

## **Literature Review**

**A report for the Place Shaper Group**

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## **Introduction**

There have been several pieces of work on recent years looking at the way the sector is changing, particularly in terms of the development of larger entities through groups and mergers.

This review aims to examine this work and analyse what it says about the way the sector is developing and the role which medium sized associations can play within that changed sector.

The literature considered is listed at appendix one.

## **Scale of growth**

The reports all highlight the scale of change that has been taking place in the composition of the sector in recent years:

*The Bigger Picture* highlights that there has recently been a step change in the growth of constitutional partnerships:

*Larger associations, and groupings of associations, are becoming dominant players in the sector. At the time of writing, 1% of associations collectively own 35% of the total housing association stock.<sup>8</sup> Annual RSR returns submitted by associations over the last four years provide some indication of the level of new constitutional partnerships formed in the period. The number of associations comprising part of a larger grouping rose significantly, from 131 in 2004 to 240 in 2005.*

*The number and scope of non-constitutional partnerships in the sector have also increased significantly in recent years, covering diverse functions from procurement of properties, goods and back office services to the provision of community services including anti-social behaviour initiatives and youth activities.*

The introduction to *Growing Up* states that there are over 20 housing associations owning and managing over 25,000 homes. The largest associations have over 50,000 homes.

The snapshot of the sector presented elsewhere in this report gives an up to date picture of the current shape of the sector.

## **Type of change**

*The Bigger Picture* makes the following useful distinctions between the type of arrangements being made by Associations:

**Merger** is a process by which one housing association acquires all the assets and legal responsibilities of another association, typically by a transfer of engagements or amalgamation.

**A Group** is a legally constituted entity where one registered housing association is a 'parent' exercising control over subsidiary companies such as housing associations, charitable organisations, limited companies and development agencies.

**A non-constitutional alliance/partnership** between associations works co-operatively to achieve specific aims, usually because greater scale or skills are required in a particular business area.

Significantly such non-constitutional arrangements are common across the sector - 67% of respondents to *The Bigger Pictures* survey results are not in a group or merger are involved in at least one non-constitutional partnership.

### **Drivers for growth**

The *Growing Up* report states that the pressures to expand in size are greater than at any time in the sector's history. It goes on to highlight the following as the key reasons for this:

- Government policy – particularly in terms of measures to improve output in new homes.
- Social and economic priorities leading associations to widen their products and markets
- Major regeneration activities demanding complex partnership working
- The drive for efficiency in the provision and management of social housing.

Other reports broadly agree with these drivers although *Testing the Climate* adds that a further factor is that smaller associations sometimes feel that they cannot keep up with pace of change

*The Bigger Picture* lists "Regulatory rescue" as another driver stating that:

*One of the strengths of the sector is that it has been able to deal with financial and governance failure by individual associations. The regulator encourages associations which are in such difficulties to join larger organisations so that problems can be dealt with.*

Both these reports highlight that the growth in non-constitutional partnerships is principally fuelled by the need to achieve economies of scale in procurement.

*Group Dynamics* identifies the variety of motives for setting up groups including tax and borrowing savings, ring fencing diverse activities and providing local subsidiaries that that can 'act locally'.

*Testing the Climate* highlights the way that "people issues" continue to be a major factor in the moves to and success of mergers and groups. Indeed it states that proposals often do not succeed because of "*Cultural differences between merging associations boards and chairs and the personal ego of the*

*Chief Executive.*” As well as mismatch of objectives and an associations fear of losing its identity.

*Testing the Climate* also highlighted the rationalisation agenda as another factor changing the landscape of the sector. It says that “*Rationalisation is a distinct process from sector restructuring but there are clear links that can affect strategic decision of by associations on their merger and alliance options.*”

CIH and the HC have undertaken detailed work on rationalisation which took as its definition:

*stock rationalisation is taken to include both ownership transfers and changes in management arrangements, aimed at achieving stock holdings or stock management which are more rational and efficient within particular geographical areas.*

### **Is Big Best**

Much of the literature reviewed here does raise questions about whether this move towards larger associations is in the best interests of the sector and its stakeholders.

