this may come a new funding regime. Meanwhile, the regulatory role is to be taken over by a new agency – the Office for Tenants & Social Landlords (Oftenant). In addition to regulating housing associations as the Housing Corporation did, it will give a powerful new voice to housing association tenants. As Professor Martin Cave explains in his chapter, a bigger role for housing associations in the provision of community services will become enshrined in law – along with, on paper at least, the muscle to force housing associations and councils to work more effectively together.

And third, the sector is going through a period of consolidation and structural change that the proposals in the Housing & Regeneration Bill will only serve to accelerate. At present, fewer than 20 housing associations together own more than a third of the total housing association stock of 2.2 million social houses, and fewer than 50 have the capacity to engage in major developments. So at one end of the spectrum there are the small local organisations with a handful of properties, whilst at the other end are the mega-landlords heading towards 100,000 homes, operating on a national basis, with divisions that produce homes for sale and private rent. This loss of homogeneity makes it increasingly difficult for the sector to speak with a single voice – the needs and priorities of the two types of organisation are so different.

This divergence of the sector into the very large and the small brings its own tensions, not
least the debate as to whether big necessarily means better; a point raised by Peter Marsh, deputy chief executive of the Housing Corporation. “RSLs need to be of sufficient size to achieve economies of scale,” he says; “we must avoid replacing local public monopolies with national private ones.”

So while on the one hand housing associations have never had so much opportunity, the uncertainties and changes they face could not be greater. In addition to this already brimming cauldron, there is for the first time in decades the prospect of more competition for government funding from councils, who are being encouraged to build affordable homes again, as well as the private sector. And all new housing has to be built to more exacting standards of sustainability.

The papers in this monograph examine this shifting policy landscape for housing associations, and in doing so raise a number of fundamental issues. Is the new regulatory framework the right one? Will it provide a barrier to delivery rather than oiling its machinery, as some of the authors suggest? Or are housing associations simply showing a characteristic allergy to regulation?

Furthermore, are we heading for a two-tier sector, with the nationals doing all the development and the rest specialising in housing management? And if we are to increase greatly the volume of social housing being built, how is it going to be paid for?

What comes across loud and clear in a number of the chapters is the growing mistrust, even at times antipathy that exists between the sector and the government, and the tensions this is creating. Both sides appear to want the same thing: to build more homes, to create thriving mixed communities that help to pull the poorest in society out of poverty, and to improve the services they offer their tenants and the efficiency of their organisations. Where the problem lies is in the ways to go about delivering these aims. With so much at stake, government wants tighter control and sees a more prescriptive approach as the answer. Housing associations see this as unnecessary micromanagement that will choke the flair and enterprise that they believe has made them successful.

One of the reasons for this angst-ridden relationship between housing associations and the government is the ambiguous nature and status of housing associations. Are they public or private bodies? Essentially they are neither, falling in what’s known as the third sector, and are in many ways the most successful of third-sector operations. Unlike councils and other public bodies, because housing associations are “private” the loans they
borrow do not count on the public-sector borrowing requirement. In the past 18 years housing associations have borrowed £30 billion, and they are expected to raise another £16 billion over the next five years.

However, while most housing associations fiercely guard their independence, their very reliance on public finance is bringing them under greater public scrutiny. For many, this creates resentment. But as recipients of so much public money, they must surely accept government oversight.

With 50% of the homes built by housing associations paid for by public money and 60% of their rental income coming from housing benefit, it is understandable that the government wants to ensure that it is getting value for money. In this, it has great sympathy from MPs and local authorities, who – as Andy Love explains – have not always been impressed by the level of accountability, or even the services offered to tenants. Love writes: “It is hoped that Oftenant will help to refocus housing associations’ priorities on community and tenant issues.”

Professor Martin Cave, whose review of social housing regulation laid the foundations for the proposals in the new Housing & Regeneration Bill, writes that he is disappointed the new regime covers only housing associations, not councils too. This, he argues, means that not all social housing tenants will receive the same protection.

But as David Orr, chief executive of the National Housing Federation, argues: “Government must see housing associations as partners in meeting shared objectives, not as agents of government policy. The creativity that has been a feature of housing association work, in neighbourhood support, in developing new approaches to supported and older people’s housing, in leading on sustainable construction and in a wide range of other ways, is a product of independence of action and good corporate governance.”

He continues: “The sector must be well governed with regulatory scrutiny and support, but must not become a wholly regulated sector or a wholly owned subsidiary of the state.”

Tony Shoults, former chief executive of the Metropolitan Housing Partnership, also questions the new burden of regulatory measures and demands from the centre, warning that it will threaten public body status. He argues that the government treats associations exactly as it does councils, and where they are not like councils encourages them to be more so: "Hence a regime of grants, targets, instructions and more regulation."
Meanwhile, Tom Titherington, group business development director at the Hyde Group, proposes that rather than more regulation, the government could put in place tax penalties and tax incentives to encourage social landlords to do what it wants. This, he suggests, would reduce regulation and increase output.

But what of development and the need for more social housing? How can we get that right? Following the merger of the Housing Corporation and English Partnerships to form the Homes & Communities Agency, no one knows yet whether the grant regime will remain or whether cash from the public purse will be used as an “investment”, picking up on the model used by English Partnerships with the state recovering its stake and then reinvesting this.

The prospect of losing grant certainly goes down badly with a number of the authors here. However, David Cowans, group chief executive of Places for People, suggests that the housing grant regime needs to be reformed. “I would argue that this resource, focused as it is on affordable housing only, is not necessarily the best route to generate sustainable mixed-tenure, mixed-income communities. A better route would be to use the resources now allocated to social housing grant to turn it into gap-funded equity to match the requirements of the total development, including all the affordable housing where gap funding is necessary.”

However, money from the public purse is extensively used for social housing, along with subsidy via section 106 agreements with local councils. But there is a consensus that even the extra funding announced in the recent spending review won’t stretch to cover the bill for all the new homes that we need to build. The talk has been of encouraging housing associations to leverage their assets more. This, as some of the authors point out, can make a difference in some places, although it also potentially exposes housing association to high levels of risk.

Richard Parker, partner at PricewaterhouseCoopers, points out that while the government is committed to a huge increase in affordable housing between 2008 and 2011, it is expecting the private sector to pick up a sizeable chunk of the bill. The government has committed £8 billion to deliver at least 45,000 new social homes for rent and more than 25,000 shared-ownership homes a year, which is more than a 50% increase in the amount of affordable housing being built at present. But the increase in funding that it is providing is rather less than 50%. A Housing Corporation study says that grant rates can be reduced by 10%, which still leaves a considerable gap. So where, he asks, will this
money come from? In addition, 60% of social housing is not in mixed neighbourhoods, and will require large-scale remodelling at vast costs.

Parker says that while in the past housing associations may have funded schemes by sweating their assets, the scale and complicated nature of some of these projects requires another approach. He advocates setting up a project company or special-purpose vehicle, as companies do in Private Finance Initiative schemes. Funding for this type of financial vehicle is generally more expensive than traditional models, but in that way the balance sheet is protected.

Meanwhile Steve Trusler, strategy director at Wates Living Space, urges housing associations to throw their lot in with local authorities and the private sector and become involved with another type of delivery vehicle – local housing companies.

Richard Simmons and Dominic Church, from the Commission for Architecture & the Built Environment, emphasise how important productive partnering between the different stakeholders is to achieving good design solutions. They also highlight the fact that housing associations are often leading on design and eco-standards, and outperforming housing provided by the private sector.

Indeed, one theme that emerges regularly throughout the monograph is the imperative for housing associations to work more collaboratively with local authorities and the private sector. It is clear that if we are to deliver the required step change in housing provision, co-operation is the watchword. But while it may be easier for smaller local housing associations to strike up good relationships and dovetail their own business plans with those of their local councils, it can be difficult when stock is spread across myriad authorities, and in some of these locations there are only a handful of homes.

It doesn't help, argues Richard Clark, chief executive of Midland Heart, that housing associations are often the last organisations to be consulted when it comes to setting local and regional strategies, a point underscored by David Orr. Getting the two sides to work more closely together is clearly one of easiest things to call for – but the hardest to do.

Simmons and Church underscore the point made by others in the monograph that the unique long-term perspective of housing associations will be key to delivering a step change in approach and creating sustainable communities. Housing associations, they
comment, “will be around, and actively involved in maintaining and managing homes and
neighbourhoods they have built, long after the house builders’ shareholders have received
their return and spent it”.

With so many pressing issues to be resolved, the government has clearly to consult
widely then implement speedily. It is to be hoped that the suggestions in this monograph
will play a major role in informing its decision making.
Chapter 1

Housing policy and the role of housing associations

Andy Love MP, Co-chair of the All-party Group on Homelessness & Housing Need
Housing policy and the role of housing associations

Housing associations have traditionally been seen as independent, voluntary and socially focused organisations. Yet in the rapidly changing circumstances of the 21st century, is that vision of the movement either appropriate or relevant?

In recent years the sector has become the largest social housing landlord, bearing all the responsibilities that go with that role. Most of the new supply of affordable rented and shared-ownership housing is built by housing associations. But with the challenge issued by the government to deliver a step change in the supply of new homes, serious questions are being raised as to the sector's capacity, in its present form, to deliver.

Many believe that the establishment of the Homes & Communities Agency and a separate social housing regulator will have a significant impact on the future role and shape of the sector. Before turning to the prospects for the future, it may be helpful first to outline how the movement has evolved from its origins in Victorian philanthropy, under the twin pressures of meeting housing need and government policy direction.

Origins and evolution

Housing associations have a rich history. The movement can trace its roots back to the 12th century and the foundation of the almshouses. But for many the origin of the movement is closely associated with that wave of Victorian voluntary and charitable housing that took shape in response to the slums of the early Industrial Revolution. Many of the best-known housing trusts, from Peabody to Sutton, were formed around this time. They provided much-needed accommodation at a time when public provision of housing was unheard of.

It took the First World War and its aftermath to usher in a new approach to housing need. Reflecting the campaign for "Homes fit for Heroes", the 1919 Housing Act established the primary role in the delivery of "working-class" housing with local councils. They were empowered to develop housing for rent and provided with a subsidy to make it affordable. New charitable trusts and voluntary societies also came into being as a result of "Homes fit for Heroes". Some built and improved houses in deprived communities. Others specialised in housing for the many needy groups who were not recognised as a priority by local councils. Although insignificant when compared with the public sector, associations did perform a valuable service supporting local authorities in helping to relieve the most extreme housing conditions. With very limited support from the public
purse, the voluntary sector grew steadily and at times more significantly during the inter-war period.

This policy continued in the post-war period as new housing for rent was almost exclusively delivered by public authorities. With most of those homes allocated to families on the waiting list, the independent sector turned its attention to providing homes for the elderly and key workers needed for the expansion of new post-war industries. In some cases employers sponsored bespoke associations and often put up the money to build. But most voluntary activity during this period was sponsored and facilitated by subsidies and preferential loans from supportive councils. This was encouraged by the 1949 Housing Act, which introduced funding for “reconditioning” at the discretion of the local authority. When eventually the 1959 Housing Act introduced the standard improvement grant, the move by associations towards the improvement and conversion of existing homes received a significant boost.

In the 1960s the movement continued to grow with the greater recognition of the role of housing associations in area improvement. The 1969 Housing Act made associations eligible for a general subsidy to restore designated urban areas on behalf of government, as an alternative to the slum clearance programmes that had led to the break-up of so many inner-city communities.

In the 1970s the sector entered the first intensive period of expansion. This was as a direct result of the 1974 Housing Act, which introduced a new grant and subsidy regime for associations to encourage the delivery of more affordable rented accommodation. The scale of public subsidy was unprecedented and ended for good the sector’s reliance on voluntary and charitable support. For some it also called into question the very independence of the movement.

This focus on social housing was reversed in the 1980s, with the election of a Tory government committed to a major boost in home ownership. As a result, a significantly increased proportion of the sector’s development programme was allocated to low-cost home ownership initiatives. A series of housing acts followed with an even more dramatic impact on the sector. A new funding regime was introduced that mixed the public-sector grant regime with loans from the private sector. To make every pound of public funding go further, the government ended the convention that private loans counted as public expenditure, allowing mixed funding where only the grant counted as public expenditure. As well as encouraging development, the new regime, which also deregulated rents and
reduced tenants’ security of tenure, was intended to bring to bear the rigours of the market.

It also called into question the role of the public sector as a direct housing provider. For the first time local authority tenants were given the right to transfer to other landlords. But many tenants who may have wished to move from the public sector were unwilling to bear the risks of such a transfer.

**Labour returns**

Early signs from the new government suggested housing would not be an immediate priority. Action was taken to cap rent rises in the voluntary sector and stock transfer prioritised to help deliver a new decent homes standard. Continuing restrictions in housing investment programmes and the failure to restrain house price inflation eventually led the government to set up an inquiry into housing supply. Included amongst its many recommendations was a step change in funding for new social housing. To ensure greater efficiency in the delivery of social housing programmes, the 2004 Housing Act empowered the Housing Corporation to allocate social housing grants to private developers.

By most objective measures housing associations have delivered. By the end of 2006 the combination of stock transfer and new build had drawn around £27 billion of private finance into the sector. Yet questions remain regarding value for money, and concerns are regularly aired regarding the ability of the sector to deliver a step change in new affordable accommodation.

**Does size matter?**

The trend to greater and greater consolidation has been an integral feature of the sector, driven in great part by the demands of government. Associations are expected to compete for limited public resources by delivering more homes for less grant. In the last few years we have seen the emergence of mega-associations operating nationally and managing very large numbers of homes. And the Housing Corporation has focused grant funding on a limited number of associations considered to have the skills, resources and capacity to deliver on this agenda. In the sector fewer than 20 housing associations own more than a third of the stock, and more mergers are expected.

The Housing & Regeneration Bill now before parliament is likely to intensify this trend. The new Homes & Communities Agency, which brings together English Partnerships with the investment arm of the Housing Corporation, is expected to drive up housing supply. This is likely to lead developing associations into larger and larger developments, including
a significant increase in land banking activities, and may necessitate greater cross-subsidy through the sale of market housing.

The increased risk involved in future development activity has led a number of the larger associations to challenge the sector’s traditional operating model as outdated. They argue that while diversity remains a strength, the sector must respond to current trends and develop a model that combines economic efficiency with a powerful social purpose. Big associations can deliver, it is claimed, but their very size requires a reform of their governance structures and tenants' participation if they are to meet the challenges of the future.

One group that aren't quite so enthusiastic about the headlong rush to greater consolidation are, not unnaturally, the smaller associations. Being swallowed up in a much larger group structure is viewed by many as likely to have a negative impact on their autonomy and service provision. The strength of smaller associations lies in their specialist expertise. But they are often under-resourced and unable to service their tenants as well as they would like. In these circumstances a merger can be an attractive proposition, especially as the Housing Corporation gives priority to tenant issues when evaluating any merger proposal.

**Empowering tenants**

It is not hard to see why the Housing Corporation is so concerned about tenant involvement. The evidence suggests that many associations fail to involve their tenants or listen to their concerns. And elected politicians, MPs as well as local councillors, regularly criticise them and call for higher levels of consultation and a greater role for tenants in the running of their affairs.

The creation of Oftenant gives the regulator new powers to protect and empower tenants. Although the legislation does not extend to tenants the right to manage housing associations, it does include a right collectively to trigger intervention by the regulator, and also provides a new national voice for tenants. It is hoped that Oftenant will help to refocus housing associations' priorities on community and tenant issues.

**Sustainable communities**

The new powers contained in the bill should breathe new life into attempts to develop a wider range of interventions to deliver the sustainable community agenda. iN Business for Neighbourhoods, the National Housing Federation campaign launched in 2003,
encouraged some new initiatives but overall has been a disappointment. Housing associations, with some honourable exceptions, still see their role as being mainly housing-related rather than as being involved in other issues such as community regeneration, which still have considerable ground to make up.

This is partly as a result of the real difficulties in measuring the soft outputs of much regeneration activity, where success is nebulous and delivery time-scales much more long-term. Associations complain that the measure of efficiency employed by the Housing Corporation does not fully take into account the cost of investment in sustainable communities. With its focus on regeneration, the Homes & Communities Agency holds out the possibility that these barriers can be overcome.

