Defining the Middle Market and the role of Place Shaper Associations

***All the evidence we have collected suggests that Place Shaper associations should be confident about their future if they are clear about the strategy they are pursuing and are committed to a localised quality service*.**

A report for the Place Shaper Group

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Introduction

This research has been undertaken by Tribal for a group of seven housing associations in London and the South East, The Place Shapers Group. This group is seeking to develop into a recognised lobbying body for the housing association "mid market" and sees Place Shaper associations as:

- Fitting the mid-market definition (currently assumed to be 3-10k units but more work to be done to understand the cohort)
- Being a "good" provider and actively developing
- Having local focus within defined geographical areas
- Having demonstrable commitment to the ethos of the sector

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Definitions

In undertaking the research we have used the following as definitions:

Place Shaper Associations

This refers generally to associations who fall within the category of housing association who the report is aimed at.

The Medium Cohort

This refers to the cohort of associations who own between 2,500-10,000 units as defined by Housing Corporation data.

Potential Place Shapers

This refers to a specific group of 101 associations within the medium cohort who have been identified as potential members of the Place Shapers Group.

Part One: Overview of Place Shapers' role in the market.

A scenario for the Place Shapers?

The brief for this research asked us to gain a better understanding of the "middle market" of Housing Association activity. What the evidence we have considered suggests is that there is not one "middle market "as such. There are different configurations of housing association activity in different regions, cities and localities.

There clearly are a range of independent associations with strong local roots who are not either the largest or the smallest, who play a significant part in and who are trying to develop, their position in these local and regional markets. These we describe as "Place Shaper Associations".

The evidence suggests that the growth of the association sector will continue given the continuation of transfers from local authorities and the pressure for new units. So what role can we expect Place Shaper Associations to play within this expanding sector?

There are a number of issues which will have a significant influence on the sector as a whole which are uncertain at the present time. These include:

- The possible effects of increased competition for grant with the introduction of private and other bodies.
- The new institutional arrangements for investment and regulation.
- The effects of a potential slow down in the economy

The most likely scenario is that what will emerge from the trends which we have examined is a series of increasingly "mixed markets" in different areas and regions. These will include a wider mix of bodies, some of whom are private, working in a range of partnerships. There will be a premium on associations being clear about their role in these markets and making the right sort of partnerships, be that with local authorities, developers, voluntary bodies or other associations, to fulfil that role.

Even if a small number of super associations and/or a strong presence of private developers do emerge, there will still be a role for Place Shaper Associations who are good performers with clear strategies and good local roots.

However there are risks for associations generally and particularly for those who are pursuing aggressive growth based on property sales if there is a downturn in the economy and the property market. This could nevertheless enhance the value of Place Shaper Associations with a less aggressive strategy.

There is an element of fashion about the push for growth by grouping/merger of associations. The danger with this fashion is that those independent associations who are concentrating on what they are good at may start to feel left behind and lose their self confidence.

The qualitative work for the report shows that medium cohort associations generally have a positive reputation with local authorities and the Housing Corporation. The analysis of data shows that they are key players in the delivery of new homes and the Potential Place Shaper associations had better than average performance data.

All the evidence we have collected suggests that Place Shaper Associations should be confident about their future provided they are clear about the strategy they are pursuing and are committed to offering a high quality localised service.

Place Shaper Associations policies in relation to merger/groups.

Following the significant concentration within the sector in recent years there is some evidence that the pace of groupings and merger may be slowing. In terms of competitiveness the next trend may be as much about streamlining existing structures as a significant surge in new groups and mergers.

There may at some point also be a reaction against the dash for growth. This may be at two levels:

> ***National policy level*** This is most likely to emerge if a larger association gets into financial difficulties or if there was a general perception that larger associations were not being competitive. It is worth recalling that in the early 1990s a number of associations with aggressive shared ownership programmes got into significant difficulties when there was a downturn in the housing market.
>
> ***Association level:*** The research does show that there may be tensions between moves to larger entities and local delivery focus and accountability. If associations who have joined groups expecting them to combine scale and local focus find that they are not delivering, then we could see a number of de-mergers. This would perhaps start a wider questioning of the moves to groups than we have seen to date.

Whilst the failure of a larger association would entail the danger of tarnishing the sector as a whole, either situation outlined above would perhaps emphasise the importance of good regional and local associations.

A relevant analogy is in the banking sector. The current troubles at Northern Rock and the knock on effect on other former building societies that became banks can be unfavourably compared with those institutions that retained mutual status and are now seen as being safer by depositors.

Several of the associations who we identified as Potential Place Shapers are also in merger/grouping talks at the present time. This suggests that there may be a choice for some Place Shaper Associations. The analysis shows that there is in every region a strong base of what we call “regional powers”, (see section on Defining the Middle market below), associations who have developed a strategy based on them being a key player in a particular region. For some of the Potential Place Shapers developing their regional position is clearly the ambition rather than retaining a more specifically localised focus.

This distinction is important as can be seen from the section below on *Defining the Middle Market*. Associations in the 5-9,999 cohort are much more likely to merge and have aggressive growth strategies then those associations with 2,500-4,999 properties.

If the focus of Place Shaper Associations is to be on the "locality" then generally merging/grouping is unlikely to be attractive, particularly given the opportunity costs involved. It may however be that there are circumstances where a Place Shaper Association does consider a grouping. An instance might be where it is focussing its strategy on two or three local authority areas, and a stock transfer association in one of these areas decides to look for a group partner.

Best not Big

One of the key themes that have emerged in the work for this report is the lack of evidence that size of association gives key advantages in relation to service delivery or NAHP development.

The local authorities in the Going the Extra Mile (GEM) research were clear that it is not size but effective performance and local strategic focus that is important to them. In particular two key points on this emerged:

- Size is not relevant – those that local authorities most want to work with will have a committed local focus.
- All respondents take for granted that basic housing services should be provided to the highest standards and say that size is not a determinant of success here.

The Housing Corporation also takes this view. Deputy Chief Executive, Peter Marsh, said recently "We do not believe that larger associations are de facto better than smaller associations".

However this does not mean that they were arguing specifically for medium or small associations. GEM said:

- Community based associations can achieve this but so too can larger organisations with a critical mass of stock & structures / people to support partnership working.

This is echoed in the results of the literature review which found that most of the evidence showed no clear links between size and performance but identified clear dangers from a rush to larger associations:

- 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.

However the literature review did highlight research speculating that there may be an optimum size of delivery unit for particular aspects of association activity (see Performance section below). The evidence we have gathered suggests two possible issues here which Place Shaper associations will need to think about:

- There may be an advantage in terms of size if associations are trying to deliver larger development or regeneration plans or widen the range of products which they are aiming to produce. To take the risks involved and pay the sort of salaries to attract the right staff may be a significant factor here. This may be important as competition is emphasised in the government's desire to increase the number of homes produced. Can Place Shapers gain these advantages through partnership working?