The first significant evaluation of the performance of groups published was *Group Dynamics* which stated that while many of the aims of groups had been achieved, especially tax saving,: there was much less evidence that groups were more efficient or that economies of scale were delivered. Stating that ‘*Performance information shows no clear link between membership of a group and improvements in RSL management costs or performance.*’

And that

*‘Existing evidence does not show that groups deliver a different quality of services to tenants and other stakeholders when compared to associations that are not group members.’*

*Is Big Really Best?* examined the available evidence about the links between efficiency and effectiveness and organisational size and structure and concluded that:

*We have found no evidence that size, better quality services and lower costs are linked. For associations to be effective, it is more important that they are clear about their values and the outcomes they want, with effective management in place to achieve them. Size and structure should be a by-product.*

*Who Benefits?* looked at evidence from private sector merger research and highlighted:

- The need to focus on the cultural and organizational fit (i.e. how they rationalise staffing and organizational systems) to get benefits from

- The trend whereby a period of merger growth is followed by a rationalisation of businesses to refocus on core functions.
- Generally, firms should expect a dip in performance before and after the merger is completed, so payback should be expected over a longer period and certainly no sooner than two years.

It also quoted KPMG reporting that in the mid to late 1990s executives across all sectors decided that growth through acquisition was the best way of building up the scale to compete in global markets. However global merger and acquisition activity subsequently slumped to a 10-year low, with business leaders gripped by a new mood of caution and that a significant proportion of mergers which did take place were dismantled.

*The Bigger Picture* quoted several organisations commenting that organisational focus on group formation or merger increased the risk of neglecting front line performance. With management teams concentrating on future structures and allegiances, senior staff time can be taken away from dealing with current business and front line service delivery. saying that:

*as many associations now find themselves in an ongoing cycle of group formation and mergers, they must recognise the opportunity costs involved.*

It went on to conclude that

*The trend towards larger associations looks set to continue, at least in the short to medium term. The external pressures remain and, to some extent, a culture of ever-increasing size has developed*

*However, there is an element of fashion in constitutional partnerships, and in the longer term fashion may change. It is, for example, possible that developments in government thinking around 'new localism' may lead to serious questions being raised about the trend for increased size.*

*Associations will need to defend their business decisions on the basis of the outcomes they achieve.*

*Associations should be aware that benefits do not come automatically from structural change: delivery of benefits depends on the transformation of the business. This requires associations to be clear about their aims and the outcomes they wish to achieve, and to put effective management measures in place to achieve them.*

*Growing Up*, which was aimed at the largest associations and overall is a manifesto for what larger associations have to do to be fully effective, does however recognise that

*The relationship between larger size and greater financial efficiency cannot be taken for granted. Future mergers will have to look much harder at identifying, quantifying and setting timescales for financial savings to be delivered.*

*Merging associations should think more about overall group value and less about status retention.*

## **Combining scale and the local**

One particularly important issue raised by these reports is the issue of how, as associations grow, they still manage to retain effective mechanisms for local delivery and accountability.

This is one reason for the substantial growth of groups which were seen a way of reconciling accountability with scale

*Who Benefits?* put this argument clearly:

*The “acting locally but thinking globally” objective was seen by some RSLs as a possible response to the increased emphasis on local accountability combined with the need to achieve economies and efficiencies locally based subsidiaries with a degree of operational autonomy would be charged with achieving locally accountable relationships with consumers and citizens while benefiting from scale economies and cost spreading over central overheads.*

However there have been significant difficulties with this model identified by these reports. Not least the finding in *Group Dynamics* that “*Existing evidence does not show that groups deliver a better service to tenants and stakeholders when compared to RSLs that are not group members.*”

*Who benefits?* Identified “*significant concerns about the inevitable inequality in relationship between parent and subsidiaries, who can become “captive markets” for central services provided by their parents.*!