But all of this comes at a time when the regeneration of communities is dominated by place shaping and neighbourhood renewal. So far housing associations have had little impact on either. To do so it is suggested that they need to strengthen their partnership working, not only with local authorities but with private- and third-sector organisations. Larger associations are well placed to develop new relationships to help deliver real benefits to people living in run-down communities. Achieving that wider community benefit will almost certainly require associations to sweat their assets – built up mainly in the 1960s and 1970s – to maximise the range and impact of their activities. Helping to deliver improved outcomes in housing, employment, health and other public services will make housing associations indispensable in the drive to create more sustainable communities.

More market, less social?

Whilst the rewards of increased activity can be attractive, the additional risks are significant. The extra borrowing needed to finance future investment will have to be backed up by greater surpluses. For many the way to deliver those surpluses is for associations to move into housing for sale. Up to now this has happened on a modest scale and the question for the new regulator will now be whether or not the rewards are worth the risk.

The truth of the matter is that more activity inevitably increases the likelihood that some deals will go wrong. There is also the small matter of whether or not the sector has the necessary skills or the ruthless commitment to maximising returns that is the hallmark of private developers.

Clear evidence is emerging that many of the largest associations want to significantly
increase the numbers of homes they build for sale. Apart from the financial risks involved, many also voice concern that the unique identity of the movement will be lost or blurred. Is an association that is developing a majority of its new housing for sale a for-profit or not-for-profit body? Is it a voluntary or private entity? And what will happen to its charitable status? This question was highlighted recently at the National Housing Federation annual conference, when a speaker complained that "some housing associations have more in common with Barratt and Countryside than they do with community-based organisations". On present trends it won't be too long before the drive to deliver 3 million new homes leads inevitably to a situation where the larger associations act more like commercially oriented property companies than socially focused management organisations.

Conclusion

Housing associations have changed and are changing rapidly in response to the policy and funding demands of the government. Since the introduction of the grant regime in the 1970s, associations have grown rapidly but their independence has been increasingly compromised. This has led them into political controversy. The scale of financial support under the housing association grant regime led to criticism that they were not accountable for the public money they spent, whilst others felt that they had strayed too close to the public sector.

Under Thatcher the introduction of low-cost home ownership and stock transfer invoked the wrath of a left outraged at the exclusive promotion of home ownership and naked attempts to undermine councils as direct housing providers. Today it is accepted on all sides that the dramatic growth of housing associations ensures that they are a force to be reckoned with. And with a renewed focus on affordable rented housing as well as low-cost home ownership, they may begin to attract greater support from politicians anxious to achieve greater housing choice for their local electorates.

With housing supply now one of the government’s most urgent priorities, it is time for housing associations to step up to the plate. This is both a challenge and an opportunity. The challenge will be to address the barriers to improved performance. The opportunity will be to make the sector indispensable to the achievement of the government’s housing and regeneration objectives.
Chapter 2

New landscapes in affordable housing

Peter Marsh, Deputy Chief Executive of the Housing Corporation
New landscapes in affordable housing

Standing still is not an option. We are at the cusp of some very important changes – ones that will leave the affordable landscape looking and feeling very different in a decade’s time. This chapter sets out what we may find in the future.

Between now and April 2009 the very fabric that has held the system of affordable housing in place is being unpicked. Provided that the legislation passes through both houses of parliament in a timely fashion, 31 March 2009 will be the last day of the Housing Corporation. From then on, the Homes & Communities Agency and the Office for Tenants & Social Landlords (Oftenant) will carry forward the Housing Corporation's roles of investor in new affordable homes and regulator of the affordable housing sector.

None of us should doubt that these changes will be fundamental. It will not be enough simply to transfer existing structures, work practices and approaches across from the Housing Corporation, English Partnerships and the Department for Communities & Local Government to the new agencies. This is a paradigm shift that will see the Homes & Communities Agency inherit a set of investment relations that includes local authorities, private developers and housing associations from the Department for Communities & Local Government, English Partnerships and the Housing Corporation respectively.

Past and present changes

Of course, housing associations are accustomed to change – and are very good at adapting to it. From the late 1960s they began to play a significant part in meeting England’s affordable housing needs, and in the 1980s the proportion of homes they own and manage began to increase dramatically. With local authorities unable to fund new council homes with the money raised through the right to buy, housing associations became the providers of choice. And over the past 10 years, more than a million council houses have been transferred to housing associations. Free from the burden of public debt classification and able to plough back surplus cash to fund new supply, the housing association movement is perhaps the best example of a not-for-profit public-private partnership in the modern era.

Most of the largest local landlords are now registered social landlords, or RSLs. The top 10 operate nationally, and shared-equity sales are now for some a core component of financial strategies. And there are another 1,000 or more organisations quietly providing local services to some of England’s most vulnerable households. In 2007 we have an
affordable housing sector of some 4 million homes – 1 million “traditional” RSL, 1 million RSL stock transfer and 2 million local authority homes – of which the majority are now managed by arm’s-length management organisations.

Now more change is coming. In the new set-up, development funding will no longer be controlled by housing associations. The investment playing field is unlikely to be levelled overnight – after all, the golden rule on public borrowing favours the RSL sector, and the housing revenue account system is not yet one that properly rewards new building within the council domain.

But with the potential to blend funding from a previously siloed set of government pots, the Homes & Communities Agency is more likely to fund a partnership led by a local authority than is the present regime. Anybody involved in trying to invest in existing stock at the same time as building new homes knows that, rather than help capture the potential for reinvesting increases in land value, the present arrangements mitigate against realising such an obviously joined-up mission.

The institutional changes are taking place at a time when the bar of delivery is at a generational high. Following the Barker report and two years of national debate, the government, under the new Prime Minister, has placed housing at the heart of its delivery agenda. If we are to achieve a better balance between supply and demand, a generation of new house building is needed – with a new target of 240,000 homes to be built each year, up 60,000 from current levels.

It will take a generation of increased home building to make home ownership a reasonable prospect for lower-quartile earners. Many cannot wait that long – which is why we have a target over the next three years to increase the number of homes for rent from around 22,000 last year to 45,000 in 2011, roughly doubling output in four years. How is this massive expansion to be funded? Through public-private partnership, of course.

Our work over the last two years has helped form a consensus; the deal on the table is now a 50% increase in government funding coupled with a further shift in private borrowing, which will take the cost to the public purse down from around 44% in 2006-08 towards 35% in the next three years. So for every £1 of taxpayers’ money spent in the next three years, £2 will be borrowed by RSLs – on the back of future rents from new and existing properties.
It is how partners react to the changes and challenges ahead that will determine the shape of the future. Whilst the Housing Corporation is preparing to channel nearly 10% of future funds to non-RSLs, the very system of grant is one that has grown up to support RSL development. But underneath the mysticism of the corporation’s investment management system, the facts are that around one in two homes we fund are built by the private development sector under section 106 arrangements. Of the remaining 50%, we understand that a very significant proportion of the new homes are not built by RSLs themselves but by their development/contracting partners – the likes of Countryside, Verry et al.

The advantages of working with RSLs
So whilst the Housing Corporation is now funding the major commercial builders directly, my belief is that many of the developers John Calcutt, in his review of house-building delivery, describes as “current traders” are better off working with RSLs rather than the Housing Corporation directly, for three reasons. First, RSLs are better able to put together a programme of schemes that allows them to balance the risk of one scheme slipping with another coming through. They are driven by housing numbers rather than shareholder return. Second, when developers can invite RSLs to bid for sites, the price to the developer is usually greater than if the corporation funded the scheme directly. Third, RSLs are in the “investment” business, and better prepared to take the funding risk that doesn’t sit neatly with a shareholder expectation of 20% plus rate of capital employed.

Under the Homes & Communities Agency we should be in no doubt that there will be fundamental changes in the market for the supply of new public housing, whether that be homes built through grant or investment or direct procurement by the agency. There is much speculation that we are about to witness the final 10 years of consolidation, with the emergence of a super-league of 100,000-home-plus landlords. Providing upper-quartile tenant delight and lower-quartile operating costs while enjoying excellent local authority relationships in every place that homes are owned is a tall order. Indeed, these are often qualities that some smaller and medium-sized providers find easier to sustain than their “mega” counterparts.

And whilst it is possible that the Homes & Communities Agency could choose to concentrate funding in a much smaller pool of players – with the inevitable consequence that the smalls and the mediums join larger groups and eventually fold into the top 10 – that is, in my view, not the path for us to take. Unlike the motor industry, which now sees Citroën, Peugeot and Toyota all produce the same car for the European market in the
former Eastern Bloc, the provision of housing services is inherently local.

That is why Martin Cave, in his report on the future of social housing regulation, was correct in wanting to see a growing separation in the markets for development and management. No matter what the size of the provider, the simple fact is that trying to be good at everything is difficult. Trying to be good at everything everywhere is harder still. A strong regulator fulfilling its objectives will have a clearer mandate to shape the sector in a way that the Housing Corporation’s legislative base simply does not provide.

The creation of a truly independent regulator means that the needs of tenants and their communities can be protected without the potentially conflicting dual role of ensuring that national investment targets are met. But this will itself create new tensions. It is proposed that, amongst around 10 objectives, the regulator will be charged in statute with “encouraging and supporting the supply of well-managed social housing”.

This is not uniformly welcome. The counter argument is that, as independent bodies, it is up to RSLs to decide how to use their reserves. This I accept – to a point. Under an effective co-regulatory regime, RSLs and their boards will reconcile their long-term financial requirement to remain viable with their other objectives of providing excellent services to their existing tenants and their obligation to help meet the housing needs of the communities they serve. And as both existing and prospective tenants are, by their very nature, unable to exercise choice in the market, there is a clear role for a regulator to act on their behalf when necessary. In addition, as government has funded nearly half the cost of their homes to date and 60% of the on-going rental stream, it has legitimate interests too.

The separation of investment from regulation in the affordable housing sector will undoubtedly have an effect on providers. It will, I expect, lead to three broad categories of provider in 10 years’ time: the local/neighbourhood landlord, a super-league of “national investors” and the commercial manager.

The big and the small

A wave of 21st-century community land trust and local housing limited liability partnerships will add to the existing pool of local/neighbourhood provision made up of local authority managed stock, arm’s-length management organisations, community-based RSLs and stock transfers. Owning nearly 3 million homes and operating in 350 local authority areas, this group will vary in size from 20 to 10,000 homes, with each provider
based firmly in its local “place” and benefiting from a deep understanding of its local history, culture and needs and, in the main, co-operative and mutually supportive relationships with its local authority.

Within this group some landlords will be significant providers of other community services – from schools to health clinics to apprenticeship schemes. Will these providers be frozen out of the new supply business of the Homes & Communities Agency? Quite the reverse. Those that have access to land and/or manage estates that suffer from the “blight” of aspiration that has become the unplanned-for by-product of the post-war social housing boom are likely to be partners of choice by both the Homes & Communities Agency and local authorities as we move from working towards decent homes to decent communities. Some tough Treasury tests are likely to restrain the opportunities for some – those where the local authority remains the stock owner. As tenant trust of local neighbourhood providers grows and the voice of the local authority as place maker and strategic leader becomes embedded, the arguments of “privatisation” will become outdated and irrelevant.

Providers in this category recognise their strengths as landlords – but with their growing financial capacity they want to be in control of the development plans and will choose to undertake development in partnership with national investors or commercial developers or through direct strategic alliances with building contractors, who in some areas will also be local authority partners on other infrastructure works such as building schools.

The super-league of “national investors” will be made up of a group of registered providers owning some 750,000 homes with a national customer support infrastructure, sophisticated and locally responsive tenant engagement, and a portfolio of shared-equity and outright sale homes in excess of 30,000 homes a year and/or a growing portfolio of full market rental properties. To differentiate themselves from claims of paternalist monopolism, the best of this bunch will make buying into home ownership, or being allocated a home for rent, part of a new mutual movement whereby all residents share a stake in the success of the organisation as a whole and where staircasing up in early years is matched by opportunities to staircase down as needs dictate, creating lifetime homes with a lifetime housing partner.

The national investors are less likely to control development funding through a small group of national partnerships – instead they will earn their place as development partners for the local/neighbourhood landlords, because they have access to a first-class design and construction supply chain and are able to build new homes and transform
estates at a margin that the commercial developers find difficult to beat.

There are thousands of commercial landlords in the private sector, and yet there are but few private landlords managing stock in the affordable housing sector. This is a market about to take off and will build the third category of provider. Despite the additional VAT costs involved in managing homes that another organisation owns, it can be worthwhile for all concerned. Pinnacle, for example, is able to provide good landlord services in the places it operates.

An expansion in private, even for-profit, landlords should be seen no more as a threat to the ethos of affordable housing than Serco is to bin collection or Virgin is to train travel. What matters here is whether tenants are receiving services that they can rely on at a price that the owner can afford. In developing this market we must be wary of scale, and whilst each new entrant needs to grow to be of sufficient size to achieve economies of scale to compete, we must avoid replacing local public monopolies with national private ones.

Those that are driven by the fourth "e" – empire, rather than efficiency, effectiveness and economy – can expect to see their investment funding turned off as the regulator directs the Homes & Communities Agency accordingly and lenders raise their risk premium in response to uncertainty over their direction. And where the effectiveness of the provider falls below the new, higher thresholds of acceptability, it can expect its geographically dispersed tenants to vote to transfer their management arrangements to smaller, locally based providers. Registered providers that are unable to choose a path true to their objects and values will be less likely to survive.

In the above landscapes, the big money may be earned in the super-league, but achieving tenant delight and providing more and better homes could – and should – be the resolve of all.
Chapter 3

Mutual respect to deliver the communities we want

David Orr, Chief Executive of the National Housing Federation
Mutual respect to deliver the communities we want

By 2012, housing associations will own and manage around 2.8 million homes for more than 6 million people. They will provide 45,000 new rented homes every year, 25,000 for shared ownership and perhaps 10,000 new homes for market sale. They will be investing up to £1 billion a year in a wide range of employment and training programmes, support services for young people, healthy living initiatives, neighbourhood wardens and other community safety projects.

They will be major providers of housing with support and of homes for older people, and will be at the centre of some major regeneration projects. They will be involved, perhaps as lead developers, in the new eco-towns and they will regularly be meeting levels 4 and 5 of the Code for Sustainable Homes. The portfolio will include well-designed homes for wheelchair users and more lifetime homes than any other sector, and some of the most excluded and demanding people in our society will be safely housed by housing associations. By any reckoning, this is a successful sector with a positive impact on the lives of millions of people.

Despite this success, there is a strong feeling that the government is looking for alternatives. The 2007 housing green paper 1 explores at length the role that local government, the private sector and arm’s-length management organisations can play in meeting the challenge of increasing delivery. There is no argument that they all have a role to play. The housing and neighbourhood challenges facing the nation are so great that anyone who can assist should be encouraged to do so. But there is little creative thinking about new roles for housing associations. This paper attempts to fill that gap.

The role of housing associations

We should start by being clear about the present role of housing associations. As independent organisations driven by a clear social purpose, they already offer much more than an efficient business model for the delivery of new supply, although that is an integral part of their function. Uniquely among all potential providers, they offer a strong focus on the place and people as well as the buildings, they mix public and private finance in the most consistently successful public-private partnership in the UK economy, they are able to bring their own resources to the table and they are creative in finding solutions to local problems.

1 Department for Communities & Local Government Homes for the Future: More Affordable, More Sustainable (July 2007)
Others can do some of this, but no other sector is able to offer this complete package. Local government, of course, is key to place shaping and brings considerable potential for providing strategic leadership and land. It cannot, however, bring the mixed funding that housing associations use. Arm’s-length management organisations are often at the forefront of estate-based renewal and creative thinking, but they don’t own their assets, which remain publicly owned. The private sector can use mixed funding but it has shown little appetite for the long-term engagement with place that characterises the best housing association work. And it has to provide a return on investment to shareholders, whereas housing associations reinvest any profits in the communities where they work.

This is a compelling offer on which we need to build. To enable us to do so, there are things we need, some in the hands of housing associations themselves, some needing the support of government and others. I start with the issues that are in the hands of housing associations.

A winning reputation
Although the movement has an excellent track record, the collective reputation is poor. That reputation is characterised by a belief that housing associations are wholly development focused, have lost touch with their tenants and other customers, are unresponsive to councillors, MPs and other stakeholders and are either unable or unwilling to use their resources effectively.

This is far from the truth. Whenever ministers, or other politicians, or civil servants visit housing associations, they leave enthused and impressed. But this does not change the popular view. It is always explained as the good fortune of the visitor to have found one of the few creative, exciting, often inspiring housing associations in the country. But this is the experience almost regardless of which association has been visited.