- The other side of this coin is that there is plenty of evidence that there are tensions in combining growth with local engagement with communities. This may become more pronounced as larger associations seek to slim down their accountability structures in an effort to achieve more efficiency.

This is important as unless a reputation for quality of basic services is maintained amongst residents and local authorities, other business opportunities may suffer

The Role of the Place Shapers Group

The research that we have done identifies that there is clearly a group of associations who meet the criteria set out in the brief.

In Chapter Three we highlight the problems of using "medium" as a definition. Indeed ethos and local engagement would seem to be more important than a description based on size. Some of the Potential Place Shapers are developing their regional position rather than retaining a more specifically localised focus. There are also some smaller associations with the same values and aims who may also want to be considered for this group.

In terms of a definition for what we call "Place Shaper Associations" this could be:

Place Shaper Housing Associations are independent associations with a strong ethos of effective service delivery within and engagement with a particular locality. Such associations are committed to organic growth within, and possibly around, that locality.

Locality in this context could be one local authority or city, a part of one of these or across a group of related local authority areas.

The Potential Place Makers are distributed throughout the country with around 30% of them in each of the Central, South and North Housing Corporation Fields. The exception being London where there are only 10% of these associations.

We have some doubts, given the different market situations in different areas of the country and the different profiles of these associations, as to whether there is scope for a cohesive lobbying group along the lines of the G15. But it is clear that if these associations are to thrive and prosper in a more diverse environment then a higher profile, effective practice and good R and D will be crucial.

What may well be needed is a group which is mutually supporting its members by providing and sharing information, best practice and research and seeking to generally improve the profile of such associations.

Potential issues for further work

Building the business on responsive service delivery and choices for tenants

The research we have done highlights that:

- There will probably be a significant move away from the coterminosity of ownership and management by associations.
- There are likely to be substantial pressures from the new regulatory regime on association performance with new powers to act on non-performance of the delivery of services and with documented complaints from tenants and local authorities as triggers for intervention.
- One of the key objectives for the new regulator in The Housing Bill is to: "*ensure that actual or potential tenants of social housing have an appropriate degree of choice"*.

This means that associations will have to be clearer about the role of service delivery and its relationship to other activities in their business planning.

For some associations there may be challenging business planning decisions ahead as to where their priorities should be. This will include, for some, making a decision as to whether to continue to focus on new development or to invest in housing management, increased data capacity, resident empowerment and local authority interface.

Development work on empowering and giving greater choice to tenants may well be a key business area - particularly for associations who want to emphasise their local and high quality service delivery credentials.

Tribal is just about to start a piece of work for the Housing Corporation looking at how the new regulatory regime could develop models for giving tenants a serious choice over the service provided, including:

- The regulator being able to insist on a change of manager of an association's homes due to poor performance and/or tenants' dissatisfaction;
- Tenants having the ability to change their service provider.

Local information and engagement.

The report identifies how the move to Comprehensive Area Assessments means that the local authority is assessed on the quality of the 'area' reflecting a new 'place shaping' role for authorities.

All partner associations will be expected to cooperate on achievement of CAA targets backed up by statutory duty. The strongest obligation will be where an association manages a significant number of properties.

In the recent Green Paper consultation, the Government stated that in relation to the future of regulation, the new housing regulator would:

> "*have a power to require information from landlords and this should also be provided to local authorities and tenants, so they can form a view on the quality of service they receive. The regulator will publish high-level performance data by different providers in a way that enables local comparison*"

It is important however to distinguish between these two duties and the way they will put differing pressures on associations. The new regulator's role is focussed on the quality of core housing management service delivery. By contrast the local authority's role is more clearly related to wider issues. The regulator's activities will bear very directly on associations whilst it is unclear as yet how successful the local authority place shapers role will be generally and it is also likely to differ from authority to authority. It is important for associations with a commitment to a local focus to think through how they link in to these two strands of thinking about local performance.

There is therefore a strong case for a group of associations who are stressing their local engagement as being one of their core strengths to engage with this agenda. This could include examining how they might be able to demonstrate the effectiveness of that local engagement, perhaps by developing some kind of community engagement audit.
Associations will also have to be very clear about how far they can engage effectively with a number of local authorities. Eleven of the Potential Place Shaper Associations work in more than 20 local authority areas. They in particular may have to think hard about stock rationalisation options.

What type of Partnerships?

It is clear from our work that the effectiveness of the partnerships which associations increasingly form is vital to their performance and profile.

There are a range of partnerships which the Potential Place Shapers are involved in, including:

- NAHP
- Procurement clubs
- Benchmarking clubs
- Regeneration partnerships
- Crime and Disorder Reduction Partnerships
- Joint venture companies with developers

Certainly for many Place Shaper Associations who wish to remain as developers consortia with other associations are likely to remain central. In the future we may also see an increasing number of partnerships with private developers or larger associations for the management of properties.

There is however little research or advice available on partnership working. A group of associations with involvement in a wide range of partnerships should be in a good position to draw together and analyse their experience and identify what works best.

Part Two: The overall analysis

Chapter One: Background and information used

Brief

The outline for the research is as follows:

> *The group agreed that the immediate priority for further research should be to develop a comprehensive understanding of the mid market involved. This is vital preparation for the lobbying tasks ahead. Key to establishing the cohort's profile will be:*
> - *Analysis of who the mid range associations are broken down by size and region*
> - *What is known of their performance and reputation with key stakeholders*
> - *What levels of development they have been or are involved in (to establish the value of the mid market's contribution to investment programmes)*
> - *Which development partnerships they belong to (where applicable) and what assumptions can be made about their future development capacity*

The group sees the middle market as:

- *Of a scale that fits the mid-market definition (currently assumed to be 3-10k units but more work to be done to understand the cohort) – although by its nature this is going to be flexible in terms of the number of homes*

The group have also emphasised "*a defined local focus"*

It is also intended that the project should identify individual associations in this cohort who the Place Shapers Group might contact with a view to joining them.

This suggests that there are two outputs:

- ***A sub - sector analysis based on the above***
- ***A list of the associations for possible membership of the Place Shapers Group with some basic info for each one.***

This report constitutes the analysis and the list of Potential Place Shaper associations is attached.

Information used

- ***High Level Data***

We are limited by the form which information is held.

The definitions for PI validation are: smaller Associations are 250 to 2,500, medium are 2,500-10,000 and large10, 000 plus. However these definitions have been in place for 4 years.

RSR information is provided in 2,500 bands below 10,000. Detailed RSR data is only currently available for 2006.

Financial information (in the Global accounts) comes in 2,500 bands for traditional associations and for transfer associations it is divided not by size but between “young” and “old”.

For high level analysis we have taken Associations in the 2,500 – 10,000 cohort on the basis of homes owned and managed figures and where possible tried to establish any differences between the 2,500-4,999 band and the 5,000-9,999 band.

In this report we have therefore used the term “***medium cohort***” to refer to analysis based on the published information on associations with 2,500-10,000 units and “***Place Shaper Associations***” to define the core group of associations the research is aimed at.