Moreover all the reports that have looked at groups have identified clear costs to such arrangements and complex structures which may in themselves end up inhibiting both the objectives of accountability and scale savings.

*Group Dynamics* said that:

*There are financial and organisational costs as well as potential savings from setting up or amending group structures.*

It identified set up and transitional costs, ongoing costs to groups compared to single organisations and the “considerable amounts of senior management and board time” involved..

*The Bigger Picture* reported that:

*Audit Commission inspection reports have highlighted difficulties experienced by asset-owning parents which struggle to reconcile group management and housing management responsibilities.*

It also said that:

*Business cases justifying constitutional partnership frequently cite the intention to improve services to existing tenants as a key driver. However, the main benefits of mergers and groups identified by associations, together with the evidence of the 2005 general needs PIs, suggest that service improvements are not in practice as important as is being claimed*

It went on to recommend that the Housing Corporation should seriously question group proposals with the aim of:

- ensuring that there is clarity as to where control and accountability lies
- whether, if a complex structure is proposed, this is the best way to achieve better accountability
- whether non-constitutional models could deliver the same or better results.

These arguments lead *The Bigger Picture* to conclude that:

*The whole thrust of this research shows that no one model is necessarily right for a particular situation. However the possibility of moving towards local brands and local governance without legal separation, on the grounds of simplicity, efficiency and more effective risk management is strong.*

*Growing Up* identifies the same tensions as structures grow and also argues for streamlined structures for larger associations :

*Very large associations will find it difficult to operate efficiently and with the customer centre stage if mergers continue to add to structural complexity*

*Local accountability arrangements are unlikely to stay the same as very large associations develop....While local managers will play expanded role, regional committees will probably struggle to maintain their value.*

*Growing Up* also argues a wider point in terms of the way efficiency is defined:

*The very substantial community development activities of the largest associations can be detrimental in terms of “official”, published efficiency figures. Yet the social capital generated is hugely important to people’s lives and central to the governments social inclusion agenda.*

If, as these reports suggest, Groups are shown to have significant limitations in terms of “acting locally but thinking globally” and larger associations are likely to streamline their organisations then there is a clear issue here about larger associations/groups having clear local accountability mechanisms. Moreover in its analysis of PIs *Is Big Really Best?* found of larger associations:

*It cannot be expected that every lead partner HA will be in the top quartile of associations on most figures. But seven are below average on four of the five PIs chosen. This plus the tenant satisfaction results and the number of them in the bottom quartiles for the other PIs, shows clearly that not all IP developers are necessarily the best managers.*

*Size may be relevant here, as four of the seven consistently poor performers have stock greater than 10,000, and only three of the 16 who are above average on all five performance indicators are in this size group.*

This raises real questions about how far larger associations can seriously combine local accountability and activity with large scale development and regeneration.

Another aspect of the *Is Big Really Best?* analysis is worth mentioning in this context.

This considered if there was an optimum scale for particular activities, and made a “tentative Hypothesis” as to what that might be in terms of the output for an optimal size range::

- Housing management and maintenance 1,000–5,000
- Stock investment or major repairs >5,000
- Commodity procurement 500–2,000
- Development as per Investment Partnering >7,000
- Full range of financial skills >5,000
- Full range of back office services >10,000

It went on to suggest that:

*associations have to think about economies of scale in different ways for different functions. Given that the evidence above shows that satisfaction does not get better with size, how then to combine and organise to achieve optimum approaches?*

This may be even more pronounced in relation to neighbourhood activity. There is a significant amount of literature on associations involvement in neighbourhood activities which it is outside the scope of this report to look at in detail. It is however just worth noting two very recent reports which have emphasised the way that associations are being expected to have an increased role in this area: *An Opportunity Waiting to Happen* has outlined the opportunity for Associations to be “Community Anchors” developing neighbourhood partnerships with voluntary organisations, particularly given the numerous examples of associations already doing so..