Some of the responsibility for this distorted collective view rests with housing associations themselves. There is a real requirement to be clearer about their successes, to understand better the influence local politicians have, and to build much stronger relationships with the people who deal with housing enquiries in every constituency surgery. The ambition has to be to have such strong local relationships that elected representatives are regarded as a resource, and as champions of the work that housing associations do. This is not spin. There is a pressing need to ensure that the impact housing associations have is properly understood.
Accountability and governance
Then there is accountability. Almost without exception, housing associations have constitutions that say that they exist for the benefit of the community. They do not, and should not, have the same accountability structures as councils or private organisations, but there must be a credible means of demonstrating accountability to those communities. The models to date have not been strong enough and have led to the regulator demanding accountability to itself in lieu of strong alternatives.

There are some very encouraging signs that an increasing number of associations are developing robust, demanding and credible accountability structures, with customer audit or scrutiny panels, with real powers to interrogate performance information and engage constructively with boards. These need to be developed further and become the norm rather than the exception. And it needs to be understood by government and others that accountability and governance are different things. Governance is improved by strengthening boards. Accountability is improved when these boards are subject to proper customer and community scrutiny.

Assets and investment
Housing associations are, in the main, asset-rich organisations. The government has been looking very closely at how these resources might best be used, often taking a rather confrontational approach rather than engaging in a genuine debate about how government and sector can work together to deliver against shared objectives.

But even if the question has been asked in an unfortunate way, it is a proper question. Housing associations have a responsibility to use their assets as efficiently and effectively as possible to meet need. They must do so sustainably, in ways that ensure that future capacity is protected and not eroded in pursuit of short-term objectives. Investment and spending decisions made by housing association boards have consequences over very long periods of time. It is essential that such decisions protect the future as at least as strong a priority as meeting the demands of the present. And it is equally essential that government understands this is one of the key roles of boards. They must be allowed to fulfil those obligations without undue external pressure.

The National Housing Federation has addressed this demand in its publication Building Neighbourhoods.² It describes an investment strategy that liberates assets while ensuring

² National Housing Federation Building Neighbourhoods: A Solution for Sustainable Investment in New & Existing Communities (September 2007)
that there is continuing investment in neighbourhood support work and retaining future capacity.

So the sector is clear about the challenges it faces and the changes it needs to make which are in its control. It is equally clear that there are structural issues in the control of government which have a profound impact on ability to deliver.

**Partners for change**

First of these, as already hinted in this paper, is that the government must see housing associations as partners in meeting shared objectives, not as agents of government policy. The creativity that has been a feature of housing association work, in neighbourhood support, in developing new approaches to supported and older people’s housing, in leading on sustainable construction and in a wide range of other ways is a product of independence of action and good corporate governance.

Ensuring that such creativity can be nurtured and grown remains key to meeting the huge challenges we presently face. Boards must be allowed to make independent decisions about the use of their resources in pursuit of their objectives and must be regulated in a way that allows that they must own the major decisions that affect their organisations. The sector must be well governed with regulatory scrutiny and support, but must not become a wholly regulated sector or a wholly owned subsidiary of the state.

If this partnership model is essential with central government, it is even more critical at regional and local levels. Housing markets are not limited by local government boundaries. A regional understanding of the economic and social impact of housing policy is critical. The experience and expertise of housing associations can make a real contribution to effective regional planning, provided it is sought. As regional development agencies take on increased responsibilities for housing and planning, they must ensure that there are proper means for housing associations to be heard.

**Working with local councils**

But it is at local government level that the partnership is most critical. With recent studies asking whether social housing traps people in poverty rather than providing routes out, the potential relationship between the place-shaping and land supply roles of local government and the development expertise and neighbourhood investment of housing associations becomes central. Joint ventures between councils and housing associations, based on an acute understanding of the needs of the community and working directly
with those communities, could become a compelling answer to some very deep-rooted social and economic problems. This is perhaps the best route to developing viable, economically sustainable mixed communities – places that really work.

And it is quite clear that many housing associations want to be at the forefront of solving these problems. The National Housing Federation’s neighbourhood audit will show the extent of housing association investment in training and education, employment initiatives, healthy living centres, community safety, crèche and other community facilities to support both parents and children and an increasing range of imaginative social enterprises. There is also an exploration of an appropriate sector-wide response to financial exclusion and consideration of how housing association assets might be used to close the wealth gap between those who own assets and those who don’t.

**Conclusion**

Important though this investment is, the work of housing associations remains based in housing. In a market that has become polarised and where buying has become completely unaffordable to a growing number of middle-income households, associations are increasingly exploring how best to meet this need. Intermediate renting, shared ownership, shared equity and market sale are all part of the range of provision – all designed to respond to the failures in the market, failures that are not being systematically addressed by anyone else.

We’re not there yet, but the ambition for most housing associations is to move beyond being the housing of last resort to being a housing and lifestyle destination of choice. There is beginning to be some recognition that successful economies have a real choice of renting and ownership options, and that renting is an entirely sensible choice for different people at different stages in their lives. So the future provision from housing associations collectively might be one where your housing need is met, whatever that need. This includes the “traditional” social rented and supported housing, but will also include intermediate and market renting, shared ownership and other low-cost home ownership products and open-market sale.

This is only where the provision will start. It will come with a guarantee that housing association homes are fuel-efficient, cheap to run and environmentally sustainable, making a strong and leading contribution to the 2016 zero-carbon target. They will be well-designed homes in successful, economically viable, attractive and functioning neighbourhoods. There will be a wide range of financial services available to those who need them, at realistic prices.
Housing associations will assist new social enterprises and small business start-ups in their areas and will support their neighbourhoods by providing, on their own and with others, the kind of community services that make places function well and ensure that people feel safe not only in their homes but in their neighbourhoods. They will increasingly recognise that older people need high-quality housing, with space to accommodate children and grandchildren, and that successful places have larger family homes as well as apartments. They will support the buy-to-let market by offering management and maintenance services and they will lead in providing high-quality community supervision. They will do this in partnership with private providers and central government, and in increasingly effective partnerships with local government and with voluntary and community organisations.

Some will ask whether this is all a proper role for housing associations, and where the legitimacy comes from for this level of engagement. The answer is that housing associations have a long track record of seeing need and responding to it as creative agencies accountable to the communities where they work. They even have a way of describing it. They are indeed “iN business for neighbourhoods.”

3 iN Business for Neighbourhoods was launched in September 2003 as an alliance of housing associations within the National Housing Federation working to create good neighbourhoods in cities, towns and villages across England, and aiming to correct the perception that housing associations provide little else but poor-quality homes for the poor, the deprived and the vulnerable. The key focus of the campaign is putting pride back into communities, making them places where people want to live.
Chapter 4

From meeting need to matching housing aspirations

David Cowans, Group Chief Executive of Places for People
From meeting need to matching housing aspirations

We have rarely been provided with so much evidence and comment about the need for change in our housing system as we have now. Reviews from Hills, Callcutt and Cave,¹ significant changes in planning policy and practice alongside the creation of the new Homes & Communities Agency and latterly the publication of the Housing & Regeneration Bill all create a framework of change.

The government has set ambitious targets of achieving 240,000 new homes a year, of which 45,000 are to be social rented housing, and have created a requirement to achieve carbon-neutral housing by 2016. These are all fundamental elements shaping the future of housing associations.

This chapter focuses on what housing associations need to do to play a major part in this new framework.

Objectives

Perhaps a good place to start is to look at what we are seeking to achieve and see the role of housing associations as deliverers of these objectives.

Here is a starter for debate:

• Housing ought to be provided in mixed-income communities to avoid high levels of social polarisation and tackle economic disadvantage.
• There ought to be a focus on place, so that we provide good-quality infrastructure to avoid soulless slabs of housing without any facilities.
• There ought to be as much choice of housing for people as their circumstances will allow.
• Places and housing ought to be well designed and environmentally sustainable.
• Places ought to be managed and maintained well in the longer term.

If there is a broad consensus that these are our objectives, then we need different delivery systems. This is where, in my view, the future of housing associations lies.

It is worth mentioning that in the past housing associations primarily focused on providing affordable rented housing for those unable to access the housing market. As Hills, among others, points out, the last social house-building programme of a similar scale to that envisaged by the present government resulted in concentrations of poor-quality housing, often in mono-tenure developments, and left behind a legacy of significant social and economic problems, particularly in large tower-block developments.

Even with the enormous strides that have been made in the quality of affordable housing and the management of it, one in seven social housing tenants are dissatisfied with their home, and a regular facet of housing surveys is the clear aspiration for the vast majority of people to own their own home. Over the years, people’s aspirations have become more sophisticated and the traditional, simplistic model of social housing provision has become outdated.

In this chapter I want to argue that the future for housing associations depends on them remaining relevant in a rapidly changing, complex world and that the future direction is in becoming the developers and managers of whole places, not simply the specialist providers of affordable housing.

**The UK housing market: housing association activity**

The right-to-buy scheme of the 1980s saw 1.7 million socially rented homes converted to private ownership, mainly from local authority stock. Reduced building rates, specially for council housing, also meant the proportion of social housing decreased from 31% of UK housing stock in 1979 to just 18.5% in 2006. In many places this left the poorest stock in the hands of local authorities. There has been a slow but steady move towards social housing becoming residualised in numerical terms and in attractiveness.

John Hills in his comprehensive analysis of social housing showed that in the region of 70% of social tenants have incomes in the poorest two-fifths of income distribution. Nearly half of all social housing is now in the fifth most deprived neighbourhoods. Economic activity of social housing tenants was 50% in 2006, and it is estimated that 63% of social tenants are on benefits, 33% are retired and 20% are single parents. The average income of people living in the social rented sector is £7,800 a year.

These are perhaps unsurprising statistics for a subsidised rental market designed for those who are unable to access the market themselves. What is of great concern, however, is a low level of economic activity in social housing – just 34% of social tenants of working
age were in full-time employment, and nearly 25% of those of working age were reported as permanently sick or disabled.

**Figure 1: Changes in UK housing stock tenure**

Housing associations are ideally placed to directly tackle these challenges; to work with people to understand their aspirations; and to design services and products to help people achieve them. Housing associations have the amazing opportunity – and, I believe, a commercial and moral responsibility – to provide customers with choices and opportunities to drive forward the agenda of achieving mixed and sustainable communities.

**Providing access routes**

Often in our fragmented delivery system, housing and the access routes to it are in one supply chain, which means that the system is inflexible, incapable of changing to meet individual circumstances and not particularly focused on the customer. Perhaps a clearer distinction between housing as a commodity and the access routes to it may help the consumer, producer and government understand their options and roles more effectively.

Being able to provide the route for individual customers to attempt to customise their housing requirements and matching that to their economic wherewithal is a key role of the future for housing associations. The use of a suite of financial products (some of which would be subsidised by the state for those who are unable to make the market work for themselves) is a key element of this.
If one were to look at the simplistic notion of a housing market model set out below, based on Steve Wilcox's work on intermediate housing markets, one can see that in future housing associations could be providing all of these products and could also be providing the financial services that allow people to access them, depending on their economic circumstances.

Figure 2: Portfolio that addresses affordable living

<table>
<thead>
<tr>
<th>Not in work</th>
<th>In work but on housing benefit</th>
<th>Cannot buy at lowest 10% in local area</th>
<th>Cannot buy at lowest 25% in local area</th>
<th>Can buy at lowest 25% in local area</th>
<th>Can afford to buy at market level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable rent</td>
<td>Market rent</td>
<td>Shared ownership</td>
<td>Equity loans</td>
<td>Mortgages or market rent</td>
<td></td>
</tr>
</tbody>
</table>

These access routes would be capable of changing as people's circumstances change.

There are some interesting questions about the role of state financing in this sort of model. It may well be that in future housing support is paid not to organisations but direct to the customers, who are then able to use their grant to access the housing market in a way that best suits them. Clearly, this is a major challenge for housing associations' skills, financial capacity and strategic capacity, but there are many examples of organisations moving into this area. I simply argue that they need to do it faster and on a larger scale.

If organisations can become the providers of flexible housing packages and can strengthen financial access routes, they will be in a good position to offer products and services to cater for people should their circumstances change for the better or worse. Such products and services will allow customers to stay in their home through a different financial package.

These are perhaps bold propositions for some, but if one accepts that these are key elements of future housing in the UK, there are enormous opportunities for housing associations to become major players as the consumer champion in the housing market.

**Housing associations as developers**

Good schools, attractive environments and good local facilities drive house prices and
rental values, in many cases more so than the quality of the individual home. While this is clear, the processes that developers undertake to actively provide the infrastructure that will drive and capture increased housing values themselves is less clear.

Organisations that are able to acquire sites, deal with the planning system, create mixed-income, mixed-use developments themselves or with partners, and deliver high-quality management of that place in the longer term, will prosper. This is ideal territory for the future development of housing associations. Adopting the sort of approach that a commercial developer would take to a shopping centre or office park and applying this to the development of a whole place will tend to improve the quality of places, their values and their long-term attractiveness. However, these places will also need a long-term approach to management so that they retain their attractiveness and services are geared to the needs of the mixed-income, mixed-use community that live and work there.

There is a moral imperative here to move away from concentrations of low-income households, often living in the poorest housing stock. This new approach is needed to create high-quality mixed-income communities, taking into account people’s aspirations and acting to improve their life chances.

Much has been written on the need to improve levels of economic activity among those who live in affordable rented housing – segregating them away from normal economic activity serves only to minimise their chances of economic activity. However, creating vibrant, mixed-income neighbourhoods with a long-term manager who is interested in maintaining the value of that place by actively working to improve people’s life chances is clearly another way to improve people’s prospects of economic success. This includes the need to improve people’s access to equity on which they could raise loans to create businesses, and to provide finance to people who would have difficulty finding it otherwise, from a manager who is keen to see vibrant and economically successful places.

**Barriers and funding**

Despite the ambitious agenda set by government, merely expressing the aspiration to improve matters is insufficient without the desire to change the way that we deliver.

There appear to me to be several major issues that we need to confront if housing associations are to become organisations able to deliver on a much broader platform, and to deliver the best for existing and future customers.
1. The financial system under which housing associations operate is outdated and is a major obstacle to providing the sorts of products and services that people want at any scale. While housing associations have done well within a wholly debt-funded regime, there is now a clear need to access equity finance, both to leverage debt and to expand the financial capacity of organisations to be able to access large-scale sites and develop them as quality places. Housing associations need the same access to financial capacity that wholly private-sector companies now have. Some of this equity could come from government funding and a mixed provision of equity finance, debt and government equity, creatively used to maximise the capacity of housing associations to deliver what is necessary at the scale required.

2. The social housing grant regime needs to be reformed. I would argue that this resource, focused as it is on affordable housing only, is not necessarily the best route to generate sustainable mixed-tenure, mixed-income communities. A better route would be to turn the resources allocated to social housing grant into gap-funded equity to match the requirements of the total development, including all the affordable housing where gap funding is necessary. The calculation could accommodate infrastructure/site preparation, the cost of wider facilities, capital and long-term revenue in addition to the direct housing-related costs. In the event that there was a return on the scheme, the government could participate in that return and invest it elsewhere. In the event of a loss or a longer-term return, the equity could stay in the scheme as grant. This sort of approach ought to be the mainstay of the financial regime operated by the new Homes & Communities Agency.

3. The regulatory framework needs to focus on the outcomes for customers as a result of the activities of those involved in providing socially rented housing. While the essence of the proposals in the Housing & Regeneration Bill seems to suggest this is the intention, the detail needs further work to ensure that it is the outcomes for customers that are subject to regulation, and not the detail of the organisational arrangements to deliver those outcomes, which should be a matter for the boards and management of the housing associations or private-sector companies involved. This is more likely to encourage innovation and creativity within a well-run risk management-arrangement than an overly prescriptive regulatory framework focused on the inputs that the organisation employs to deliver its services. It goes without saying that those parts of an organisation that are not involved in the provision of socially rented housing using government grant would therefore not be subject to regulation, and this again would be likely to increase the amount of investment and
innovation employed in activities such as market renting, housing for sale and financial services.

4. A gap funding model, together with a revised regulatory framework focused on outputs, would also be more likely to encourage developers such as housing associations, or the private sector, to take a long-term view of the places they create or regenerate. Through partnership working with a range of stakeholders it would also be likely to encourage the delivery of complementary products and services such as new business start-ups, training and skills, childcare and the management of the public realm.