- ***Detailed data***

The Corporation has recently published lists of the top 200 associations and the top 60 groups in terms of properties owned/managed based on the 2007 RSR data. We have also managed to obtain from the Corporation the same data for all associations with over 2,500 homes. This has been used for more detailed analysis.

We have used this data to identify 101 associations from those in the 2,500-10,000 cohort which best fit the criteria for the research by being independent of a larger group, not being specialist and not being recent transfer associations (and includes the current members of the Place Shapers Group). We have then undertaken more detailed analysis on these associations, described as the “***Potential Place Shapers***”.

- ***Qualitative Information***

To get a definition of what the Place Shapers Group is trying to do we have to look beyond figures and relate them to other aspects of the brief, particularly in terms of local focus and a commitment not to compromise that by becoming too large. We have therefore used qualitative sources to support the analysis:

This is derived from three sources:

- The local authority interviews undertaken for the *Going the extra mile* work
- The literature review
- An interview with the Housing Corporations Regulation Policy Manager

We have also included a number of examples to illustrate the points we make. We have generally used examples from outside London and the South East, given that the Place Shapers Group will have good market intelligence there.

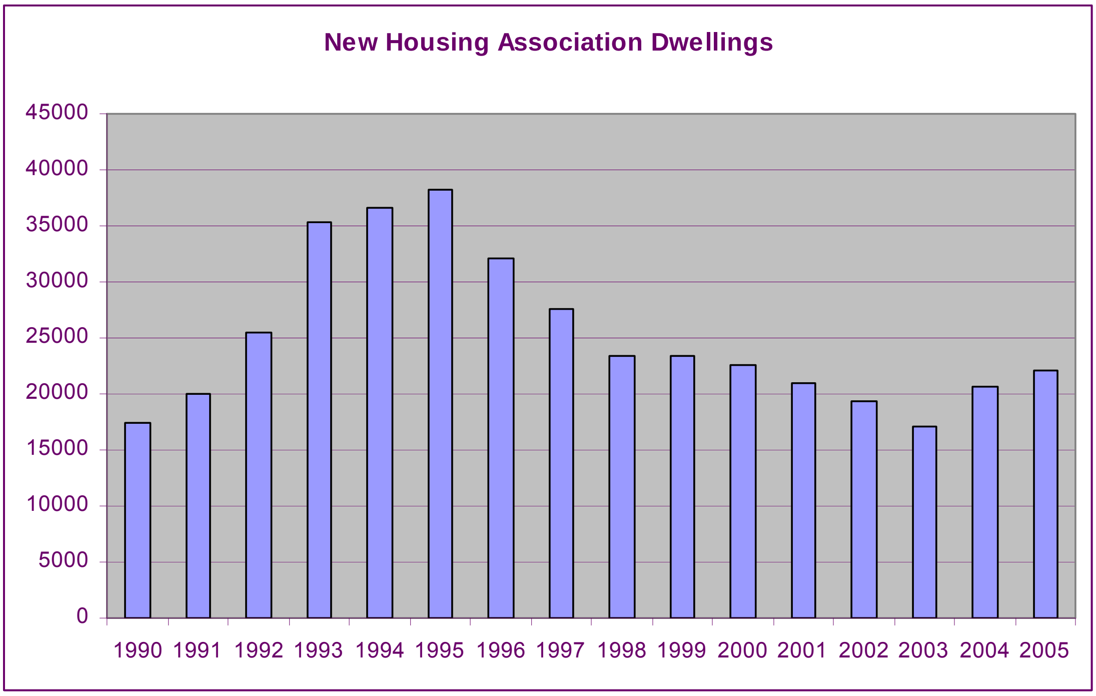
Chapter Two: Sector growth and concentration

The housing association sector has grown significantly in recent years**.** Associations now manage over 2.1 million properties.

The overall growth of the sector has been driven by two key factors:

- ***Developing new properties:*** Actual properties provided by SHG over the five years between 2000 and 2005 were averaging around 20,000 a year. This was well down on the numbers in the mid 1990s when new homes provided by SHG averaged more than 30,000. More recent figures are difficult to compare as the HC has tried to capture the wider work of associations rather than just those homes provided directly by the ADP so, for instance, includes S106 properties. The HC therefore says that over 36,000 homes were produced as a result of its NAHP programme in 2005/6. In its publication *Home Truths,* The NHF says that "*Housing associations completed 28,796 new homes in 2006, a 22%increase on 2005"and* when refurbishments of existing homes is included "*associations produced nearly 39,000 more social homes*".

New Housing Association dwellings provided by SHG 1990-2005



- ***Stock transfers from local authorities:*** These join the sector with an existing asset base and therefore increase the numbers in the sector as a whole and the segment of the sector which they join.

Both these factors affect the “architecture” of the sector as new associations are added and traditional associations grow. However, over the last five years we have also seen significant change in the structure of the sector through mergers and groupings. These do not increase the size of the sector as a whole but do affect segments as associations move between size bandings.

The next section explores the way transfers and grouping/mergers have changed and are continuing to change the sector and how they affect the cohort of associations we are examining.

Transfers:

As we said above, stock transfers from local authorities have had a significant impact on both the size and shape of the sector.

Transfers completed before 2001/2 involved 573,600 properties going to 121 Stock Transfer Associations (STHAs). Over the next five years a further 431,100 units have been transferred to 81 STHAs. These are heavily concentrated in the 2,500-9,999 cohort with three quarters of all STHAs in this cohort.

Whilst there may be a limit to the stock transfer programme, there were still over 2 million local authority homes in 2006. 54,500 properties where transferred into the RSL sector in 2005/6 and 71,300 in 2006/7. Further transfers totalling over 200,000 homes are in the pipeline for 2007 and 2008. This would add more than 20 new associations to the 2,500-9,999 cohort.

Another potential route to transfer is though ALMOs converting to associations, possibly using the Community Gateway model. At least two northern ALMOs are investigating this. A lot will depend on the proposed self financing pilots - where announcements are expected soon - and how quickly ALMO authorities can become self-financing.

It is important here to note the difference between “young” STHAs and “mature” STHAs in terms of their impact. Young STHAs generally complete significant improvement works within the first 5/6 years during which time they tend to have very differing financial profiles to traditional associations with most having deficits. They also have a higher rate of developing regulatory problems than either traditional associations or mature STHAs

For more mature STHAs, as the Global Accounts 2006 says, “*As stock transfers mature, their financial performance begins to mirror that of traditional associations*”. Many of these have also started developing beyond both the traditional landlord role of the local authority and in terms of their geographic base.

There are two clear points here:

- Stock transfers of this nature are set to carry on in the near future and will continue to affect the shape and size of the sector.

- As the younger STHAs mature they are likely to seek to expand their business and growth prospects via development or grouping/merger.