Similarly *Successful Neighbourhoods* has said that:

*Housing Associations are in pole position to deliver much of the Neighbourhood agenda, but they need to be bold and further extend their role beyond housing provision.*

It then goes on to question how such an approach might sit with a move to “yet larger housing associations” saying:

*One view is that the size of an association is irrelevant, it is how it delivers its services in neighbourhoods that counts...there are legitimate concerns that the larger housing associations become, and despite their best intentions, the less in touch with neighbourhoods and their communities they will be.*

The CIH/HC Rationalisation work discussed similar issues and emphasised the need for **effective engagement** with the locality as a key criteria for assessing rationalisation issues. The South Hants Commission puts it very clearly:

*Having considered critical mass, remoteness and multi-landlord estates, the Commission has concluded that none are a particularly robust analytical tool in relation to the rationalisation debate. Instead, the Commission concludes*



*that the key factor in determining whether or not rationalisation activity should be actively considered is 'engagement'.*

The Manchester Commission also emphasises this point saying that:  
*The key to the role an association should play in a neighbourhood is the extent to which they are committed to and engaged in wider neighbourhood management rather than simply the level of stock they own*

Engagement should be with a variety of players, chiefly the local authority/parish councils, local stock owning associations and the local communities in which stock is owned. It should also be undertaken with a view to delivering the local authority's strategic objectives and solutions to particular local problems

This work also stressed the clear need for local authorities to develop and communicate a clear strategic vision for their area and the role which associations can play within that vision.

The government seems to support this as it wants authorities to concentrate the strategy on 'place-shaping' – described in the Lyons report on local authority finance as:

*'...creative use of powers and influence to promote the general well-being of a community and its citizens.'*

Lyons went on to say that:

*'...engagement and action by authorities can provide the connections for integration and cohesion by developing trust and mutual respect within the wider community, building community identity and pride in place, and developing relationships between citizens in a community. ... It has not been something that local authorities have always seen as part of their role.'*

Effective local authority strategies, and associations ability to work within them is therefore a key issue in relation to effective local working.

There are competing pressures in the current agendas being set out for housing associations. They are seen as key players in the push to up the number of homes built. This does undoubtedly favour size and development capacity. Is it realistic for this to be combined with the smaller scale neighbourhood approach outlined in these reports in the same organisation?

### **What future for medium size associations?**

The analysis from these reports shows that the trend to larger associations may well continue, particularly given the government drive for increased supply of new homes.

Is Big Really Best? suggests the possibility that in this climate medium sized associations may be squeezed by the growth of larger associations at the top, developing end and small and specialist associations at the local end.

However the messages concerning performance and local accountability suggest that there are limits to the role which larger associations can play. The point which three of the reports make about there being an element of fashion in the dash for growth, and the suggestion in *The Bigger Picture* that there are countervailing forces related to localism and community regeneration which may work in the opposite direction over time, are important considerations for medium sized associations.

There is also evidence from these reports that remaining independent and making non constitutional alliances and partnerships may have advantages over joining a complex group structure.

The Bigger picture for instance pointed out that:

*It is notable that most, if not all, of maintenance procurement savings are not dependent upon constitutional partnerships. They could be achieved using effective collaboration and co-operation with other associations, e.g. via purchasing consortia. There are numerous successful examples of such co-operative joint ventures.... Effective joint working between associations has been extended by some non-constitutional partnerships beyond traditional areas to support service areas such as ICT. These non-constitutional models may have considerably lower set-up and running costs than constitutional partnerships.*

The CIH/HC work on rationalisation also emphasised the need for associations on multi landlord estates and in regeneration areas to move beyond the traditional landlord role to engage, in partnership with others, with residents to address estate/area wide concerns and to give residents a voice as a group who live on the estate/in the area. It said that:

*many associations in the study favoured joint working arrangements rather than stock rationalisation as the way forward in terms of effective neighbourhood engagement.*

*It was recognised that this would mean that associations have to be more willing to pool information and work in collaborative ways. If service delivery information was shared effectively and some associations were shown to have clear strengths, then there would be logic to some rationalisation of activities.*

The rationalisation work did however include a warning about joint working:

*It has however to be recognised that there are significant costs involved in coordinating activities between a number of associations. There were also concerns expressed that such cooperative arrangements, rather than evolving, do not have sufficient "glue" to be maintained over time*

What options are available to associations will depend on circumstances and the individual priorities of associations.