Conclusion
From setting out what it is that we need to achieve in creating sustainable communities, I have argued that we need to look further than just the built environment. We need to try and meet people’s aspirations and engineer products so that they have access to a more flexible system and, through this, more choice.

There are obvious issues that need further debate.

The future direction of housing associations needs to be in becoming the developers and managers of whole places, not just the specialist providers of affordable housing. Implementing new financial models, such as gap funding and equity finance, through a new regulatory framework will facilitate housing associations’ capacity by increasing available resources. Housing associations need to take a more commercial development perspective and at the same time remain focused on meeting their existing and future customers’ aspirations.

Achieving sustainable communities is not going to be easy, but the future of housing associations lies in getting this right.
Chapter 5

Community engagement and tenant empowerment

Richard Clark OBE, Chief Executive of Midland Heart
Community engagement and tenant empowerment

The future of social housing now rests clearly and strongly with housing associations. But the interdependent transformation of both homes and communities will only become a reality when associations, working in real partnership with local authorities, become the neighbourhood managers in areas where they hold significant housing stock.

Housing associations have occupied a complicated position in society almost since the creation of large charities over 100 years ago. The activities and identity of housing associations cause confusion amongst the general public, but there is also widespread confusion and contradiction within the housing association sector itself. As we examine the issue of housing associations' present and future role in community engagement and tenant empowerment, two of the characteristics that apply in the current environment are worth mentioning.

First, associations have been steadfastly inward-looking. It always used to be said that housing association chief executives would rather impress each other than impress key policy makers. This is reinforced by a language so jargon-filled as to be totally unintelligible to outsiders. The sector has marched on to its own drumbeat and largely to the indifference of the public at large.

Second, housing associations are the lion that has not roared yet. They are powerful, financially important key social institutions that have not caught the imagination of the public; nor have they fully punched their weight in terms of the public policy agenda. This is despite the fact that they are unquestionably one of the success stories of the past 30 years of public policy. The unbroken period of growth that has occurred since 1974, when associations owned less than 300,000 properties, to bring the figure to the present 2.2 million homes, is a testimony to a sector playing an increasingly critical role in society.

It is not a widely known or even accepted fact that housing associations control the majority of the social rented housing provision in this country. The growth is so exceptional that over the past 18 years housing associations have borrowed £30 billion of privately raised finance from a standing start, and they are expected to raise another £16 billion over the next five years. This has generated a capacity to manage existing properties well, to improve properties to a decent standard, to build upwards of 30,000 homes a year and to do far more in terms of community and social action. However, the picture is muddled and cloudy, and this article attempts both to clear some of that cloud.
and to set out an agenda that associations may well both want to follow and be capable of following.

The central emphasis of the 2007 housing green paper¹ is on dealing with shortage, an issue that also receives increased emphasis in the 2007 comprehensive spending review. The concerted lobby from housing institutions and pressure groups linked to the work of Kate Barker and others has led to government recognition for the need for increased output for all sectors. Housing associations are expected to increase their output by 50% from 2008 to 2011, in both rent and affordable sale. They will be meeting this through a variety of mechanisms, including the 10 eco-towns. However, as John Hills points out in his report on the future of social housing,² at the end of the period – in 2016 – existing properties will still be 90% of the tenancies. Does this mean in fact that tenant involvement and community empowerment are not significant goals for government, and correspondingly for the sector?

Tenants or communities?
But the biggest driver is coming from the bottom up – from the tenants themselves, who are much less deferential and demand a say in how their home is served and their community enhanced. They know their communities will only be truly transformed with their active engagement. The best associations are alive to this, because their governance structures and management systems enable them to recognise and project the desire for tenant empowerment in community development.

There can be no doubt that government policy think tanks and society at large have an overriding wish for more empowerment of communities, tenants and citizens. There have been various experiments in community involvement and resident empowerment over the past 30 years, but in the past 10 years – since the work of Policy Action Team 9 on community self-help – the pressure for increased community empowerment in their governance, their services, the products and the issues that affect them is relentless. The government has set very high store by the democratisation of local services and a demand for localism: where people have choice, voice and involvement in the services and products they receive. Housing associations operate within this general social environment and are subject to a whole swathe of pressures and encouragement to get involved in this agenda.

¹ Department for Communities & Local Government Homes for the Future: More Affordable, More Sustainable (July 2007)
So, what are the pressures the housing associations face on this agenda? There are a number of strands. First is the expectation of central government. In its action plan for community empowerment, for example, the Department for Communities & Local Government set out its expectation of the ways in which community action can enhance the lives and opportunities of residents and citizens.

The action list in this document makes fascinating reading for housing associations. Particularly notable is its emphasis on tenant involvement, which registers at number three of the 23 actions and is clearly a priority of the government, but with a very strong emphasis on local authority and arm's-length management organisation activity. Another interesting point is that reference to an explicit role for housing associations does not occur until item 20, where mention is made of the community anchor concept as a possible way for housing associations to involve themselves in the development of community empowerment. It is a concern that the role of housing associations is given such a diminished priority.

The second strand is the guidance given by the Housing Corporation in its requirements in relation to residents’ involvement. Peter Dixon, chair of the Housing Corporation, in the People First document in May 2007, states the expectation that housing associations will have a very high level of tenant involvement and a commitment to tenants’ involvement in governance. Dixon says that “housing associations should involve residents and communities in governances as well as design and development! Resident involvement should be central to the ethos and integral to the management of all associations.”

This seems pretty clear and bold, but whilst this central theme of resident involvement runs through this and other Housing Corporation documents, the commitment to communities does not stay the course. On page 8 of the same publication it says that “residents will remain at the core focus of housing association involvement – however whilst we do not require wider community involvement ... associations should consider how best to involve wider communities” – little pressure there, then!

The third strand is the development of the local agenda through local government. Streamlining work through local area agreements, key performance indicators, local inspection and comprehensive area assessments means that the housing associations

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3 Department for Communities & Local Government An Action Plan for Community Empowerment: Building on Success (October 2007)
should be centre stage (to this agenda), but in fact they are peripheral. In all DCLG and Local Government Association guidance, this emphasis on tenancy involvement is maintained. Professor Martin Cave supports this in his report *Every Tenant Matters*[^4], which has formed the basis for the new Office for Tenants & Social Landlords, and an important place is given to the consumer agenda in the Audit Commission’s key lines of inquiry for housing inspection.

There can be no doubt that these pressures from government are also backed up by what tenants want. In the Cave report it is made quite clear that 90% of tenants want more choice, and that tenants themselves embrace key performance indicators with far more enthusiasm than their landlords. They also want to take part in partnerships with their landlords and other agencies.

**What tenants want and what they are getting**

The reality of where we are at the moment is that the vast majority of social landlords, be they housing associations, local authorities or arm’s-length management organisations, are working very hard to provide better services and better products, and to satisfy their existing residents. There can also be no doubt that the Audit Commission inspection regime has acted as a wake-up call for housing associations to concentrate more on core services to tenants than was previously the case. This has resulted in an average level of tenant satisfaction of 79% and a reduction in non-decent homes within the housing association sector from 33.2% in 2001 to 23.8% in 2005 and to less than 10% by March 2008.

Very few housing associations do not place existing customer satisfaction at the centre of their strategies; most are balancing carefully the priorities of new and existing tenants. The Ed Mayo report *What Tenants Want*, written for the National Housing Federation[^5], made it quite clear that tenants did not want their landlords to move into the community empowerment arena unless they were already providing good services. The report has received widespread support from associations and government alike.

**What are communities getting?**

In the community engagement and community empowerment field there is an enormous

[^4]: Cave, M *Every Tenant Matters: A Review of Social Housing Regulation* (Department for Communities & Local Government, June 2007)
wealth of community projects fostered by housing associations in their local areas. These are heavily valued by their communities. The National Housing Federation database on community involvement now has approximately 2,000 demonstration projects on it. These projects spread across such diverse fields as community health initiatives, employment initiatives, financial inclusion initiatives and transport initiatives. Projects such as the enhancement of community safety and provision of community facilities are commonplace amongst associations.

A single example of this is the work my own organisation has carried out in Leyhill in Birmingham, in partnership with the city council. As part of a multi-phase regeneration programme the association has funded £50,000 towards building a brand-new community building at the heart of what was one of the toughest areas of the city. The extent to which this has been a feature of housing association work for the past 10-15 years and beyond is one of the best-kept secrets in social policy, and there is a clear reason for that. Service to tenants, customer research and customer involvement are all extensions of the contract between landlord and tenant. There is no equivalent social policy framework that clearly guides the community engagement work of housing associations, nor is there any explicit role stated anywhere.

The new Housing & Regeneration Bill indicates that the new independent regulator for housing associations may regulate these activities. As the clarity, breadth, funding, structure and role of these initiatives is amorphous and unshapen, this raises a question as to how the regulator could possibly do this effectively. In almost every area where housing associations have provided these projects they have been seen as valuable contributions to the enhancement of the community. They exist, however, in a near total policy vacuum, and the added value of this has been neither properly captured nor recognised.

**What are the options?**

There are three optional models for the way housing associations can develop in looking at the involvement and empowerment contribution. First, the consumer model. Under the consumer model, all associations carry excellent market research on their residents and future customers; they model their services closely on those customers and they provide value for money, services and products. They offer opportunities to involve tenants in review of services and they have constant feedback, as any effective business does, on the quality of what is provided and adapt their services to this information. This is the model that is furthest advanced within the work of associations and has been prioritised in all the publications referred to in this article.
Second, the citizenship model. In the citizenship model, housing associations develop the potential of their residents and the people who live, work and play in their neighbourhood. The associations use their resources to enable people to participate in activities in their local area and to access the housing association itself, including its governing bodies and structures. For example, resource capacity building and facilitation of people to increase their skills, increase their access and increase their opportunities within our society. Associations have carried out this work in many of these neighbourhoods and have even gone so far as to mimic local authorities; for example, creating scrutiny committees.

The third model is the partnership model. This is the model by which housing associations work with residents and the local community to establish projects, programmes and institutions that involve and give people more opportunity to participate in sustainable local institutions. Development trusts, community land trusts, social enterprises, local resident businesses and skill-building programmes would all fall under this heading. As the National Housing Federation database shows, across the country associations have sponsored, supported or acted as champions to these. Good examples are to be found in the work of, for instance, Poplar Harca in London, Plus Housing Group in Liverpool and Tees Valley Housing Group in the North East. They are, however, only a few from numerous excellent examples.

What is the right way forward for housing associations?
Should housing associations restrict themselves to the simple consumer model, or be more outward-going and tackle the broader, less easily defined, and ultimately more rewarding territory of community and neighbour empowerment and management? At the back of this are two fundamental questions: what is desirable and what is feasible? All the publications that deal with this subject agree that tenant involvement and resident empowerment do not exist for their own sake. They are valid only if they lead to real outcomes for people. But there are two values to empowerment; the first is instrumental – it creates a better service because of feedback, proximity and commitment. The second is intrinsic: the very ability to know you have a voice and a say in controlling your neighbourhood creates a sense of well-being and diminishes anxiety and the loss of control so many of us feel. We must not underestimate the value of this.

Housing association tenants on average have a gross weekly household income of £239, which equates to an annual gross mean figure of £13,410. This is 56% less than the national annual gross mean figure of £30,404. In general, housing associations are both
intended to and do deal with poorer and more vulnerable sections of society. Tossing a resident involvement bone to people whose fundamental need is for a solid piece of meat is only one part of the answer. Nevertheless, as was mentioned in relation to the Mayo report, all of the signs are that residents and communities want a bigger voice. They want more choice and they want to be offered the option to do things themselves – even if they choose not to take it up; and they wish to have institutions that listen, engage and create avenues for them.

The government is trying to encourage democratisation and empowerment in the local area through local government and its partner agencies. Much of the democratisation and empowerment agenda is broad, woolly and difficult to interpret. In areas where housing associations have a significant ownership, there is the real opportunity to create community value and genuinely increased opportunities and empowerment for residents and the broader community. It is much harder to develop empowerment on more peripheral services such as health, which people don’t necessarily rely on all day every day. Housing is such a constant factor in people's lives that it should be the prime site for the government’s democracy and engagement ambitions. As Neal Lawson says, “If community empowerment cannot work in social housing it probably cannot work anywhere.”

However, why should housing associations – who are under widespread pressures to deliver more effectively against a series of core business headings where government, stakeholder and tenant expectations are far more explicit – engage in this wider community empowerment agenda? The reality is that the dividing line between tenant or resident involvement and community empowerment or involvement is thin, indeed almost non-existent. Especially for urban housing associations with large volumes of street properties, it is simply impossible to increase tenant and resident satisfaction, secure long-term sustainability of their properties or even improve the condition of their properties unless they engage with the community as a whole.

There is therefore, in my view, a social and economic imperative for associations to step in and take a prominent and active role in promoting community empowerment, cohesion and opportunity. Housing associations need to take these steps because there is no other intermediary agency on the horizon available to play the role. Whatever the DCLG report says, development trusts, community land trusts and other agencies will never in the next five to 10 years be able to fill that gap adequately, however valid in themselves. This, however, brings me to the crucial dilemma, the bridge that housing associations and government need to cross.
Housing associations need to tackle problems that are within their capacity and also where they have a decent chance of succeeding. There is a very real risk of over-promising on this agenda, which lies primarily in the woolly nature of the framework within which community empowerment operates. The key risk is that of local government and housing associations working without a common framework.

The iN Business for Neighbourhoods programme of the National Housing Federation was right in essence that housing associations had a unique ability and opportunity to contribute to neighbourhood development and to community empowerment. The programme wrongly assumed that housing associations could do far more on their own than in reality they can.

If housing associations are to do more than simply act as effective consumer organisations, they must pursue the citizenship and partnership models with greater vigour. However, within that, the priorities and resources that are to be applied, as well as a real focus, must be agreed between local housing associations and local government. This is not the same as having the agenda annexed by local government. Associations have moved far from being just the instrument providing for the most excluded and those that have fallen through the net. Housing associations are central players in social and public policy and need to stand up and be counted as such. However, central and local government must recognise this role, and recognise that throughout recent policy papers the role of associations has been downplayed to an almost ludicrous extent.

A campaign to harmonise the agenda of democratisation, community empowerment and tenant involvement needs to take place between local government and the sector. This should be seen not as a power struggle between the participatory agencies, but as a far-reaching process in which housing associations become neighbourhood managers – community trusts in themselves. They need to be seen as agencies through which people who have very little choice and very little empowerment feel that there are a range of local bodies who are on their side and promoting their interests. In many locations that situation exists now: the challenge for associations and their local and central government counterparts is to translate that into effective, comprehensive action across the country.

The good news is that these new roles and relationships are entirely deliverable. The bad news is that there is a doubt whether the will and the vision are there to turn this into a reality. In the Birmingham/Sandwell pathfinder, Midland Heart is piloting a radical way
forward in the area of the Lozells riots. However, it can do this only because it has the full support of Birmingham City Council and the housing market renewal pathfinder agency, Urban Living.

The jury remains out; however, if housing associations restrict their horizon to a narrow tenant/consumer focus, this would not be invalid but it would be one of the biggest missed social opportunities of the new century so far. This agenda cannot be reduced to a key line of inquiry, a key performance indicator or a compliance statement. It is dependent on the vision, the will and the grinding determination of the key partners to involve people and promote opportunities for local people, a significant proportion of whom are not only in democratic deficit but in wealth and opportunity deficits as well. The financial commitment to housing associations shown by the government in the 2007 comprehensive spending review, and the highest policy priority given to housing for the past 20 years, give both housing associations and local government an incentive to collaborate more effectively over that period. Is either sector big enough to stand up and be counted on this challenge?
Chapter 6

Government reforms and incentivising housing associations

Tony Shoultz, former Chief Executive of the Metropolitan Housing Partnership
Government reforms and incentivising housing associations

Origins of the model
Housing associations have been the most successful and largest “third way” organisations. Their transformation from agencies of government came when their ability to borrow private funds against their assets in 1988 was allowed to stand outside the public-sector borrowing requirement. They increased their private and independent status, but grant was used to enable them to develop new affordable homes for rent and shared ownership and carry out major repairs.

Rapid growth followed – not least because they had a very strong cash flow and income to support them, but mostly thanks to the good terms on which they borrowed, supported by the security that the Housing Corporation’s regulatory role provided. This strength allowed grant to be reduced from 98% down to below 40% for new-build. Such was their effectiveness at delivering public good that, after the failure of the Estate Action programme, the Conservatives turned to associations, asking them with grant to take on the risk of large regeneration developments of ex-council estates under the Estates Renewal Challenge Fund funding system.