Groups/Mergers

The concentration of ownership in the sector over the last few years can be seen from the RSR recording there being only 131 associations in groups in 2002 to there being 411 by 2006. The number of associations in the medium cohort in groups has jumped from 42 in 2002 to 176 in 2006.

Interestingly this increase in the number of grouping and merger activity has occurred at the same time as the reduction in association development programmes via SHG, noted above.

These figures do not capture the full scale of concentration at the present time given that the last published RSR information on this was in 2006. We have therefore looked at the composition of the associations which have arisen from the main mergers/groupings involving associations over 250 units over the last two years in terms of size. This shows the way that the sector is changing:

Size of Associations merging	**Number of such mergers**
Over 10,000 merging	4
Medium cohort HAs merging	4 (involving 11 Associations)
Large with one medium	2
Medium with small	4
2 smalls (less than 2,500)merging	1

Size of subsidiaries joining group	**Number**
Over 10,000	2
Medium cohort HAs	26
Less than 2,500	8

Source: Social Housing magazine analysis, November 2007.

This demonstrates very clearly the way that the medium cohort has been affected by the increase in merger/groupings, with 43 medium cohort associations becoming part of a group or merger.

Yet it is also important to note that despite the debate in the housing press over the possible emergence of the 100,000 unit association, Social Housing magazine has recently reported that the trend towards groups and mergers appears to be decreasing with fewer proposals coming forward. Moreover those that are coming forward generally involve STHAs joining established groups including an increase in the number of transfers from a local authority being transferred directly to a subsidiary of an established association.

This may be due to a growing awareness among associations regarding:

- The effects of mergers/groupings which can have negative aspects, in the short term at least, on receiving associations' finances. This is particularly the case for those associations who take on partial stock transfers or merge with weaker associations.

- The opportunity costs of mergers/groupings with resources tied up that might be used for other forms of growth/development.
- The identification, particularly amongst larger associations, of the significant costs involved in servicing group structures.

The latter point is important as we have already seen one association, Home, merge its subsidiaries into one organisation and are aware of several other large associations doing or looking to do the same (e.g. L&Q). In terms of competitiveness the next trend may therefore be as much about streamlining existing structures as a significant wave of new groups and mergers.

A possible reduction in the numbers of merger proposals may also be a result of the Corporation's production of clearer guidance on what is required of mergers in terms of significant savings and service benefits. It is at present difficult to determine the success or otherwise of this change in approach because there has been no research yet aimed at examining whether predicted benefits of mergers have materialised.

Recent examples of groups and mergers:

Devon and Cornwall HA and Penwith HA. A medium cohort regional association grouping with a smaller STHA. The new grouping takes them into the 10,000 plus cohort.

Great Places, a larger medium cohort association, grouping with two local smaller associations to form a localised group.

Three medium cohort associations joining Sanctuary HG over the last two years.

Aster Group: Three medium cohort associations joining together as a group over the last two years.

It is important to note that groupings are not necessarily about significant growth. Associations may for instance use them to provide specific envelopes for certain activities which need their own cost and performance considerations. Of the associations which we identified as Potential Place Shapers, around 40% had some kind of grouping.

Chapter three: Defining the middle market

The numbers game?

Perceptions of what are large or medium are often influenced by the sheer number of associations with some commentaries referring to larger associations as being those with more than 250 homes. This is of course the case in terms of them constituting only 16% of all registered associations. In terms of actual property numbers and financial figures a different perspective needs to be taken.

Traditionally data sets have tended to see large associations as over 10,000 and medium associations as 2,500-9,999. The 2006 RSR figures show a medium cohort of 238 associations in the 2,500–9,999 range representing 14% of all associations. These associations owned 1.11m units of social housing stock and a further 18,000 non-social housing units, representing 54% of total housing association stock holdings. The 5,000-9,999 cohort is also the most highly geared.

Changes in terms of growth and merger/group formation affect the middle associations significantly as can be seen from the 2006 Global Accounts:

> *"It is noticeable that growth within the sector is distributed unevenly throughout. When associations' results are aggregated to stock band level, the year on year comparative results are influenced by associations moving between stock bandings. The 1,000 to 2,500 and 5,000 to 9,999 unit bandings are most affected by this, with significant movement of associations either gradually moving up or down to the next band or (particularly in the 5,000 to 9,999 band) the effect of merger activity…..the relative share of the sector results decreasing for the smaller banding and* increasing for the larger.*"*

This emphasis on the 5,000-9,999 being a major segment of growth can be seen further from the 2006 Global Accounts which goes on to say:

> *"The largest increase in assets and debt is seen in the large (5,000 to 9,999 units) associations and the smallest segment. As reported earlier, this is due to significant movement of associations into the larger of these two bands but also evidently aggressive growth strategies and increased activity in more non grant funded development."*

Having confirmed the growth of the 2,500 – 9,999 cohort, it is important to acknowledge some significant differences between those associations at the lower end from those at the top end of this segment:

Firstly, a cohort of this size contains a significant variation in type of association and is one that is continually changing. Indeed it is difficult to see how such a varied array of associations in such a wide banding can really be described as a sub-sector.

Secondly, most figures are still collected and/or expressed in terms of individual associations. Thus if we look at associations in the top 60 groups identified by the 2007 RSR they comprise 203 registered associations:

Over 10,000	32
9,999-2,500	103
250-2499	56
< 250	12

So any definition based on individual registrations ignores the fact that many of these are part of larger entities. Whilst such associations may have a significant degree of operational independence they are still subject to the disciplines, cost structures and financial decisions of the group as a whole.

The 2006 Global accounts state that associations with greater than 10,000 units "represent around 28% of turnover, 31% of property assets and 36% of the operating surplus". This suggests that these larger associations are approaching around a third of the sector in terms of size.

However the global accounts are based on the previous year's financial information and on individual associations rather than group returns, thus not fully capturing the scale of concentration within the sector.

All this then leads us to consider where the "middle" really is.

We do not have more recent turnover and operating surplus figures available. However in terms of property numbers, a reconfiguration of the largest, middle and smaller segments based on treating groups as the total units owned by the members of that group alongside independents, based on 2007 RSR figures, show a different picture of the level of concentration. Below are three ways of looking at this:

Example 1:

In terms of three thirds:
Largest – over 20,000 = 684,000 (22 Groups/Associations)
Medium – 0ver 8,000 = 722,000 (60)
Smaller – less then 8,300 = 694,000

Example 2:

Super size over 40k	= 275,196 (6Groups/HAs)	
Large 20- 40k	= 387,110 (15)	
	662,306	
Upper medium 10-20k	= 565,570 (41)	
Lower medium 5-10k	= 467,357 (72)	
Small 250 - 4.99k	= 355,000 (149)	
Very small 249 or less	= 51,000 (1,165)	
	406,000	

Example 3:

Super size over 40k	= 275,196 (6Groups/HAs)	
Large 20- 40k	= 387,110 (15)	
	662,306	
Upper medium 10-20k	= 565,570 (41)	
Lower medium 4- 10 k	= 606,431 (104)	
Small 3.99k or less	= 216,000 (117)	
Very small	= 51,000 (1,165)	
	267,000	

Thus the "middle market" is in reality much "higher up" the property ownership scale than the original definition suggested

There is a good deal of logic to using one of the latter two definitions. As we noted earlier the 5,000-9,999 band is the one which is developing and expanding most.