The *Growing Up* report specifically says:

*Medium, small and specialist associations will continue to play a powerful; role in delivering services to local communities and diversity of provision will remain a strength.*

Given the provenance and thrust of this report, this could be taken to mean that the key role for the non-large players is that of supplementing the dynamic role of the larger associations.

This was a scenario that *Is Big Best?* considered and commented that there were dangers:

- We may lose the local expertise of medium and smaller associations.
- A significant proportion of the sector's development capacity is in the small and medium-sized associations
- There may be unintended consequences – without clear evidence that bigger organisations produce better performance there is always the danger of outcomes which are not beneficial to the sector and its stakeholders

It went on:

*An alternative scenario might well be one that moves away from seeing the norm as 'ring-fenced' independent bodies seeking to do development, asset management, customer services and specialisms within that ring fence. If we look at the utilities sectors, these services are considered to be separate functions requiring different skills and foci and organised in different bodies.*

*The growth of partnership working across associations that we described earlier suggests that the rationalisation might be less about the growth of big associations or groups, and more about a sea change in what we think of as a housing association. An alternative scenario might see a sector emerging which has a diversity of types of organisations and partnerships. The move to give SHG to private bodies may hasten such an approach as it does in effect split the management of the properties from their development. This may create opportunities for good manager associations to grow despite not being Investment Partners.*

*Growing Up* certainly supports that when it talks of:

- A redefinition of relationships in local areas between the largest associations and those with fewer than 25,000 homes.
- A new focus within the sector on creating more powerful partnerships and ways of collaborating in local areas.

This suggests that the key issue for medium sized associations is to correctly assess their strengths and position in the market. It is however important to recognise here the range of associations within the category of "medium

sized". This can refer to associations with a very clear geographic base and strong community links through to those with a broader regional presence.

Focussing on strengths would help overcome the danger envisaged in The Bigger Picture:

*perhaps the greatest risk is presented by smaller organisations attempting to 'break through' to a new scale of activity and embarking on wholly new areas of business, while also seeking to create or expand group structures.*

However this report then goes on to say that:

*Many associations appear not to have fully considered other options for developing their business other than the one pursued. For instance, for medium-sized associations in particular, the possibility of scaling down staff to improve competitiveness and focus on a particular specialism or area of activity has rarely been contemplated as an alternative to a constitutional partnership. This could be because there is no real incentive for associations to retrench or outsource, in the way that the drive for profits creates an incentive in the private sector.*

Certainly a key message from all of these reports seems to be one of clarity of objectives for associations of all sizes:

Is Big Really Best states this most concisely as:

- *identifying and focussing on what their strengths are;*
- *considering whether they can retain a range of functions or develop their specialisms (whether in customer services, repairs, neighbourhood management, regeneration, care, etc);*
- *considering a variety of structural options ranging from the consolidation of group structures, through partnerships with other associations, to solutions based on contracting-out the service to specialist providers;*

It is also worth pointing out that whilst these reports do suggest that in the current climate there may be some advantages to larger associations in terms of the development of new homes and larger regeneration projects, the evidence is not overwhelming. Not only do the reports show that there is not a clear relationship between size and effective development, but the arrival of private developers could mean that they compete for volume with the larger associations.

Many medium sized associations are developing significantly often in development partnerships with other associations. If medium sized associations have strengths in this area then they should continue to be in a strong position to develop.