The Conservatives, as an ideologically consistent part of the 1988 reforms, allowed associations to set their own rents within guidelines and rashly declared that “rent would take the strain”. However, this bold statement was later regretted and guidelines put in place. A final element of the reforms was to deny councils the right to build, thus removing nearly all of the costs of the development of new affordable housing from the PSBR. This was one part of an armlock of constraint placed on councils that they have never managed to shake off over a period of 17 years.

Third ways
In spite of the bold “third way” testament of the new Prime Minister in 1997, housing associations never seemed to gain the recognition that they expected. Efforts to develop similar bodies in other areas were not really successful and were often resisted forcefully by the Labour Party. Instead, immediate reforms started a long move towards reducing associations’ freedom, reflecting a desire to put consanguinity between council housing and associations’ stock by coining the term “social housing”. The most dramatic examples were the setting up of a system of rent control that brought into place a common rent structure and level, and a requirement that their housing responsibilities towards the needy were the same.
This lack of comfort with associations’ status and relative independence was fed by those who saw council housing as a great socialist good like the NHS, but also by many, including MPs and councillors, who felt their lack of responsiveness to the political structure betrayed an attitude slightly distant from government policy, with a lack of accountability to local elected representatives. Nevertheless the government grew increasingly confident of their off-PSBR value, and promoted the wholesale transfer of council stock to associations to raise housing standards that were falling in the cash-starved public sector.

Associations’ traditional support for shared ownership had been incentivised through grant to ensure affordability to those just above social housing incomes, and a clever system (recycled capital grant fund) whereby the increase in value of the housing during its tenure (whilst the shared owner purchased more of the house) remained as surplus and grant inside the association. Associations were forced by their charitable status and industrial and provident society constitutions to spend this on new housing or repairs, and the Housing Corporation was able to influence its use. This proved a crucial example of the trust that associations felt they could provide.

Strangely, in 1997 the grant for shared ownership was halted by the new Labour government as part of the promised return to true social housing, though this momentary relapse in caring for those aspiring to be middle class was transformed over 10 years into an extravagant singing of its praises. So much so, that by 2007 low-cost home ownership options were a major part of government housing policy, and a number of products (more than necessary) were devised to replace shared ownership, though with markedly patchy success. Indeed, the notion of housing key workers (expanded rapidly over time) through HomeBuy came close to the original “artisan class” housed by associations in the 1900s.

**Testing the model in the face of prosperity**

From 1988 to 2003/04 housing associations enjoyed an exclusive role based on the new model, and prospered. But this was to be challenged as the continued world prosperity that stretched from 1992 brought about three key changes:

- affordability became a problem for many classes, as house prices rose rapidly in response to demand generated by people’s surplus income;
- housing demand increased, coming from a growing number of households swelled by rapid immigration, in the South East in particular; and
- public spending grew rapidly on public services that needed continuing high levels of public income from new taxes or reductions in expenditure.
Dissatisfaction with associations had grown from three sides:

- the frustrated public-sector stalwarts who saw the increased prosperity denied to the council housing that remained;
- the house builders, who saw associations as blocking their way to their own increasing share of prosperity; and
- the government, which found that the supply of social and indeed all housing was not rising, but seemed mired in planning red tape and bureaucratic rules.

To satisfy the stalwarts, the association “independent model” was adjusted to allow off-PSBR funds into quasi-council housing, but the rent control pattern was retained, not even being mildly adjusted to reflect higher values and costs in a rapidly inflating housing market. The effect of this restraint was to reduce the financial capacity of associations and other new bodies such as arm’s-length management organisations.

The major reforms were to be directed towards increasing housing supply. These were supported by the Barker report, a statement that stood back from the economics of businesses, and emphasised rather the importance of housing to the economy. The reforms were to be robust:

- to free land for development;
- to ease up planning;
- to increase densities; and
- to get more social housing from less grant.

This paper is not concerned with the strengths or weaknesses of many of these measures and their variants which impinged on associations – such as the proliferation of public development agencies, which seemed to thwart councils, developers and associations in equal measure – or the fact that planning permission seemed to become harder, not easier.

The last of these objectives – to get more social housing from less grant – was to require the “manipulation” of associations, as they were the main receivers of the grant for new social and affordable housing: it was felt that better productivity could be achieved. The context for this was tricky. Associations did not conform to notions of private or public bodies, and hence their status seemed to resist standard methods of regulation and taxation. For instance, the main reason for their low borrowing costs was the Housing
Corporation's regulation. A further problem was the Treasury's dread of associations becoming public bodies and putting billions on to the already swollen PSBR. The EU seemed to find associations as puzzling as the Treasury, as it regularly pressed the case for their public body status.

The "better value for grant" agenda included:

- to get the expectation or realisation of increases in housing values turned into available "grant";
- to turn grant into investment with a return to the public coffers;
- to invite the private sector to invest in social housing on the back of its continuing increasing value; and
- to make grant available to the private sector and house builders.

This agenda was developed to an extent on the back of a very strong boom in housing values, but also because housing values had grown consistently for over 60 years. The latter point was expected to prove attractive to the prudential institutional investors, though they had rarely invested in housing. But it must have been obvious that a boom could not be expected to last.

The reforms to the model
If the government had then set out to incentivise the association sector to make its own bid for increased affordable housing supply, an interesting set of reforms might have emerged, but for reasons that are not immediately obvious they did not. This paper's aim is to pinpoint the reason.

If the changes that were introduced are set out together, their combined effect is startling. They would:

- threaten the Housing Corporation, make it subservient and distrusted by the sector;
- threaten to abolish the corporation and replace it with the Audit Commission, a body wholly dedicated to overseeing public bodies;
- reduce the level of grant on social rented and shared-ownership housing;
- drag returns from shared ownership into supporting rented housing;
- make associations compete with each other to purchase, with their reserves or grant, the affordable housing section 106 opportunities put together by developers – any "extra" public funds thus going to developers' shareholders;
• rule out of development a large number of medium-sized and smaller associations that had assets and borrowings available;
• threaten those very associations with powers to transfer their assets and in general all associations that did not use their assets enough;
• propose increases in regulation that would threaten “public body status”;
• resist pressures to allow increases in rent and consider ways of weakening their cash flows from housing benefit;
• increase the expectation of local authorities that they can build and so discourage them from releasing land;
• insist that government bodies must get good value from the sale of land to associations;
• introduce public-sector methods of encouraging value for money – efficiency statements and use of the Official Journal of the European Union;
• increase regulation, and introduce a more stringent level of control and expectation of associations delivering social housing than of developers;
• encourage larger associations to become developers and rely on private outright sale to increase the “grant” available, exposing them to the housing market’s variability;
• charge associations for the cost of their regulation; and
• encourage councils to seek a return from associations investing in their projects – for regenerating estates or developing land.

It is not that all of these actions are misplaced or cannot be justified, or do not contribute to value for money from grant. Many of these actions are, however, based on a continuing housing boom, a belief that seemed to grow as the boom started to wobble. But not many of these have helped the sector deliver more housing for less grant and remain profitable. And if this list is odd as an incentive-creating agenda, it is even odder in the face of the fact that the Housing Corporation had protected associations from failure, guaranteeing their low borrowing costs, and further had delivered its funding and production targets every year.

There have been some not too surprising side effects:

• Shared ownership has become less affordable, increasing the demand for social rented accommodation.
• Active associations have increased their leveraging on assets to very high levels and increasingly rely on the sale of assets to remain viable.
• The price of section 106-associated development to the public sector has increased.
Reforming the third way
The reason for this strange set of events is that the government treats associations exactly as it does councils, and where they are not like councils encourages them to be more so. Hence grants, targets, instructions and more regulation are the regimen to apply. Government does not see its role as being to incentivise these businesses, whereas it accepts this role in encouraging developers.

It (even the Treasury) has never grasped that associations borrow extensively against their assets (much more so than other industries would be allowed to by their bankers) and have high interest to pay against a regulated income. Their reserves are necessary to meet their covenants. On the contrary, the government has seen those reserves as free money, which in their view should be invested in social housing. Its remarkable exercise of "unlocking the door" based on an accounting misconception had a strong instruction behind it, demanding that associations borrow more.

Its concept of removing the Housing Corporation (as unreasonably protecting associations) into some other body was only stopped at the last minute by the lenders pointing out how regulation worked for the banking world and borrowing costs. The new vehicle will not be too different from the Housing Corporation.

Otherwise the measures have consisted of forcing them to pay more for less housing, and compete to do so, making the housing more expensive. What made associations bullish has been the prospect of the growth in value in the housing market. It may have made them too bullish and as a result hard times may now be expected. At least partly this will arise because regulation is not significantly concentrated on operational profits, financial capacity and debt structure, though it has moved considerably in this direction. This error incidentally encouraged new and highly leveraged black and minority ethnic associations to develop beyond their financial capacity, with large grant programmes given in the name of political correctness. Intriguingly, governance expert Professor Martin Cave missed this in his report.¹

There is no doubt that associations, up to three years ago, have prospered, though recently their surpluses have increasingly relied on the sale of assets. Some of their surplus income has been channelled into community investment – partly to make housing management

¹ Cave, M. Every Tenant Matters: A Review of Social Housing Regulation (Department for Communities & Local Government, June 2007)
less onerous, but also as an extension of their social role. This has been very much geared to government thinking, but of course relies on good times. It is very significant that the draft legislation on housing just published includes new powers for the new regulatory agency to regulate this voluntary activity.

The government has, on the other hand, not valued the public part of associations’ special status. Thus it has encouraged them to act in the housing market, exposing them to market risk in a falling market, and forced them to pay more for the section 106 market than they needed to. This has wasted and exposed their public money, and made them less able to step in for the government when it will need them if the market needs support. The “housing market package” used by the Conservatives to prop up the market in 1991 was effective (though it had its critics) because associations were free of the collapse that had contaminated the rest of the housing sector.

Overall, the incentives look like bullying through higher “taxes” or less return, and will not produce more housing for less grant for very long, if at all – and at considerable cost to the capacity of the sector.

What is the answer to this dilemma?

Understanding leads to influence
For a start, the new regulator (which will, it seems, look jolly like the old one) must have as its prime duty to independently understand and interpret the “economy of associations” to the government. It should advise on the most effective way for them to be influenced, and the best way for them to be protected. It should put on its board economists and business people. Unfortunately, the removal of investment from its structure will mean it is even harder for them to understand the business mentality and strengths and weaknesses of associations.

Grant not investment
At present the proposals for the new Homes & Communities Agency are based on moving towards investment rather than grant, and the terms “overage” and “return” are common. The English Partnerships product, based on covering holding costs but seeking returns, is a better step, but is likely to expose associations in hard times. The notion of investment rather than grant (and the idea of associations paying for the full cost of land) is more likely to discourage associations from taking risk and not make the most of assets. In addition, English Partnerships is very site-specific in its approach to investment, and the
Homes & Communities Agency may take on the narrowing view that the Housing Corporation has had to maintain because of Treasury-imposed annual targets.

Grant has been much more flexible both in terms of its application and its redefinition, and is less subject to government conditions. So a more practical approach would be to retain grant regimes and allow grant and value to grow inside associations to keep them viable and ambitious. A few key performance criteria in terms of cost, value and product supported by incentivised grant regimes would assess the efficiency with which they make use of this.

Discouraging competition to reduce waste
The grant regime would be related to programmes, not site- but area-specific, to discourage competition between associations for the same opportunities. In this way the value from grant is maximised.

The same objectives and standards for all providers
Developers should be forced to meet the same standards for social housing in their section 106-related development, but this would mean that standards would have to be reasonable and not innovative or ahead of economic technological capability (for instance, the eco standards now being promoted).

Partnerships
Incentives should be devised to encourage developers to form partnerships with associations, and not the other way round.

Conclusion
It was always bewildering when John Prescott emptied the English Partnerships fund in 2005 to buy health land, but it was a sign that the government saw only the funds and not the various operating businesses that looked to government for some grant for risky and difficult schemes. Those operating businesses were not seen as co-conspirators but as agencies fulfilling a role to be dealt with much as councils are, in difficult times.

The struggling market will have to struggle a bit longer before the failure of several associations exposes their business characteristics.

And we will also have to wait a bit before the proud announcement of numbers of affordable or all homes to be built by such-and-such will be seen as a good intention,
and the question will be asked: “Were the businesses which had to do it in good shape to succeed?”

Who knows – like for Northern Rock, the government may well deduce that nationalisation will be the best option. Those public stalwarts will have won and the third way will become another idea that failed.
Chapter 7

The London context

Tom Titherington, Group Business Development Director at the Hyde Group
The London context

Housing associations in London are facing an unprecedented range of expectations, not only in terms of providing new homes and carrying out regeneration, but also in tackling worklessness. All this at a time when the basic role and purpose of social housing is being publicly questioned.

What this paper tries to do is briefly explore the housing and related social policy issues in London, and ask whether the response of government and its agencies on the one hand and the leading registered social landlords on the other has been adequate to the challenges that these present.

Setting the scene

Housing associations in London own around 500,000 homes. There are roughly 400 of them registered with the National Housing Federation as working in London, yet only 34 are developing associations. Of these, the largest registered social landlords (RSLs) – grouped under the so-called “G15” – are powerful, risk-taking developers.

London is very different from the rest of the country. First, it is a simply massive place: ignoring its satellite towns, London has a population of 7.5 million people. It is growing rapidly, by a conservative estimate of 120,000 people a year. It is essential to the economic well-being of the country and its contribution to the economy is 20% above the national average. Yet London is a place of real contrasts in wealth; 28% of London’s earners sit in the top fifth of household income but 26% are in the bottom fifth. Only 56% of Londoners are home owners. Londoners are diverse; 30% are from non-white groups; 50% of the 1.2 million schoolchildren are from black, Asian or other minority groups.

These statistics aim to illustrate the complexity of the capital, but in some senses they miss the real issue of the increasingly fractured nature of its society, with apparently growing numbers of people increasingly excluded from mainstream economic and social life. The growing divergence in wealth is reflected in decreasing intergenerational social and economic mobility. The correlation between levels of exclusion and social housing raises the question whether this form of housing is in fact a cause and not a consequence of exclusion.

Policy environment

Over a period of at least a decade, the major concern and the major policy initiatives in
housing appear to have centred on home ownership. “Intermediate housing” is a concern to such an extent that initiatives aimed at getting social housing tenants to own the smallest proportion of their homes is lauded. But there are problems with home ownership as a key strand to housing policy in the most expensive city in the world. Shared equity and forms of discounted sale are good products, for some, when the employment and housing markets are aligned in a “traditional” manner. In the present market, the increasing number of products run the danger of creating a series of sub-markets where people become trapped, unable to move as there are no purchasers to buy their current home.

Added to this, the profile of some shared-equity owners is changing. There is an increase of those who would at one time have seen themselves as natural social housing tenants, who are now rationed out of the system, purchasing a minimum share of a home in effect to access rented housing. They will not proceed through the system to outright ownership.

In a sense, it is not surprising that home ownership is perceived as offering moral and financial advantages at a time when rented social housing is increasingly perceived as becoming akin to welfare housing, but it is not an answer. This is recognised by both the 2007 housing green paper1 and the Greater London Authority’s strategies, as both look to increase the proportion of social rented housing within new developments. The problem is that it is hard to see what major impact this will have in terms of social balance. Pressure points will be eased, making the system easier to administer and giving more poor people a decent home. But we are not talking about anything approaching post-war levels of investment in housing as a “public good” in a mixed economy, open to all and occupied by a diverse range of people. This is unlikely to happen as public housing continues to move off the government’s balance sheet – with arm’s-length management organisations, nascent RSLs, the latest iteration of this.

One of the paradoxes is that in part, belief in and drive for owner-occupation in London create a renaissance in the private rented sector. Rightly pilloried for its failures in some places, the socioeconomic importance to London of this form of tenure cannot be denied.

Where does this leave RSLs in London, faced with a growing spectrum of housing needs and growing economic disadvantage amongst their traditional tenant base?