However what this perhaps suggests for the Place Shapers Group is a redefinition away from the term "medium".

Differential Markets.
There is also an issue about whether we can realistically talk about a ***national*** middle market

At the regional level there are clear differences. This can also be seen from the analysis of NAHP allocations figures in the next section. The North East is dominated by medium cohort associations and the West Midlands by larger regional associations. London is different again with its high levels of both medium cohort and very large Associations.

Even if we look at the six associations with over 40,000 units, none of them has an NAHP allocation in every region. Sanctuary and Home have allocations in 7 of the 9 regions. At the other end L&Q are concentrated wholly in the South East and London and whilst Riverside has allocations in both the midlands regions, its core allocation is in its home base of the North West.

Indeed one aspect of the debate over size is sometimes obscured by the debate about whether the small number of very large associations will get even larger. This is that the real growth in the sector has come from the emergence of “regional powers”, associations who are strong within a particular region.

There are also very different profiles within regions and at a local level.
For example, if we compare ownership levels for the two largest cities in Yorkshire and consider associations which own more than 200 units in these cities, we see a sharp contrast:

Associations with over 200 units	**Sheffield 000s**	**Leeds 000s**
Large National	7.5	2.7
Large regional	1.1	0.9
Local medium	2.3	8.4
Local small	0.8	0.5
Total	**11.7**	**12.5**

So whilst Leeds has a thriving “middle market” with 6 locally based associations. Sheffield’s HA stock is dominated by large national players, with only one locally based medium cohort associations.

This reflects local decisions such as Sheffield Council’s scepticism about associations in the late 70s and early 80s at a time when locally based associations were being encouraged in Leeds. More recently Sheffield has agreed a significant transfer from the Council to a large national association

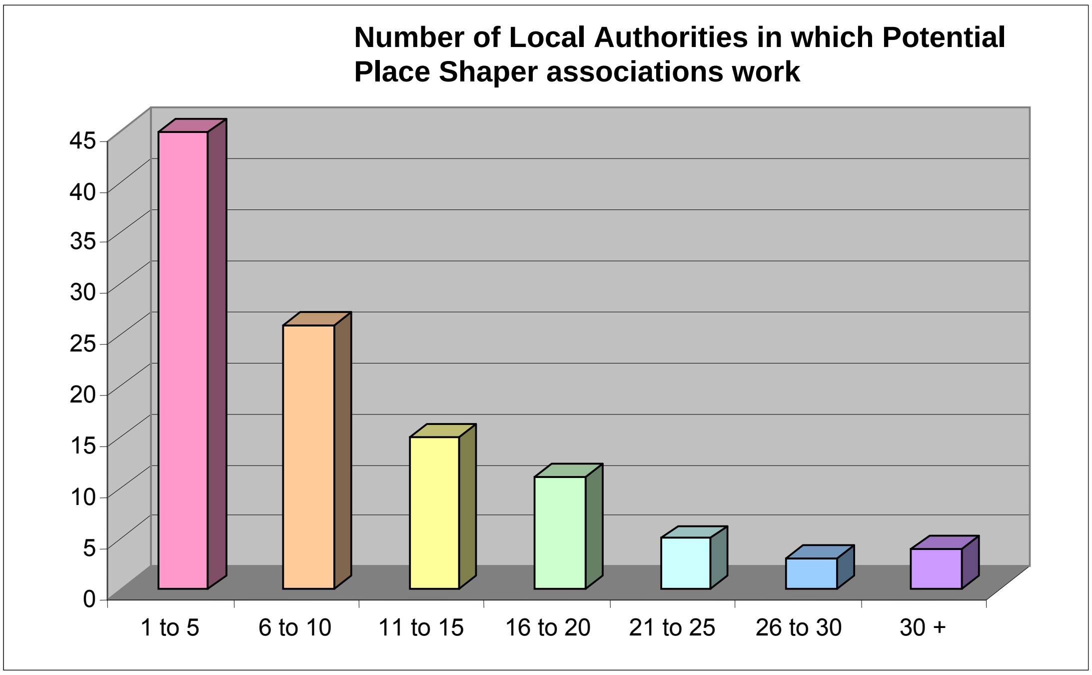
It is also the case that if we look at the ecology of associations with a significant geographic base and strategy then there are clear differences between associations in the 2,500-10,000 cohort. The examples below highlight the differing situations of two associations in Manchester.

The Great Places group has around 9,200 properties. It is developing itself as a “regional power” being an NAHP partner at the head the BLOC Partnership - a consortium of medium/small associations. It is involved in substantial regeneration activity and is also moving into nearby areas with its work in Sheffield. It has more in common with other associations who have grown beyond 10,000 units often through merger with other associations in their region. Examples of these include Yorkshire Housing, Devon and Cornwall and Longhurst. These Associations have kept strong localised roots but have developed to a size where they can make a significant impact within their region.

On the other hand there is Mosscare Housing with around 3,300 homes. This association has committed itself to working in areas where it currently has a presence and has pursued a process of stock rationalisation with other associations and the City Council to embed that. Its aim is to provide effective community and housing services within these areas, including a strong focus on supported housing. In development terms, Mosscare is a member of the BLOC partnership. Mosscare may therefore have more in common with smaller community based associations such as Black Country HA

If a local focus is to be a critical aspect of the definition for the Place Shapers Group then the spread of authority areas in which associations hold property may be significant.

In terms of the number of local authority areas in which the Potential Place Shapers work we can see that although the majority focus on a small number of local authorities, 11 work in more than 20 authority areas:



Another dimension to this is the role of stock transfer associations (STHAs). We saw earlier how the majority of these fall within the 2,500-10,000 cohort at the time of transfer and by their very nature are very locally based. The larger associations have also in recent years been supplemented by the emergence of a number of large transfer associations going straight into the over 20,000 bracket

The pattern of transfer also affects the differences in local markets. Many of the earlier transfers where in the south and consequently Hampshire, for instance, has a much more mature set of STHAs than is the case in northern areas.

As we also saw above in financial terms, as STHAs mature, they develop similar profiles to traditional associations. Again there are a variety of paths taken by these maturing organisations in terms of merger/groupings and development.

There is however an issue about how the newer STHAs will develop. The majority of new groupings are STHAs becoming part of groupings with other associations. How this affects the local dynamics of a particular area will be important.

One other point which it is worth highlighting here is that the medium cohort associations are less involved in care and support than other segments. This would seem logical given that the Global Accounts 2006 says regarding care and support that:

> *"The smallest associations contribute a greater proportion to the income and expenditure figures for the sector (around 7% to 8%) than to the balance sheet figures (around 3% share of asset and debt). This reflects the fact that this segment includes a higher proportion of associations specialising in care and support activities than the other segments. Such activities are typically service, not asset, driven."*

So is there a middle market?