Given the discussion in the last section about the importance of effective community engagement as a key to neighbourhood regeneration activity, those with strengths in this area should also continue to prosper. This may however be dependent to a certain extent on government resources matching rhetoric in this area.

However there is one key area where smaller and medium sized associations may be in a position to place themselves as central players in a developing policy trend. This is the growth of their business on the provision of locally based delivery of services.

The recent report *Ends and Means* states that:

*In thinking about policy options for the future of social housing one fact stands out from the analysis in earlier sections- the importance of the existing stock and of current tenants by comparison with newly built stock and incoming tenants.....the focus of policy and the policy debate is often overwhelmingly on the new stock and on access routes to social housing. This seems unbalanced.*

The report then goes on to spell out the need for a more varied “offer” to tenants which gave them choices, the development of more mixed neighbourhoods and the need for more pathways into work. These are all areas where associations with strong local links should be well placed to develop and innovate.

This links in many ways to the emphasis on diversity of provision in the Cave Report:

“Diversity of provision could be particularly vibrant and beneficial for tenants in relation to the *management* of social housing. Owners could contract management to other providers, or to specialised public or private sector management firms. Tenants living in relative isolation from their provider’s main holdings benefit from having their housing managed by a body with a larger local presence. In extreme cases management of stock where tenants are persistently neglected or receive a persistently poor level of service could be re-tendered on a mandatory basis.”

Traditionally one of the criticism of associations is that they have been too development oriented. Given the contention of *Is Big Really Best?* that there may be different optimum sizes for different functions, a focus by some medium sized associations on developing their business as effective and innovative deliverers of a variety of services might have significant benefits to themselves and the sector as a whole.

Indeed *Is Big Really Best?* put this forward as a clear possibility:

*Our research suggests that there needs to be a cultural change within associations. Many still seem to see development, and particularly Corporation-funded development, as the driver of business growth. With fewer developers under the Corporation’s IP regime and private contractors having access to part of the ADP, many associations can no longer take this route. But we do not see why smaller and medium-sized associations should not develop their businesses on the basis of providing top quality services. They will need to be competitive on costs, but they have the advantage that not being developers has a beneficial effect on their finances. After all, Pinnacle*

*has shown that a private body can do that for housing management, so why not an association for that or other local services where they have real expertise?*

## **Appendix 1: Key Publications Reviewed**

Growing Up: Questions and challenges to promote successful housing association growth

L&Q Group 2006

<http://www.growing-up.org.uk/>

The Bigger Picture; The costs and benefits of groups mergers and partnerships.

CIH/Tribal 2006

Short version at <http://www.cih.org/policy/CostsBenefits.pdf>

Testing the Climate -Mergers and Alliances in the Housing Association Sector  
NHF 2005

<http://www.curs.bham.ac.uk/Publications/TESTING%20THE%20CLIMATE%20SEPTEMBER%202005.pdf>

Is Big Really Best - or can small and friendly deliver?

CIH 2005

<http://www.cih.org/policy/IsBigBest.pdf>

Group Dynamics: group structures and registered social landlords

Audit Commission/Housing Corporation 2001

Constitutional and Structural Partnerships: Who Benefits?

CURS 2000

Rationalisation work: CIH/HC 2006/7

3 Reports: <http://www.cih.org/stockrationalisation/>

Summary briefing:

<http://www.housingcorp.gov.uk/server/show/ConWebDoc.10669/changeNav/440>

Toolkit:

<http://www.housingcorp.gov.uk/server/show/ConWebDoc.10910/changeNav/440>

### **Other reports considered:**

Hills, J: *Ends and Means – The future roles of social housing in England.*

Centre for Analysis of Social Exclusion, London School of Economics. 2007

The Cave Review of Social Housing Regulation: DCLG, 2007

Place-shaping: a shared ambition for the future of local government. The report of the Lyons Inquiry into Local Government. HMSO, 2007

An Opportunity Waiting to Happen: NHF/HACT 2007

Successful Neighbourhoods, CIH 2007.