1 Department for Communities & Local Government Homes for the Future: More Affordable, More Sustainable (July 2007)
Return to rent
Housing associations have invested little time in thinking through possibilities for the provision of rented housing besides traditional social housing – in part because of the policy focus on supporting owner-occupation. Yet there is clearly a need for this rather traditional form of housing. The well-documented issues with some recent developments – of problematic design, the inappropriate concentration of this form of housing, and poor management and letting – all work to provide opportunity for housing associations in London. Expanding their provision of rented housing away from the social rented version would enable housing associations to do five things:

• meet demand and need at a cost to the consumer below ownership alternatives;
• create an unencumbered property base with greater opportunity for stock churn;
• create a portfolio of properties that can be managed to create steadily growing margins;
• use this as a tenure type when designing and developing “mixed, sustainable communities”; and
• establish effective cross-tenure management models at a local or neighbourhood level.

Any investment into expanding the provision of rented housing will initially need to be driven by purely commercial considerations. It would have to make money at least in the medium term. Once established, however, market-rent businesses within RSLs could move on to consider equity release and discount pricing for ownership to present occupiers if they wished. This would achieve a flexibility of tenure not possible within the social housing portfolio.

Exclusion and neighbourhood stewardship
The separation from mainstream economic and social life of a large part of society should be one of the most urgent political issues of the day. Housing associations need to be explicit about the process of division and exclusion of sections of our society, how this impacts on social housing and vice versa.

To date the response to this from housing associations has been poor – not so much because they have done too little but because they have explored and thought too little about the nature of the problem. There is no shared analysis of this issue amongst associations in London, and surprisingly we rely on studies external to the sector to inform us of the texture of our tenants’ lives and the factors that act to compound their exclusion.
The process of transfer of social housing from the public to the housing association sector, and the fact that the indices of deprivation amongst “dispersed” tenants are the same as those on estates, make this an urgent issue for social landlords. Associations will need to become proactive in the representation of the needs of residents and play a more influential role in co-ordinating and developing services. To do this they really need to understand the circumstances and aspirations of their residents.

It may be that, as many claim, social housing acts as a “disincentive to work”, that there is an increasing “welfare dependency”, or it may be that a shrinking social housing sector inevitably houses those who are less able. What is clear is that housing associations need to invest time in understanding the interplay between social housing tenants’ perception of opportunity and how this shapes their desires, aspirations and actions.

To then go on and ask housing associations to tackle directly the causes of residualisation would seem strange, though, particularly given that other agencies such as education departments, social service departments, works and pensions are to a large extent dedicated to combating “exclusion”.

However, RSLs’ proximity to the impact of these problems means that they do need to play two roles. The first and most important is, as stated, to understand the circumstances and actions of their social housing tenants. The second is to represent this knowledge on a neighbourhood basis. We know that programme-based neighbourhood actions are useful, we know that improving the social infrastructure is good, but we also know that effecting cross-generational change requires a huge and considered effort on both a neighbourhood and an individual basis. The large housing associations need to develop a clearly thought-out response to this issue and represent this to other agencies and bodies informed enough to demand action by others as opposed to reacting to it.

**The profit imperative and generating cash**

All the large, G15 RSLs are, to a greater or lesser extent, increasingly reliant on activities that both generate profit and can be relied on to deliver cash into their business plans.

The on-going capacity for the RSL sector to subsidise the provision of new social housing units depends on operating in a way that creates long-term value within the housing association business, in terms of a strong asset base, profit to offset subsidy and reliable sources of cash on an on-going basis.
The necessity to provide subsidy for every new home and every regeneration scheme, as well as for service provision for the most vulnerable and the research and development necessary to achieve environmental sustainability, will have the effect of driving RSLs to invest time, senior human resource and capital in activities that can deliver both profit and cash.

Housing associations will begin to become more diverse and to take greater risks. These risks will be very different from those that housing association officers and boards are traditionally accustomed to. Governance structures will become increasingly complex to make the money work as new subsidiaries are created, as new relationships are developed with house builders, landowners, constructors and local authorities.

The next decade will be one in which housing associations will have a number of competing objectives, with the larger organisations increasingly concentrating on creating the profit-orientated operations that will allow future investment in the social product. There are risks in this more profit-led approach. Besides the obvious risks that this drive for profit entails, there is also a risk that housing associations in London will begin to lose purpose as profit and not need consumes management focus and entrepreneurial drive.

**Co-operation**

The complexities of the present climate and the range of expectations on housing associations working in London sets a whole series of new challenges for RSLs. Increasingly, regeneration and large-scale new-build projects are of a scale and complexity that involve taking a level of risk unimaginable a short time ago. This is not only market risk but those risks that accompany the responsibility to ensure long-term manageability and sustainability. These factors in turn lead to a complex process of financial and operational engineering. As many of the large London associations move to become quite different organisations, they talk to each other and share experience and ideas less and less as they compete for access to particular projects.

This competition leads to significant loss within the sector; financially, through increasing abortive costs and the danger of organisations overpaying to win. More importantly, this attitude whereby housing associations see themselves as competitors and not colleagues means a loss of intellectual capital, as thinking is fractured at a time of real challenge.

The classic market response would be to decrease the competitive field through merger and takeover. Though mergers will continue, mega-mergers will become increasingly
difficult to effect. Almost despite themselves, the large London RSLs will find themselves having to work together to take a common stance on the basics: acceptable space standards, how high-density management can work, governance structures and devolution. Collectively they will need to become the leaders of thinking on design, the definitive view of the right mix of housing, and what steps need to be taken to tackle exclusion within social housing.

Perhaps even more importantly, self-interest will lead to joint working where there is major financial risk and profit is involved. The financial and organisational challenges for one of even the larger associations of creating a subsidiary carrying out outright sale or market rent activities of sufficient size to create impact is very significant. Jointly owned outright-sale vehicles and asset-holding market rent vehicles should evolve as housing associations jointly respond to the level of capital lock-up and the shared need for market knowledge.

**New partnerships – local authorities and arm’s-length organisations**

Local authorities seem to be facing increasing operational challenges. The recent comprehensive spending review demands from them even more "cashable" savings at a time when the expectations of the public and government continue to rise. In London the continued environmental challenges, an ageing population and the strain that the emergence of an excluded class of people place on statutory services will demand entrepreneurial thinking and a partnership approach if savings are to be made.

To a large extent, previous Gershon review savings have been achieved through the externalisation of housing. As the new executives of the arm’s-length management organisations get to grips with the real investment needs of some of the stock, assess the ability to manage housing need and demand, and ascertain the development potential of their housing, new development partnerships should emerge between these organisations and RSLs. Vehicles should be set up where strong neighbourhood partnerships are created for both redevelopment and on-going stewardship, regardless of whether all tenants remain with the council or with the housing association or a mixture of both.

**Capacity and the end of the charitable RSL**

All the changes outlined reflect the present challenges and are, in a sense, an amplification of what the large RSLs would at least claim to be doing. However, the question needs to be asked whether a much more radical review of the role, financing and relationships of the sector needs to be undertaken. The housing green paper has within it two quite
distinct approaches to regulation of social housing provision. One is the continuation of regulation of some organisations (RSLs) through a housing regulator, and another with developers through a simple output-based contract.

The continuation of an organisational regulatory regime comes at a time when the large developing RSLs are becoming increasingly complex, in part in order to generate and maintain capacity to input into the social housing product. The new regulator will be expected to control the activities of a range of charitable and non-charitable companies, shareholder arrangements, limited liability partnerships and special-purpose vehicles.

This determination to regulate organisations as opposed to outputs and production would seem to stem from a concern and nervousness about the value of the historic interest in RSLs. In reality, some see these as quasi-public bodies created by grant that need to be controlled to ensure they meet the government of the day's policy objectives. Yet at the same time there is this on-going process of externalisation of public housing.

An alternative, tax-based approach could both increase capacity and output and save on regulatory cost. This could involve a number of steps:

- a write-off of RSLs' historic debt to government in return for a guarantee on housing outputs;
- tax penalties on those housing associations that do not deliver through the taxation of profit not reinvested in new housing; and
- tax incentives for those organisations that create and hold the form of social housing product desired.

However, even more radically, this could be accompanied by a rationalisation of the sector through the one-off large-scale transfer of public housing, and those asset- and surplus-rich housing associations not utilising their balance sheets being merged with those that actively partner with government to meet social need.

**Partners or agents of government**

This is a very different way of thinking about what housing associations are. It reflects how far the larger housing associations are moving to become quite different bodies. It also looks at and tries to tap the immense latent capacity in the social housing sector as a whole. For the government to think along these lines would require a huge leap of faith, but something similar has already been done in Holland.
Housing associations for their part value their independence and their historic roots and see themselves as partners, and not agents, of government. That may well be true, but separation or divorce is an impossibility. What is clear is that housing associations need to establish their own analysis and policy agenda, promoting these in policy and deed. What is also clear is that the analysis and approach of the largest RSLs in the capital in the G15 will be very different to the smallest in the G320 of smaller London housing associations.

This divergence will need to be recognised, and the next decade will need to see the G15 develop a clear policy analysis for the future direction of housing in the capital, working in concert with their combined muscle to influence, if not dictate, the agenda on size, sustainability, design and exclusion. They need to be prepared to think through issues of structure and role in a way that prepares them to best meet present and future challenges.
Chapter 8

Re-regulating social housing

Professor Martin Cave, Director of the Centre for Management under Regulation at the University of Warwick
Re-regulating social housing

The review of the regulation of social housing

At the end of 2006, the Secretary of State for Communities and Local Government commissioned an independent review of the regulation of social housing, by a team of which I was the leader. The need for a review arose from a feeling that the existing regulatory system had lasted for 30 years, during which the social housing sector had changed beyond recognition, notably through the growth of housing associations. The government also planned to reconfigure the organisations involved in regeneration, and this would cause changes in the operation of the Housing Corporation, the housing associations’ regulator. Moreover, there were worries that the system might be neglecting tenant interests.

The review’s report, *Every Tenant Matters*, was published in June 2007, and the department immediately launched a consultation on it. After announcing in October the decision to adopt most of the report’s recommendations, the government published the Housing & Regeneration Bill, which received its second reading in the House of Commons in November 2007. Its purposes are both to establish a new regeneration agency and simultaneously to create a regulatory Office for Tenants & Social Landlords, with new duties and powers.

Some 8 million people live in 4 million social homes, split among housing associations (2.2 million), local authority managed housing (1.3 million) and housing provided by arm’s-length management organisations (800,000). Funding is now also available for private-sector companies to build and manage social housing. The report welcomed the diversity of provision, which sets up an opportunity to contrast the performance of different types of provider; but this requires the different providers to be placed on the same footing.

The more urgent reason for regulating the social housing sector as a whole, however, comes from the consideration that the factors justifying regulation operate across the domain. In the report’s view, these are three:

- to ensure continued provision of high-quality social housing;
- to empower and protect tenants; and
- to expand the availability of choice of provider at all levels in the provision of social housing.
All of these objectives are geared to meeting tenants’ needs. The first deals with providing the essential fabric of social housing at a high quality. The second ensures that tenants are protected from abusive treatment by poor providers, and, more importantly, seeks to make the tenants’ voice, captured in a number of ways, decisive in determining the service they receive. This is absolutely fundamental in the light of the present shortage of social housing.

In other markets, consumers are protected by the possibility of going elsewhere – they can exit. But social housing tenants cannot normally do so, because of shortage of supply. Accordingly, the regulator must find ways of allowing them to assert themselves – to express their needs. This might be over important issues such as how maintenance and repairs are effected. It might be to compel the provider to offer a choice of tiered quality of service levels, from which they can choose. It might in extremis involve tenants helping to choose new managers to look after their housing stock.

The third objective clearly calls on providers to offer tenants as much choice as possible over where they live, within the confines of the current disequilibrium, but also seeks to develop choice of provider at other levels. One example – replacing poorly performing managers – has already been given. A second, less drastic one might involve the rationalisation of management functions across a range of owners of stock.

The higgledy-piggledy process of development and merger in the housing association sector has left isolated pockets of tenants of one provider adjacent to major groupings of another. The former are sometimes neglected, and would prefer to be managed in conjunction with the other. This can be achieved via a voluntary management agreement. Some argue that the application of value-added tax to such contracts would make them unviable, but I am not convinced that this is so. Instead, I hope to see the development of a competitive market in management services for social housing across the domain.

**Division of responsibility**

The design of all regulatory systems requires a transparent division of responsibility between the policy (the specification of key objectives by elected representatives) and regulation, the implementation of the objectives via interaction with particular providers and, more importantly, their tenants.

Social housing involves policy formulation at both the national and the local level. At the national level, the report proposes that the Secretary of State be given powers of
direction to the regulator in two key areas – standards and the overall level of rents. Standards embrace not only internal bricks-and-mortar issues, but also key environmental and security matters that have such a profound effect on tenant welfare. The level and scope of standards have clearly changed over the past 20 years, and will do so again in the next 20. Accordingly, successive ministers will no doubt change the standards over time.

Because housing benefit accounts for about 60% of total rents paid, it is both unrealistic and inappropriate to delegate such a key public spending issue as the level of rents to a regulator. This suggests that the government should have the power to set the overall level of rents in aggregate – for example, by a formula requiring them to move in a way related to the rate of inflation, or some other indicator – but the regulator would deal with more detailed rent proposals for providers, for example by approving changes in the relative rents of four-bedroom houses and two-bedroom flats, to give tenants of the former an incentive to downsize when their requirements change, or by giving guidance on differential rents for different types of services.

Local government legislation will give local authorities a strategic "place-shaping" role in their neighbourhoods in respect of all areas of activity – including employment, education and all types of housing. Local authorities are expected to achieve this by creating partnerships with the public, private and voluntary sectors. With this in mind the report proposes placing on social housing providers an obligation to co-operate with local authorities in devising and implementing housing strategies. This should be enforced by the regulator. This may involve the regulator cajoling the parties when relationships break down. However, the importance of the goal justifies such a measure.

The next pieces in the regulatory jigsaw are to give the regulator the information to act and appropriate powers of enforcement. The report proposes automatic collection on an annual basis of a minimal set of "used and useful" information, relating to standards, rents, financial strength and – above all – tenant evaluations of the provision. We envisage these evaluations would be prepared in a variety of ways – there would be no prescribed right answer. For example, a third party might organise focus groups or a questionnaire. Tenants might organise feedback themselves. What have to be avoided are top-down (that is, provider-chosen) procedures that continue from year to year and leave tenants uninvolved and disempowered.

For most providers, submission of information is likely to be the end of the matter.
The regulator will check it, and let the provider get on with it. But there will clearly be problem providers, and the report proposes that the regulator have a set of escalating powers to put things right. Triggers for this include data provided to the regulator, whistle blowing, tenant representations (accompanied with evidence), local authority feedback and so on. These will in many cases provoke further investigations and where possible remedial action. Inspections might be commissioned. Providers could be required to pay compensation to tenants for poor performance. In rare cases of persistent failures, management might be changed through the re-tendering of the housing management function.

The report argues that these changes should put the tenant in the driving seat to a much greater extent than is the case at present, while simultaneously freeing high-performing providers from intervention. But I am aware of two areas where the new regulator may need to do some more development work. The first relates to the efficiency of providers: how good are they at avoiding waste? Housing Corporation comparative data shows marked differences in the cost of provision by various housing associations, even when factors like regional wage rates have been taken into account. Clearly, if all providers matched the efficiency of the best, there would be more resources available to give tenants better service or to develop more new homes. The report proposes giving the regulator powers to collect data on unit costs, but moving from that to a reliable method of promoting efficiency will be quite difficult.

Yet the main problem in running a tenant-centred system may be to get the necessary high-quality evaluations from people who have many other things to do. Some providers are very good at this, but many have scarcely scratched the surface of the problem. One of the regulator’s and the providers’ key tasks under the new system will be to share information on modes of tenant feedback and participation. The report suggests the creation of an organisation to provide a national voice for tenants, as part of the National Consumer Council, which might play a role here.

**The Housing & Regeneration Bill**

The bill will inevitably undergo changes before it receives royal assent. Whereas most of the report’s recommendations were contained in the version that received its second reading in November 2007, two aspects of it deserve particular comment.

First, the bill empowers the regulator to set standards, which may require registered providers to comply with specified rules across a range of issues. These rules will form the
basis for proceedings taken by the regulator for infractions. The rules may relate to such things as the levels of rents, maintenance, procedures for dealing with complaints, and landlords’ contribution to the environmental, social and economic well-being of the areas in which their property is situated. (This last can be seen as a direct way of securing providers’ co-operation or “constructive engagement” with local authorities in their strategic role.)