What all this suggests is that there is not one "middle market "as such. There are different configurations of housing association activity in different regions, cities and localities in which locally based medium cohort associations play a significant part. Indeed, the definition of "medium cohort" association is changing and is not easy to pin down.

What clearly exists is a raft of independent associations with strong local roots who are certainly not large or the smallest but are trying to work out and develop their position in these local and regional markets.

Part Three: The Key Functions Analysis

Chapter four: New development

NAHP development

In terms of NAHP development, the associations in the 2,500-9,999 cohort play a significant role. There are 28 of these who received NAHP allocations in the 2006-8 round. The allocations to these 28 associations total £1326.5m which constitutes 42% of the NAHP allocations to associations.

In terms of the regional breakdown, the cohort's % of allocations in each region is:

Region	% of HA allocations to 2,500-9,999 cohort
North East	90
Yorkshire	50
North West	38
West Midlands	11
East Midlands	63
East	17
South West	9
South East	34
London	40

These variations are somewhat surprising but generally reflect the position of associations in particular regions. So:

- In the North West one association – Riverside has around 30% of the allocations for the region
- In the West Midlands four locally based partnerships/consortia led by strong regional associations account for 64% of the allocations
- In the South West five locally based partnership/consortia led by strong regional consortia account for 62% of allocations.
- In London the bulk of allocations go to associations in the medium cohort and very large associations.

Generally, allocations are dominated by associations based in the region. So whilst the West Midlands has a very low quota of medium cohort associations, it has less than 15% of its allocations going to national associations. This highlights the point we made earlier about the emergence of associations who are "regional powers".

In contrast, London with its significant role for medium cohort Associations also has around 30% of its allocation going to associations with more than 20,000 units in ownership.

It is however important to note that these figures are based on the 2006/8 allocations. Over time changes in the status of associations alters this profile. This can be seen if we look at the Potential Place Shapers:

Dev Category	No. of Potential Place Maker Associations
Lead developer 08/11/07	13
Lead developer 06/08 allocations	26

We can see that the number of them that are lead developers has halved mainly owning to mergers/groupings.

Just using the figures for who actually receives allocations understates the number of medium cohort associations who end up owning and managing the stock produced by the NAHP given the significant number of partnerships and consortia involved in the NAHP. A significant number of associations in these consortia are STHAs.

Examples of Partnerships/Consortia

Sovereign HA leads a consortia of associations which “coat tail” on its allocations. There are four specialist and three medium cohort landlords; Saxon Weald, Twynham and Housing Solutions

Yorkshire Housing Group and Longhurst HA are both groups of more than 10,000, however they are both in a partnership with a medium cohort HA (South Yorkshire HA and Nottingham Communities HA) which is more an equal partnership than in most consortia.

The Spirit Partnership in the north east is led by Tees Valley Housing Group, and consists of a mix of traditional and transfer associations: Three Rivers Housing Group, Two Castles Housing Association, Coast & Country Housing, Erimus Housing and Housing Hartlepool.
.
The Spectrum partnership, led by West Mercia Housing Group, develops in the West Midlands region. Its sub partners include Bromsgrove District Housing Trust, Whitefriars Housing, Heantun Housing Association, Herefordshire Housing, South Staffordshire Housing Association, Severnside Housing, Cara Irish, Nehemiah and Advance Housing.

Some idea of the high number of medium cohort associations involved in consortia can be seen from the analysis of the Potential Place Shapers in the table below:

Dev Category	No. of Potential Place S/s
Developing associations	90
Developing as part of Partnership	74
Developing on their own	16

In terms of the future, the Corporations preferred partners for the 2008-11 NAHP round includes six new associations all of whom fall within the 2,500-9,999 cohort. It also includes 18 developers, 7 ALMOs plus charities and SPVs. Even with an increased pot, associations generally and this cohort in particular may end up with less of the overall allocations. Indeed if private bodies end up with a significant share of the NAHP we may see a significant ratcheting up of competition for grant. This could lead to medium cohort associations in consortia being squeezed on the grounds of efficiency.

There is also an issue about who ends up owning and managing the properties developed by bodies other than associations. Will developers want to own and/or manage the homes they build or will they be passed on to associations? Do charities and SPVs have partnerships with associations who will manage the stock? This may lead to medium cohort associations having to make some hard decisions about whether they want to continue to compete for development or become preferred managers.

Non-NAHP Development

In terms of other development undertaken by associations, the Global Accounts show that in 2006 associations undertook £1.3 billion worth of such activities, representing 14.2% of turnover.

The last significant piece of work analysing the detail of this was undertaken in 2005 (Sector Study 43). As well as being out of date, any analysis by size was based on medium cohort associations being defined as those between 250 -2,500 and large associations being any association with more than 2,501 units owned or managed.

The activities analysed fell into two categories:

- ”Other social housing activities.” These include such things as regeneration and community based activities and Supporting People contract income. Around 70% of associations were undertaking work of this kind.

- Non-social housing activities. This is housing developed, without public subsidy, to meet broader requirements or markets than would normally be the case with social housing. Generally speaking these were non-social housing lettings.

The table below shows the percentage of non-social housing stock by size based on the latest available figures:

Non-social housing as a percentage of total housing owned by size of RSL (total stock owned) at 31 March 2006

Size of RSL (total stock owned)	Number of RSLs	% of RSLs	Number of non social units (000's)	As a % of total stock owned	Average	Number of units (000's)	Average
0	126	7.4	0.0	0.0	0.0	0.0	0.0
1-5	62	3.7	0.0	0.4	0.0	0.2	3.6
6-25	432	25.4	0.0	0.3	0.0	5.8	13.4
26-100	386	22.7	0.0	0.1	0.0	20.1	52.0
101-250	159	9.4	0.5	2.0	3.2	25.3	158.9
251-1,000	162	9.5	2.6	3.1	16.3	86.2	531.9
1,001-2,500	93	5.5	2.6	1.7	28.1	151.8	1,632.5
2,501-10,000	238	14.0	17.7	1.6	74.3	1,127.9	4,738.9
Over 10,000	40	2.4	15.3	2.3	381.8	662.4	16,558.9
Total	**1,698**	**100.0**	**38.8**	**1.9**	**22.8**	**2,079.5**	**1,224.7**

Source 2006 RSR.

This shows that non social housing stock is still a very small part of associations' overall activities, even though 42% of associations report involvement in this area and the Global Accounts 2006 say that the growth of units in the 5,000-9,990 cohort was partly explained by "*evidently aggressive growth strategies and increased activity in more non grant funded development".* However, the figures do not show how some have developed more heavily in this area, including some who on the basis of social housing units alone would be in the medium cohort (see example in box below).

Example: Derwent Living

This association, based in Derby, has grown substantially and now owns over 6,300 properties and manages over 9,000.

During the 1990s the association diversified into other activities. As well as providing social housing, 43% of Derwent's stock is homes for key workers, students, and young professionals, and the association is now a major provider of student accommodation in Nottingham, Sheffield, Leicester, Derby and Coventry. Ownership of the majority of the student accommodation has been transferred to the Beach Student Accommodation Fund, set up in conjunction with a private company, although Derwent retains the management responsibility through its unregistered subsidiary, Derwent Partnerships Limited.

Derwent re-structured in 2005 and now has two operating units, the social housing division and the commercial division which is responsible for its market rental, key worker and student accommodation.

Development capacity

Arguments over whether or not the sector’s existing development capacity is being maximised have featured prominently in recent debates on how the supply of new homes can be increased.

This is an important issue for medium cohort associations with a strong local focus who may be particularly challenged by the priorities described in the Corporations publication “*Unlocking the door”.* These are suggested to be *“between building new homes, investment in existing stock, land banking and wider regeneration”.*

This publication highlights that 63% of the sector’s additional capacity resides with associations with more than 5,000 homes. It also highlights that it is the smaller associations “that are most under-utilising their spare capacity”.

The 2006 Global accounts reinforce this saying that:

> *In total, associations over 10,000 units have 30% of the capacity in the sector and those over 2,500 units have 73% of the capacity*

This means that the 2,500-10,000 cohort has around 43% of the total latent capacity of the sector.

Unlocking the Door also emphasises how the use of sales to support business plans is particularly prevalent among larger (5,000 plus) associations “making them most vulnerable to a deterioration in the housing market”.

Again the 2006 Global accounts support this:

"Clearly the inclusion of sales increases the capacity for all associations, and in global terms the sector position increases by 64% to £8,553m. …. the level of benefit is not evenly felt.

Associations with between 5,000 and 9,999 units benefit most from the inclusion of sales proceeds, with the next cohort down (2,500-4,999) also seeing a significant uplift on capacity. It seems likely that this is the group of associations with the most active shared ownership development programme relative to their size."

Unlocking the door also confirms that the main constraint on an association's ability to increase debt levels is its capacity to service debt rather than its level of gearing.

In this context the Global Accounts 2006 show that:

"The result of the EBITDA interest cover ratio demonstrates that in all segments associations in aggregate generate sufficient operating surplus to cover interest payments. However results across all segments have reduced significantly over the previous year and for the 5,000 to 9,999 band the result is marginally above 100%. The aggregate result for traditional associations at 128% displays a marked decrease on last years result of 137%. This is driven by the greater deteriorating result in the larger association bands."

Both the Global accounts and *Unlocking the door* make three crucial points:

- There remain many strong associations who have the capacity to develop competitively in a new "mixed economy"
- Aggregate figures have limited value in making real assessments of capacity. It is the particular profile of individual associations which is key to an effective assessment in this area.
- The scenario of a 10% cut in grant rate and a 10% reduction in sales proceeds taken together could have negative impacts for the sector.

The current slow down in the housing market and the potential negative effects on the economy of the "credit crunch", combined with the continued competition for grant, means that the scenario set out in the last bullet above appears more likely than was the case when these reports where prepared.

The fierce competition for new business and "more for less grant" agenda mean that the reliance on internal subsidy is likely to increase.

If this does happen then it is likely to be the higher geared, larger associations and particularly those dependent on sales which will be in most danger.

Chapter Five: Service Delivery and Performance

The abolition of The Housing Corporation and the resultant split between regulation and investment is likely to reinforce significant changes that are already affecting the way services are delivered and regulated.

Whilst the Government is emphasising the need for more homes, the report which John Hills produced for DCLG, "*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."*

Significantly, the Housing and Regeneration Bill gives the new regulator a very strong remit and new regulatory tools in terms of service delivery, including the power to direct the Homes and Communities Agency not to fund a poor performing association. This suggests that there is a willingness to be tough on poor service delivery as well as building more homes.

In the lead up to this Bill the debate has centred around two related concepts; more choice for service users and the separation of management and ownership.

- ***Separation of management and ownership***.

The recent Cave review spoke of diversity of provision being particularly *"vibrant and beneficial for tenants in relation to the management of their housing"* and went on to argue for *"Increased separation of ownership and management with some owners contracting management to specialist managers"*

In its response to the Green Paper The Housing Corporation said:
:

> "*We envisage an active role for the regulator in establishing a more competitive market for housing management services which will provide greater choice for tenants and stimulate more efficient management practices and better quality services*"

This suggests a wider move to break the link between manager and owner - currently the norm in the sector. The introduction of the new system to allow SHG to be paid to commercial bodies has already moved in this direction, as have some of the arrangements in the NAHP consortia where some partners manage rather than own the properties being built. We have also seen The Housing Corporation announce that in Northamptonshire local authorities will be given a say in who manages new properties, even if these properties are built by a different association.

In the local authority sector the link was broken in the 1980s through compulsory competitive tendering and the right to manage and was subsequently reinforced through Best Value and the creation of ALMOs. In recent years we have also seen the development of a significant number of contracts to outsource the management of local authority housing to associations and the private sector, particularly in London.

- ***Choices for tenants***

The Housing Bill has as one of the key objectives for the regulator to:

> *"Ensure that actual or potential tenants of social housing have an appropriate degree of choice and protection"*

This seems to back up the emphasis on choice for tenants in the Cave review's proposals for the new regulatory regime. This specified these as being:

- choices over different types of service, at different costs
- choices over how services are provided

The Housing Corporation has also said that making the offer of choice to tenants should be *"the default regulatory requirement, unless there are overriding reasons why this is not possible."*

Yet the sector has in many ways been rather conservative in this area. The NHF's Tenant Involvement Commission highlighted a mismatch between tenants' aspirations in terms of choice and associations' current practice. It said that; "*There is a huge appetite for choice amongst tenants*" and yet;
"57% of tenants say they have little or no choice in the services that their housing association provides."

There are no specific powers to enhance individual tenants' choices in the Housing Bill, leaving it for the regulator to pursue this. How far this goes in putting into practice the Cave review's aim of ensuring greater resident influence on service strategy and delivery and a separation of management and ownership, is still to be fully clear

There are however likely to be significant pressures on associations from a new regulatory regime focussed on service delivery with strong powers to act in terms of fining associations, acting on behalf of groups of tenants and forcing a change of manager. This suggests that raising the game in this area will be a key for associations who are fully committed to being local service providers.

So how are the Place Shaper associations placed to meet this challenge?

Performance

The Literature Review highlighted the way that previous studies of association performance data had found no clear links between size and performance.

For example, the analysis of PIs in "*Is Big Really Best?"* found, when looking at lead developing associations, that:

> *"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.