However, the Secretary of State is also given a power of direction over the content of each of the standards. Now, the idea of independent regulation is to create a division of labour between ministers and regulators, not to duplicate functions. Such duplication would cause regulatory uncertainty, and might ultimately increase the interest rate charged by suppliers of funds to social housing projects. For this reason, it is worth asking whether the Secretary of State really needs a power of direction over all the standards listed. On the face of it, many of them could be left to the regulator.

Second, more significantly, the regulatory powers set out in the bill will only apply in the first instance to housing associations. Half of social housing’s 8 million tenants, provided for by local authority stock, will be outside the regime set out in the bill, and new primary legislation would be required to bring them within it. If the argument is accepted that all social tenants are fundamentally in the same boat, holding little or no bargaining power against their provider, this is disappointing, as they all need the same protection. I therefore hope that the government will speed up the process of filling this major regulatory gap by offering the same protection to all social housing tenants.
Chapter 9

Developing new forms of funding

Richard Parker, Partner at PricewaterhouseCoopers
Developing new forms of funding

The challenge
Housing associations in England own more than 1.9 million units of housing and have reserves of around £11 billion. The largest 60 housing associations own over a million units of stock (55% of total social housing) and are increasingly searching for new and innovative ways to utilise their asset wealth and financing capacity. As major owners of assets, housing associations have an opportunity to play an even greater role in the delivery of housing policy.

This chapter will look at the funding considerations that follow from two major policy challenges. First, with affordable housing supply at the centre of the policy agenda, it will consider the additional demands that are to be placed on housing associations and how they might respond. Second, it will consider the legacy created by mono-tenure estates, which now act as a constraint on economic and social cohesion in many of our communities. Estate remodelling is not straightforward and demands long-term partnership working with housing associations and other local partners. Building on that experience, the question is: what more can housing associations offer in creating mixed and more prosperous communities?

From grant to investment
The government is committed to the delivery of more affordable housing – to achieve this it has increased its funding allocation to the Housing Corporation to £8 billion over the period 2008-11 (compared with the previous funding allocation of £3.9 billion over two years). It is expecting housing associations and other development partners of the Housing Corporation to deliver at least 45,000 new social homes for rent and over 25,000 shared-ownership homes a year. In short, for an extra 36% of funding, the government is expecting the sector to deliver 52% more units of affordable housing.

Everyone recognises that this target will be a challenging one – indeed, if grant rates were to remain at current levels, the government would need to increase its spending from £8 billion to £10.5 billion to finance its target of 70,000 new affordable homes a year. So where might these efficiency savings come from? The Housing Corporation produced evidence\(^1\) that indicates the sector has the financial capacity to reduce grant rates by 10%. A significant saving, but it will not be enough to bridge the funding gap completely.

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1 Housing Corporation *Unlocking the Door: Delivering More Homes from the Comprehensive Spending Review 2007* (February 2007)
There is no doubt that the soon-to-be-created Homes & Communities Agency has the potential to bridge the funding gap further; this new body will combine the resources, powers and expertise of the Housing Corporation and English Partnerships with some elements of its sponsor department (the Department for Communities & Local Government). More importantly, it gives rise to the possibility that new funding approaches will emerge – approaches that unify the grant-backed programme model of the Housing Corporation and English Partnerships’ investment model. The English Partnerships model, which involves the funding of pre-development works on large and complex sites (with the funding coming in the form of investment that earns a return) could be used to create the platform for new housing development. But many influencers in the sector have started to question whether the new agency should apply the “investment” model to the funding of affordable housing itself. What might this mean?

Under an investment scenario, the agency contribution (which is now grant) would have the attributes of an investment or equity stake in properties. This contribution would form part of the overall capital contribution to new affordable development (whether affordable housing or a mixed housing development). In simple terms it would mean that the new agency would benefit from the value gain that crystallises as low-cost home owners staircase up or when these properties are sold outright by housing associations. In a more limited form these principles could also apply to housing for rent.

Given English Partnerships’ expertise in the use of investment and the acute pressure to deliver, the present grant-based funding mechanism may be unsustainable. It provides the Housing Corporation with no capital appreciation or return as the values of the properties it co-funds increase. Work undertaken by PricewaterhouseCooper’s housing finance team on a limited sample of shared-ownership units has indicated that returns accruing to the new agency under an investment model could equate to £13,000 per unit (using a house price index of 2.5% per annum). If this metric were replicable across the sector, then twice as much low-cost home ownership housing could be funded from existing resources (average grant rates being around £26,000 per unit).

The creation of the new Homes & Communities Agency provides an opportunity for the sector to sit down and start a constructive dialogue on new funding approaches – approaches that recognise the part that both housing associations and government funding play in the financing of affordable housing and the creation of value. In its basic form the new agency’s role would be one of a passive investor, and housing associations might simply be required to recycle a larger portion of the receipts generated from asset
sales. If a more active investor model were followed, housing associations would return grant (with the appropriate return) to the Homes & Communities Agency when assets were sold on, allowing the agency to redistribute these receipts across the sector in accordance with its delivery priorities.

The need for the sector to respond to the funding challenge is made greater by the recent rapprochement between central and local government. The recent housing green paper\(^2\) offers local authorities the opportunity to deliver new affordable housing. This call to arms is to be reinforced by new delivery models (local housing companies and strategic housing and regeneration partnerships) that could secure additional funding support. A number of local authorities are positioning themselves as delivery agents and believe they can deliver affordable housing at a significant discount on current grant rates. Housing associations that are not strategically astute may find that resources are redirected elsewhere.

**From management to intervention**

The government has been promoting mixed communities (those communities that contain a mix of tenures and incomes). This policy is informed by area effects analysis in the USA, which crystallised in the $5 billion HOPE VI housing programme. The mixed-communities approach recognises that life chances in very low-income areas are adversely affected by stigmatisation, low quality of services, low expectations, poor transport connections and even poorer connections to local labour markets. Furthermore, the programme highlighted the problems of multiple deprivation in distressed housing in areas where there are ever more concentrations of poverty and disadvantage. In mixed-income neighbourhoods there is evidence to suggest that the characteristics of low-income neighbourhoods do not prevail on the same scale.\(^3\)

The bulk of existing social housing is not in mixed neighbourhoods – 60% of it is still in areas originally built as council estates and 50% of it is concentrated in the 20% most deprived super-output areas. Housing associations work in many of these communities, and, more importantly, understand the types of intervention that are needed to transform them. But large-scale estate remodelling is complex as it inevitably affects the lives of the existing community. It is also costly as it interrupts the flow of rents (worth millions of pounds) that are needed to meet the principal and interest payments on existing loans.

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\(^2\) Department for Communities & Local Government *Homes for the Future: More Affordable, More Sustainable* (July 2007)

\(^3\) See: PricewaterhouseCoopers *Investing in Hope – Lessons from the USA on Mixed Communities* (2006)
In addition, it requires tens of millions of pounds of borrowing (to finance development and construction work), with a large part of these costs being repaid with the revenues generated from the new housing for sale.

The future of many of our communities is dependent on interventions of this type, and in many places the organisations best placed to take the lead are housing associations. So what are housing associations doing, and can they do more?

The balance sheet approach
For many years housing associations have undertaken estate-based regeneration projects, in relation to both their own stock and that owned by local authorities. In some instances they have worked in partnership and in others have taken the lead delivery role. Whether housing associations play the lead role or a supporting role, they will face commercial risks (including planning, demolition, construction and development risk) that are very different from and less well understood than those associated with the more traditional business of stock management.

In numerous instances housing associations have funded regeneration projects by sweating their assets: that is, they have used their housing assets as security for additional borrowing. The reasons for doing this are quite straightforward: first, they have the capacity to do it; second, it provides a real commercial advantage (particularly when there is a competition for the right to develop) as borrowing rates are typically 50 basis points lower than they would otherwise be. Financially, it means that a project or development is less expensive to finance.

But funding development on these terms does expose a housing association’s balance sheet to real commercial risk, as funders will have access to an association’s assets if the project or business plans turns sour. In practice difficulties in meeting debt repayments are more likely to mean that an association will be forced to dispose of its assets to raise the capital it requires to meet its debt obligations. And on complex regeneration projects, liabilities may accrue quite quickly if there are delays to planning approvals, construction cost increases or lower-than-expected values on private housing sales.

Whilst housing associations should be encouraged to make their balance sheets work harder, it is equally important that the risks of balance sheet financing are properly assessed and understood. Some of the key questions that a housing association needs to answer include:
• Are the project risks understood, and does the housing association have the skills, expertise and resources necessary to manage the risks and deliver a project as a sole sponsor? Will partners be required?
• What is the opportunity cost of using corporate assets as security, and do the lower funding costs make a material difference to the cost of delivery?
• Would such an undertaking affect an association's debt-raising capacity in the future?
• Does the additional risk, particularly in terms of its security obligations to its lenders (which should be quantified), outweigh the potential benefits of lower funding costs?
• Will the arm's-length role of lenders reduce the rigour of lender due diligence and place an additional risk on the housing association?

Moving the frontiers

Whilst the case for and against balance sheet funding is not straightforward, there is little doubt that it does place additional risk on a housing association. It is also likely to limit the scale of project a housing association can embark on and its ability to run a number of similar projects in parallel. In short, new thinking on scheme financing is needed if housing associations are to deliver estate-based regeneration projects on a significant and sustainable scale. So what might housing associations do in response to this challenge?

One way in which housing associations could limit their balance sheet exposure and leverage more funding to increase activity levels is through the limited-recourse approach that is favoured by the private sector for exactly the same reasons.

Under a limited-recourse model a housing association would set up a project company or special purpose vehicle (SPV) to deliver a specific and well-defined set of outcomes. It could do this in its own right or the SPV could be jointly owned by a number of partners or stakeholders. The SPV would be responsible for the development and construction of affordable housing (and potentially private housing for sale) and the refurbishment of the existing housing.

The SPV would raise the financing needed to deliver the project and would engage subcontractors to deliver the new housing and other capital investment. These subcontractors might be the same organisations that own the SPV, but the roles, responsibilities and relationship between the SPV and the subcontractors are separate and based on a formal contractual relationship. The revenues secured from housing sales (both affordable and private) are used alongside other revenue streams to repay the sums borrowed from lenders.
On projects funded in this way it is possible to secure 90-95% of the funding required from a bank or other debt provider. Typically bank (or senior) debt is priced at LIBOR (the London interbank offered rate), to which a margin is added to reflect the risk profile of the project borrower. This rate is usually fixed (hedged) at financial close, thus negating the risk of interest rate movements during the life of the project.

Finance raised in this way is generally more expensive than traditional housing association funding, because it is not secured against the assets of the housing association but against the revenues to be generated by the project. In this way the housing association’s balance sheet is protected.

But a housing association cannot mitigate risk completely. Between 5% and 10% of the project funding will need to come from the project sponsors (the owners of the SPV). This could be funded from cash reserves or the value of any assets (land or property) that the housing association is contributing to the project. Equity is by definition risk capital, and equity returns will only be earned if the SPV delivers sufficient revenues to permit the payment of dividends. The high gearing (debt:equity structure) means that the weighted cost of capital is less and the cost of financing a project are lower than is typically the case for more speculative or uncertain developments.

The limited-recourse nature of this form of financing means that if the project were to suffer financial difficulties or to fail, the recourse of the lenders is limited to the share capital committed by the project sponsors (typically 10%). As lenders are dependent on the project revenues being sufficient to repay the loans they have advanced, the project will be subject to significant due diligence (which in itself should be of comfort to a housing association). A number of housing associations have delivered, or are working up, projects using limited-recourse structures. The approach is attractive not just because of the contractual and financial rigour that accompanies it, but because it is particularly well suited for large and complex projects.

**Conclusion**

In conclusion, the current three-year spending review has put more housing resources on the table than the sector has seen for decades, but the challenge is great, whether by reference to the delivery metrics for affordable housing or the efficiencies that need to be achieved. In addition there remains the massive challenge of estate remodelling, which is so critical to the long-term viability of many of our communities. Housing associations remain well placed to respond on both of these fronts. But a step change in the delivery
of affordable housing and mixed communities will require new thinking on new ways to deliver new funding. Without that step change, there is a risk that delivery will be truncated and progress will only be piecemeal.
Chapter 10

Forming new housing partnerships for a step change in delivery

Stephen Trusler, Strategy Director of Wates Living Space
Forming new housing partnerships for a step change in delivery

If the government is serious about hitting its target of 3 million new homes by 2020 in a way that adds lasting value to the economy, protects the environment and promotes social cohesion, then without question we need a step change in the way we work. We must use all the lessons of the past and transform the way we do business – especially if we are to deliver wider social and economic benefits. Business as usual will fail.

The government has ambitious targets for new housing to meet the needs of a growing and ageing population. Its 2007 green paper, *Homes for the Future: More Affordable, More Sustainable*, specifies 2 million new homes by 2016 and 3 million by 2020. To achieve this objective will require us to build at least 240,000 homes a year by 2016.

Such volume building has happened before in England: in the late 1960s, up to 352,000 homes a year were built (although we can now see how communities have subsequently suffered as quantity was pursued at the expense of quality). But since 1990, new dwelling completions in England have been at the lowest level for 60 years. Delivery in 2001 was at a historic low, slumping to just 130,000. For 2006, the figure was 161,000.

We welcome the government’s very public commitment to tackle the problems of housing shortfall and its emphasis on new housing that is socially and environmentally sustainable and contributes to the economy. But we believe that “business as usual” cannot deliver the scale and quality of housing required in this timeframe. Although the recent Callcutt review1 asserts that the house-building sector is “in shape” to meet the new housing targets, we suspect that any slowdown in the UK economy makes it likely that existing supply by house builders will fall, not increase. The whole housing industry, including contractors, house builders, consultants, landowners, planners, local and central government and, of course, registered social landlords, needs to work differently if we are to succeed.

In particular, the requirement to provide 70,000 affordable homes a year by 2011 – a significant increase above current volumes – cannot be met with the existing delivery model, which lacks the right partners, products, process and incentives for success. We estimate that the construction bill alone for 3 million homes will be around £300 billion. No business contemplating that size of investment would proceed without testing its

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1 Callcutt, J *The Callcutt Review of Housebuilding Delivery* (Department for Communities & Local Government, November 2007)
delivery model and ensuring it was going to get the very best return on its investment.

Fortunately, through the Decent Homes programme and new-build housing provision of recent years, we can identify key learnings that help create certainty over delivery and establish sustainable communities. In this chapter we set out Wates’s vision of a new delivery approach, and what that might mean for registered social landlords (RSLs).

Learning from the Decent Homes programme
The good news is that RSLs and the whole social housing industry can deliver large-scale, complex initiatives.

When it was first announced in 2000, the Decent Homes programme was widely regarded as unrealistic. An ambitious programme to modernise every socially rented home in England, the announcement of Decent Homes provoked fears over the lack of labour and the likely impact on building costs. But with more than 50% of the programme completed so far and 95% due for completion by 2010, Decent Homes is well on track to achieving its objectives, and similar programmes are now under way in both Scotland and Wales.

The industry rose to the Decent Homes challenge. In total contrast to the concerns first raised, continuous improvement has led to a reduction in costs in many cases. And thanks to high levels of community engagement, nearly all this work has been successfully undertaken with residents living in their homes. In short, Decent Homes has modelled the key relationships and core processes that are essential for successful volume delivery on time and on budget.

But the most successful Decent Homes projects have contributed much more than new kitchens and bathrooms, windows and doors. Committed partnerships between RSL, contractor, supply chain and local residents have leveraged Decent Homes investment for lasting economic impact in disadvantaged areas.

For example, when Wates refurbished the North Whitley Estate in partnership with Southern Housing and Windsor & District Housing, we recruited 75% of our workforce from the local community, providing employment and stimulating the local economy. Across the country, long-term commitment on Decent Homes frameworks is helping to break the cycle of deprivation.

2 Much of this work has been captured in the series of best-practice guides published by the Housing Forum.
Decent Homes led the way on showing how procurement based on best value and quality plus a genuine commitment to long-term partnership working could deliver excellent performance. Wates’s framework with Whitefriars Housing to refurbish some 10,000 homes over five years was completed 12 months early, benefiting residents and providing significant cost improvements.

One of the most valuable lessons from the Decent Homes programme is that the private sector will invest with enthusiasm and provide real value to its RSL partners when there is long-term commitment, continuity and a professional relationship. Building on the excellent relationship we developed on Decent Homes, Wates and Whitefriars Housing set up a joint venture to build new homes for ownership and rent, which has subsequently transformed a previously blighted Coventry neighbourhood into a new, popular community.

In summary, what we have learned from Decent Homes is that the formation of long-term partnerships and framework agreements encourages and ensures:

- planning the right resources and programmes;
- certainty over delivery on cost and time;
- efficiency gains through working together;
- incentives to provide year-on-year continuous improvement;
- economic and social benefits to communities and real long-term training and local employment programmes;
- resident engagement and satisfaction; and
- innovation and ideas beyond the Decent Homes agenda.

Learning from new-build housing provision
RSLs responded strongly to the challenge of new social housing provision in the 1990s. In particular, we admire their success in raising significant sums of money in the financial market rather than relying wholly on government funding, which has enabled the country to benefit from a significant number of new affordable homes at a much-reduced cost to the taxpayer.

RSLs have also shown a lead in housing innovation and creativity, especially in the area of environmentally friendly buildings. One example among many is Yorkshire Housing’s Primrose Hill scheme, which has an EcoHomes rating of “excellent” and which won Best New Affordable Housing Scheme of the Year in the 2007 Housing Excellence Awards.
But if the big success stories of new social housing are yet to be written, there are good reasons for this.

The RSL financial model of mixed public and private funding has proved a great success, but it has mainly focused on providing rented housing, where the rate of supply is not enough to meet existing requirements, let alone the increased targets set for the future.

Not every RSL has the skills to undertake new-build housing provision, which, given the challenges, is understandable. The scale of new building required is the biggest for more than a generation and there is the requirement for energy-efficient homes in sustainable, integrated communities. It is a lot to ask, even from the largest RSLs with all their financial strength and resources.

New-build housing programmes continue to take place mostly on a project-by-project basis. So partnership between RSLs and contractor/developers has been largely restricted to one-off new-build schemes, and consequently the majority of new-build frameworks to date have underachieved in terms of both numbers of homes and continuous improvement objectives.

Most significantly, the existing RSL partnership model is unlikely to deliver volume because two key constituents are missing – a reliable supply of land and a fast, predictable planning process. Unavailability of land and planning issues are two major obstacles largely outside the control of RSLs and their partners. A major factor in undersupply is the absence of local authorities from the scene. Not only can they influence the availability of land, but no other party can exercise the same degree of authority over planning.

**A new approach for delivery**

The new housing and regeneration body, the Homes & Communities Agency, brings together strategy, land supply and financing, which should mean that delivery, funding and decision making become more streamlined, at least at a strategic level. However, planning is likely to remain a big stumbling block, despite the recommendations of the Callcutt review. So we applaud the green paper for its significant and genuine attempt to encourage back into play an important missing party – the local authorities, which in previous decades had such an impact on delivering large volumes of affordable housing.

Projects are becoming more complex and larger, and are likely to involve mixed use and mixed tenure. Already we are seeing more and more projects that only the very biggest
RSLs can manage. An approach that focuses on creating a different risk profile – where risks and rewards can be truly shared – therefore becomes essential. Now is the time to re-examine the engagement model at ground level.

We propose a closer and more formal relationship, structured around joint ventures where all key stakeholders can invest and openly share both risk and reward. The nature of this new, formal relationship is the only effective way to provide real alignment and focus of the key parties. Local authorities have a big role to play in these relationships. As well as the provision of land under their ownership or control, they also have a unique role as the major influencer on planning. Local authorities **must** play an active role in these joint ventures – we cannot do it without them.

The future local housing companies present an exciting opportunity for RSLs and their partners to work much more effectively with local authorities. Fourteen local authorities have to date expressed an interest in the scheme, which would let them play a full part in agreeing development plans and creating low-cost housing packages to meet local needs.

**Good housing, designed and built to last**
With the drive for greater supply, we must make sure we do not forget some of the key problems associated with similar initiatives from the past. Quality design and construction are critical, and this should go hand in hand with the essential ingredient of community engagement. We cannot again build homes and infrastructure that we will need to demolish in 30 years' time.

Over the past few years, RSLs have shown real leadership on innovation in design quality, construction and environmental practice and they must continue this “no compromise” approach.

**The RSL of the future**
RSLs must evolve and take up the challenge for this step change in delivery by engaging to an even greater degree with the private sector, through joint ventures or similar vehicles. Not all will have the capability or indeed the will to take this on. We believe there will still be a place for smaller RSLs to play to their strengths in top-class housing management and engagement with the local community. But the inevitable consequence of the drive for volume is that the big will get even bigger.

What does the private sector seek in an RSL joint-venture partner? We would look for the following characteristics:
• professional organisation with clear decision-making processes;
• strong leadership, fuelled by a clear vision and passion;
• genuine belief in the value of collaborative working throughout the organisation;
• willingness to commit to a long-term relationship – up to 10 years for some situations – and to work as part of an integrated team;
• an informed understanding and appreciation of commercial risks and rewards; and
• a strong track record of delivery.

But the responsibility for change belongs with us all. The whole sector has to change and to commit for the long term.

**Everyone must change**
Private-sector contractor/developers must also learn to do things differently. The private-sector partners must:

• innovate commercially and adjust margins to suit different risks;
• understand and practise budget transparency;
• engage and use the power of their supply chain;
• lead the drive for greener and more effective buildings; and
• find ways to create genuinely sustainable communities.

Local authorities and other public-sector bodies will need to:

• recognise their unique role in housing delivery;
• participate fully in joint ventures;
• identify and release asset/land opportunities for housing;
• provide local leadership and win support within their communities; and
• promote cross-functional teams (planning, housing, finance, legal and so on) charged with specific housing delivery objectives.

Central government has already provided the vision for new housing, but now it must also actively encourage the sector to deliver. This is a serious, immense long-term investment in the country’s infrastructure. Government must plan it carefully with all those who will play a part in its delivery – and not keep changing the rules of engagement.
We would like to see central government:

- ensure that land in the public domain is maximised to provide more quality, affordable and greener housing;
- provide a planning system that can deliver its own targets; and
- commit to housing policy for the long term. If policies frequently change, targets will never be met.

**Conclusion**

The key to achieving a step change in new housing provision is to recognise that we need long-term commitment and a new delivery approach. With the right delivery model, we can and will build more quality housing for those in need. If we don't, then we risk severe economic and social consequences.

RSLs have a fundamental role to play in the future as they build on their strengths and continue to develop as professional, commercial organisations that will provide attractive partners for the private sector. We propose a closer and more formal relationship, structured around joint ventures where both parties invest and share both risk and reward. And we propose that this new, formal relationship should include all stakeholders.

RSLs will play a key role in identifying the market need (more than just rented homes) and in effective delivery (closer working with the private sector), and will also continue to play a unique role in the management of not just housing but whole communities. No other organisation has those skills and knowledge.

The active involvement of local authorities is essential, to provide local leadership, to bring forward their land and to use their planning powers positively. Without the fullest participation from local authorities, we will fail.

The private sector will need to be more flexible and innovative in its commercial practices. And central government must commit to stay the course, for a minimum of at least 10 years.

We are confident that, given long-term commitment and a willingness to work differently across the whole industry, the necessary step change in delivery is achievable. Future generations may yet look back on the years 2008 to 2020 as a golden age in the building of sustainable, affordable homes and prosperous communities.
Chapter 11

Delivering good design

Richard Simmons, Chief Executive, and Dominic Church, Senior Policy Adviser, at the Commission for Architecture & the Built Environment
Delivering good design

The future for Britain’s housing associations is bright. They are poised to assume a key role in delivering the increased number of homes this country needs in communities that are truly sustainable. It is a development programme on a scale this country has not seen for decades, and housing associations hold the key to ensure we don’t repeat the mistakes of the past. This time round, we must make sure we create attractive neighbourhoods where strong communities thrive, where the quality of life is good and rich in opportunities. These must be places of first choice where today’s residents, but also their children and grandchildren, will be proud to live.

The road ahead will not be without challenges, and the homes and neighbourhoods we build now have to be the best they can be in order to have a chance of meeting them. This is where the long-term perspective unique to the registered social landlords will be key. They will be around, and actively involved in maintaining and managing the homes and neighbourhoods they have built, long after the house builders’ shareholders have received their return and spent it.

Housing associations that succeed in this great endeavour will be characterised by strong leadership and by a tenacious, single-minded and hard-nosed determination to deliver on their commitment to their key values and, most importantly, their clients. These will be strong clients, clear-sighted and driven by a long-term vision. They will seek out the best sources of advice and expertise from the country’s architects, urban designers, and landscape designers, thereby throwing down the gauntlet to professions that too often have been self-absorbed and disengaged from the housing agenda.

Already we have seen a number of housing associations seize the opportunities that have been opening up. There are many examples, but we can name three that immediately spring to mind. Whether it has been Swaythling Housing Society leading a complex three-way public-private partnership to deliver the Chapel development in Southampton, East Thames joining forces with Telford Homes at Abbott’s Wharf, or Devon & Cornwall Housing Association partnering with Midas at Gun Wharf, the results have been excellent. These developments are not merely “good enough”; they were able to deliver well in excess of the Housing Corporation’s minimum quality standard for 12 out of 20 on Building for Life, even before this was made mandatory.
Housing associations’ special commitment

We have seen housing associations taking on a new role as area managers, offering support not only to their rental tenants but also to low-income home owners in the neighbourhoods in which they are engaged. This is not only a sign of an entrepreneurial spirit and a willingness to take control of the development process; it also shows that housing associations understand the necessity to look beyond the confines of the site and the buildings on it to achieve social, economic and environmental benefits at the neighbourhood scale.

Housing associations are uniquely placed as the most significant repeat commissioners of new housing development. Where private-sector house builders sell off and move on as soon as possible, all too often without a backward glance, housing associations stay committed to the needs of residents. This lends social landlords the ability and the motivation to become learning organisations that build up and draw from an ever-growing resource and expertise through their engagement in the process by which new neighbourhoods mature and develop.

We must capitalise on what housing associations can offer if we are to avoid repeating the mistakes of the past – and there have been many. In the last major drive to build new homes, successive governments rolled out a centralised house-building programme focused on numbers and cost. Untested types of housing were tested on the underprivileged, neglecting the accompanying responsibility to allow for the fact that residents would have little or no choice once established in their new homes. The consequence was a failure to respond adequately to communities’ increasingly diverse needs and lifestyle preferences, resulting in vast numbers of homes in which nobody wanted to live. The quality of the homes built was further undermined by an overemphasis on cost-cutting construction methods, and the failure to deliver effective management and maintenance.

During the 1980s, in reaction to the failure of government-controlled public-sector development, the prevalent view was that social landlords should learn from volume house builders and emulate market-rate housing solutions. The rationale was that housing that was good enough for the market should surely be good enough for the social housing sector. We have now learned that this line of thought is flawed on several levels.

First, the CABE housing audits have shown that market-rate housing provided by the private sector is often far from “good enough”. The dramatic undersupply of housing and the resulting challenges of affordability force consumers to accept a dramatically restricted offer.
Second, housing associations are active in all types of areas, and especially engaged in areas of greater deprivation. In serving these areas, they need to ensure development benefits from good environmental and social infrastructure, so that good access can be provided even for residents with less disposable income with which to offset the inadequacies of their area. It might be that without access to a car, development in difficult locations with insufficient integration and poor public transport links makes it difficult to get to the shops, to school, or to the nearest health clinic.

In housing for social rent, a home with three bedrooms is sure to need to accommodate at least four people and needs to be dimensioned accordingly. If a private-sector house has rooms that are too small, a home buyer with sufficient financial means can offset this shortcoming by buying a home with more rooms. Social housing tenants are often on low incomes, and can struggle to pay heating bills if buildings are not well insulated and efficiently heated. Private-sector home buyers with sufficient means can fit more fuel-efficient heating systems, or invest in improving a home’s insulation.

And yet the CABE housing audits have established a clear correlation between the affluence of the location and the quality of the housing provided by the private sector. Too frequently, housing development in less affluent areas is significantly less carefully designed than that in more affluent areas, reinforcing the social polarisation of our cities and jeopardising social cohesion and integration.

Finally, the fact that the house builder’s engagement generally ceases immediately after sale means that the developer is immune to the longer-term management, maintenance and running costs in a way that housing associations cannot afford to be. Not only is the housing association itself affected by future management and maintenance costs, but residents, too, cannot simply “move on” if the homes no longer meet their needs. As a consequence, the self-interest of a housing association acting as developer coincides with the interests of its clients in a way that is not the case in our dysfunctional private-sector housing market.

**Limitations of the market**

The shortage of housing we face can be traced back to the 1980s, when the public sector in effect withdrew from the provision of housing, choosing to rely entirely on the private sector. The latter continued to provide housing at a constant rate, but the overall effect was a reduction of housing output by 50%. It is unrealistic to expect the private sector to address the shortage and depart from the pattern of the past 40 years and begin building
dramatically more housing – let alone better-quality housing. Given the favourable conditions of a market shortage, it flies in the face of commercial reason for a private-sector company to provide more of a given commodity, contributing to a rebalancing of demand and supply, whilst simultaneously needing to go the extra mile to compete on quality.

And yet, whilst we have learned to be less trusting in the market alone to provide the best, or indeed the only solution to all our needs, there are still significant areas where housing associations find themselves pushed towards acting more like the private sector. For instance, there are examples of housing association-led mixed-tenancy development, where homes for social rent are provided with good space standards in accordance with the Housing Corporation’s standards, whereas corresponding homes for private sale are significantly smaller.

There is also an issue relating to section 106-derived social housing, in that private developers are often unwilling to commit to a specific housing association, or even to get the housing association involved early on in the decision-making process. Too often, the development is driven entirely by the aims of the market, with the section 106 social housing grudgingly accommodated in the most unattractive and challenging area of the development. The developer then shops around for a housing association that needs the units urgently enough to take whatever is on offer. As a result, key design decisions are made in the light of their impact on profitability in the immediate term, rather than on management, maintenance and running costs. As a process, this works against adequate consideration being given to sustainability. Good design solutions will only be achieved through the productive partnering between the different stakeholders in the development process.

Government policy must enable and empower housing associations to bring their long-term commitment and expertise to bear on what is built in order to ensure that the public money channelled through the grant process results in housing that is durable, attractive and fit for purpose. These are the principles that lie at the heart of the Building for Life standard, adopted by the Housing Corporation as a measure of good design. The 20 criteria that make up the standard cover the character of the development, the design of the public realm, the construction and technology used, as well as aspects of environment and community.

It is important, however, that Building for Life identifies these 20 issues, but does not set out proscriptive design solutions. This is because we have learned that checklists have
their uses, but that over-reliance on formulaic solutions tends to lead to the mindless proliferation of solutions that are at best mediocre and unlikely to be entirely suitable for any given context.

This key issue was recognised by the Williams Commission on Affordable Housing in the Thames Gateway, which recommended that the Housing Corporation should exert its influence on the quality of development through facilitating a round table between the stakeholders. It was recommended that, rather than micro-managing design issues through lists of required features, the Housing Corporation should set out “processes, key objectives and principles for development” in a prospectus, to which housing associations seeking grant support for development would be invited to respond. On the basis of their response, housing associations would gain access to this round table, facilitated by the Housing Corporation, aimed at harmonising the concert of all stakeholders in development from the outset of the development process.

If implemented on a wider scale, this lighter-touch regulatory framework would reinforce the culture shift towards a more proactive approach to design quality from housing associations. The emphasis of regulation would shift from checking the assembly of specific features considered to be beneficial, towards ensuring that the underlying objectives of development were sound and that housing associations had the means and expertise to ensure that they can be delivered. The promise of this move is that it enables housing associations to become strong client organisations, and to realise a clear view for the long-term aim by investing in the best advice and expertise available to provide the best bespoke design solution for each context. Simultaneously, this enlightened regulatory stance could allow associations more room to manoeuvre, arriving at solutions that are thoughtful, specific responses to given locations, rather than doling out the same tired, formulaic answers everywhere to mediocre effect (or worse).

The recommendations of the Williams report1 could reinforce the emerging trend towards a more entrepreneurial approach amongst some of the housing associations mentioned at the beginning of this piece. If we can support those organisations that obtain the best expertise to fulfil a deep and lasting commitment to their clients, we stand a good chance of creating attractive neighbourhoods where quality of life is good and rich in opportunities. Our investment, in the form of grant support from the public purse, will leave a legacy of communities where today’s residents, their children and grandchildren will be proud to live.

The Smith Institute
The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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moving up a gear:
new challenges for housing associations

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