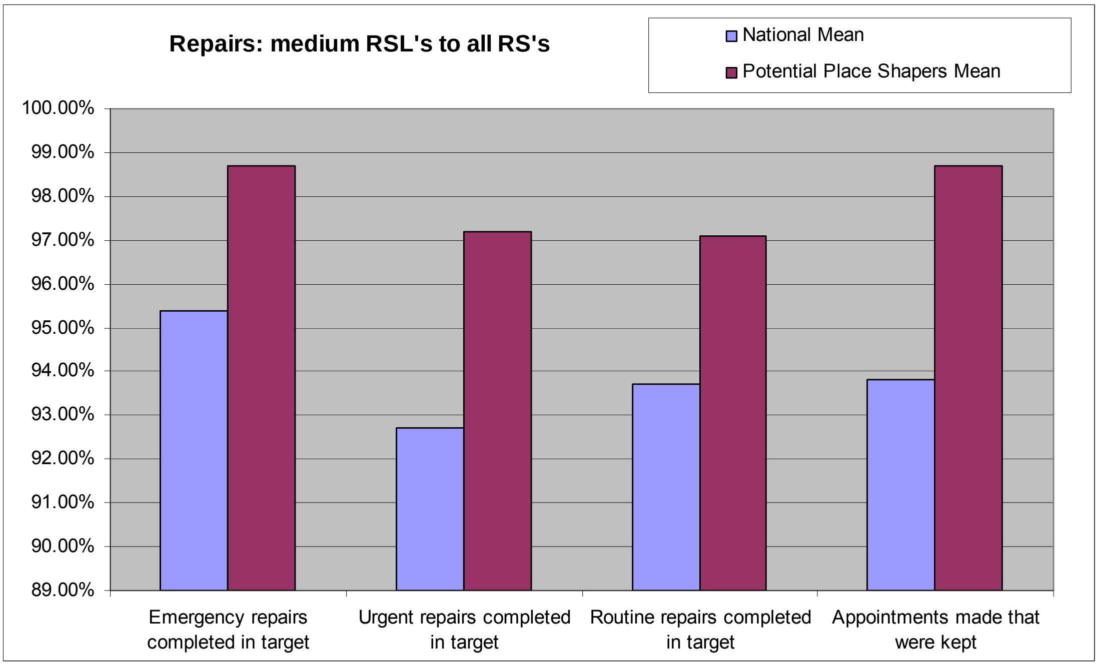
It is also worth noting that in analysing the 2006 Operating Cost Index the Housing Corporation said that there was *"no correlation between landlords' size and delivery of the efficiency target."*

What we have been able to do is to look at the performance of the Potential Place Shapers on a number of key indicators and compare these with the national average. These show that:

PI data Comparison: National to Potential Place Shapers

	Tenant Satisfaction (%)	Operating Cost Per Unit (£)	Rent Loss Through Voids (£)	Re-let Times (days)	Failing Decent Homes Standard (%)
National Mean	0.79	0.82	0.02	40.00	0.16
Potential Place Shapers Mean	0.80	0.82	0.02	37.00	0.14

These show a generally positive picture for the Potential Place Shapers and one that looks even better if we look at repairs performance:



This may well lend credence to the idea floated in "*Is Big Really Best?"* that there may be an optimum scale for some activities. 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

Overall this analysis suggests that Place Marker Associations are well prepared to meet challenges in this area and cast it as a key strength.

Chapter six: Local reputation and engagement.

Community engagement

Changes to the regulation of the sector and localities may well be important factors here:

- The Government has already stated that the move to a new regulator will involve looking at ways of assessing how associations are performing locally, with the possibility of local authorities and tenants triggering regulatory action.

- The move from CPA to Comprehensive Area Assessments means that an authority will be assessed on the quality of the 'area' and partners, including associations, will be expected to cooperate on the achievement of CAA targets.

It is however important to distinguish between these two duties and the way they will put differing pressures on associations. The new regulator's role is focussed on the quality of core housing management service delivery. By contrast the local authority's role is more clearly related to wider issues.

The Going the Extra Mile (GEM) research found that the local authorities interviewed saw community engagement and effective local partnering as critical to excellence. They also saw advantages in local stock rationalisation.

The literature review highlighted the CIH/HC Rationalisation work which considered these issues and emphasised the need for ***effective engagement with the locality*** as a key criteria for assessing rationalisation issues, saying:

> *"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'."*

This may be important in terms of delivering neighbourhood policies. The literature review quoted the CIH publication *Successful Neighbourhoods* (2007):

> *"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.”

For all associations, having a clear local focus is likely to be important in terms of business development. This will mean that they do not just rely on having a local “presence”, but have to be able to demonstrate that they are fully engaged with the locality and delivering effective local services.

Combining size and local delivery

The idea that large associations can be both big and local was questioned in Going the Extra Mile (GEM) where more than half the authorities said that the biggest associations are sometimes less effective at local liaison and have weaker relationships with them.

The literature review also said that:

“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?”

In relation to groups and mergers the literature review also highlighted evidence that large groups may have significant limitations in terms of “acting locally but thinking globally”. It found that “all the reports that have looked at groups have identified clear costs to complex structures which may in themselves end up inhibiting both the objectives of accountability and scale savings”. 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. It also said that “*as many associations now find themselves in an ongoing cycle of group formation and mergers, they must recognise the opportunity costs involved”*

The GEM research identified a number of concerns from Local Authorities which supported this:

- A perceived downturn in performance after mergers as “eyes are off the ball”
- Larger associations seeming remote, disinterested & less likely to take on small or expensive schemes
- Name changes confusing and irritating them
- A focus on growth at the expense of management
- Continuous changes in staffing have a major impact & they regret the loss of senior staff at the local level

The Housing Corporation believes that it is possible for associations to increase their size whilst still being effective at local delivery and indeed sees this as a vital part of any new move to merge or group. Its most recent guidance on the formation of groups stresses that before a new group/merger can be approved it has to show that it can do this.

This is part of the general view of The Housing Corporation that it has no specific remit or intention to promote a specific vision of the shape of the sector. It is more concerned with ensuring effective outcomes and organisations, whatever their size, than particular sizes or structures.

However the move towards a new regulatory system based, potentially, on the conclusions of the recent Cave review of housing regulation, may mean the new regulator has to take a less benign stance on this. Cave said that diversity of provision would be particularly “vibrant and beneficial for tenants in relation to the *management* of their housing”. This may mean that further consolidation of the sector would be seen as reducing potential competition. Our interview with The Housing Corporation did confirm that there is already in some areas the potential for monopoly or duopolies to develop. However, The Housing Corporation associated this possibility more with the development of some very large transfer associations, with strong links to their councils, rather than merger activity.

The literature review highlighted that the *Growing Up* report, produced by and for larger associations, also specifically says that:

> *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.*

In this context the GTER survey found that:

- 75% of respondents confirmed their desire for a continuing “mixed economy” of associations.

- The local authorities involved generally want choice and diversity of providers with a critical mass of stock including mid sized associations with development capacity

- 75% thought medium cohort associations were important to their area

This highlights the importance of the Place Shaper Associations who focus their efforts on defined geographical areas where they have sufficient resources and presence to make a difference.